TAURON
POLSKA ENERGIA

ANNUAL REPORT
FOR THE YEAR 2010
TAURON POLSKA ENERGIA S.A.

KATOWICE, 15 MARCH 2011

Ladies and Gentlemen,

I have the pleasure of presenting to you the Annual Report of TAURON Polska Energia for the year 2010. It is an exceptional report as it is the very first time it has been published by TAURON operating as a public company. To the Company and the entire TAURON Group, last year was exceptional – it was a period of intense work and preparations to float on the Warsaw Stock Exchange. In June 2010, TAURON debuted on the Warsaw floor. Total value of the shares sold as part of the initial public offering amounted to over PLN 4.2 billion. It is worth emphasising that with respect to the value, TAURON's offering was the second largest offering in the industry in Europe and the seventh largest offering among all the companies debuting in Europe in 2010. The offering enjoyed enormous interest, which translated into a very high number of institutional investors, both Polish and foreign, and 231 thousand individual investors, which puts our offering among the largest IPOs realised in Poland to date. In December 2010, Company shares became part of the flag WIG20 Index, which confirms that we belong to the most important companies listed on the Warsaw trading floor.

The year 2010 was the second complete year of execution of the TAURON Group's corporate strategy the overall objective of which is a systematic increase of value. The Group's target business model provides for the establishment of one company within every business area. We have already established one supply company, TAURON Sprzedaż (Supply), and an entity handling the clients, TAURON Obsługa Klienta (Customer Service). In 2011, we plan to establish one company within the Distribution Area and to integrate companies within the Generation Area and the Heat Area.

Last year, we either commenced or continued works on a series of investment projects the objective of which is development of new generation capacities or modernisation of the existing ones, among others in Jaworzno, Stalowa Wola, Bielsko-Biała or Tychy. We also continued works on projects regarding renewable energy generation and distribution. By 2020, we intend to launch wind farms of total capacity of 440 MW. We were also active within the Mining Area. In April 2010, TAURON and Kompania Węglowa signed a contract pertaining to framework conditions of acquisition by TAURON of the Bolesław Śmiały mine in Łaziska and of the stock of Południowy Koncern Węglowy owned by Kompania Węglowa. Finalisation of the project, which will contribute to a significant increase of safety of fuel supplies to the Group's power plants and to an increase of coal output by 1.6 million tons annually, ought to take place by the end of 2011.

Financial results generated by the Company in 2010 provide reasons for optimism. Revenues from supply amounted to approximately PLN 7.2 billion (an increase by 2.9% as compared to 2009) while the Company's net income amounted to PLN 190.5 million, which means an increase by 3.2% as compared to 2009. Good results are primarily a result of the increased volume of electricity supply. In 2010, the Company maintained its high capability of balancing its liabilities, which is reflected by safe values of financial liquidity indicators.

In 2010, within the Group we implemented a cash pooling mechanism the primary objective of which is to ensure financial liquidity while limiting the costs of short-term external funding and maximising financial revenues from the excess cash held. In December 2010, the Company issued bonds of the value of PLN 850 million, resources from which were allocated to the restructuring of a part of the debt of the subsidiary companies. At the same time, as part of a central model of management of the TAURON Group finances, we launched a programme of issue of internal bonds, in accordance with which cash resources are managed in the medium- and long-term perspective.

With reference to general corporate issues, worth emphasising is the fact that since the date of admission of the shares to trade on the regulated market we have been applying corporate governance principles arising from the document entitled 'Best Practice for WSE-Listed Companies'. We want TAURON to stand out with respect to transparency and quality of relations with investors. Moreover, last year we also implemented the Code of TAURON Group which governs matters related to the establishment, organisation and operation of TAURON Group and ensures realisation of corporate objectives.

In 2010, we continued the process of concentration of operational functions within the TAURON Polska Energia Corporate Centre; in particular, we had completed the process of centralisation of wholesale trade in electricity. Last year, TAURON supplied 35.6 TWh of electricity, which constitutes an increase by 6.9% as compared to the supplies realised in 2009. In May 2010, the Company obtained the status of a member of the EPEX Spot SE in Paris, and in September 2010, via our subsidiary – TAURON Czech Energy s.r.o., it became a member of the Prague-based Power Exchange Central Europe (PXE). Plans related to the development of TAURON Group on the Czech market include growth of wholesale trade in electricity and supply of electricity to end customers. Due to the dynamic growth of markets in Central and Eastern Europe, we are considering further development of the Group's activities conducted abroad.

On behalf of the Management Board of TAURON Polska Energia, I wish to cordially thank both the employees of the TAURON Group for their involvement in the development of the Group's market position and all the Company shareholders for their confidence in our activities. I am convinced that we shall jointly develop a modern and dynamic power group, and that the development strategy pursued will contribute to the increase of the Group's market value.

Dariusz Lubera
President of the Management Board

Selected financial information of TAURON Polska Energia S.A.

Selected financial information	in thousands PLN		in thousands EUR	
	2010 period from 01.01.2010 to 31.12.2010	2009 period from 01.01.2009 to 31.12.2009	2010 period from 01.01.2010 to 31.12.2010	2009 period from 01.01.2009 to 31.12.2009
Income on sales	7 185 271	6 982 301	1 794 344	1 608 603
Operating profit	9 627	86 002	2 404	19 813
Profit before taxation	198 799	216 307	49 645	49 833
Net profit	190 478	184 535	47 567	42 514
Total comprehensive income	190 478	184 535	47 567	42 514
Earnings per share (in PLN/EUR) (basic and diluted)	0,12	0,12	0,03	0,03
Weighted average number of shares (in items) (basic and diluted)	1 600 730 480	1 535 551 431	1 600 730 480	1 535 551 431
Net cash flows from operations	(222 720)	218 882	(55 619)	50 427
Net cash flows from investments	(750 374)	116 280	(187 387)	26 789
Net cash flows from financial activity	845 266	(189 890)	211 084	(43 747)
Net change of cash and cash equivalents	(127 828)	145 272	(31 922)	33 469
	As of 31.12.2010	As of 31.12.2009	As of 31.12.2010	As of 31.12.2009
Fixed assets	17 234 390	14 183 536	4 351 789	3 452 494
Current assets	1 210 795	571 482	305 733	139 108
Total assets	18 445 185	14 755 018	4 657 522	3 591 602
Primary capital	15 772 945	13 986 284	3 982 765	3 404 480
Total equity	16 523 681	14 226 493	4 172 331	3 462 950
Long-term liabilities	848 392	2 333	214 224	568
Short-term liabilities	1 073 112	526 192	270 967	128 083
Total liabilities	1 921 504	528 525	485 191	128 651

The aforementioned financial information for 2010 and 2009 has been calculated into EUR in accordance with the following rules:

– particular items of the statement of financial situation – in accordance with the average NBP exchange rate announced as of 31 December 2010 – 3.9603 PLN/EUR (as of 31 December 2009 – 4.1082 PLN/EUR),

– particular items of the statement of comprehensive income and statement of cash flows – in accordance with the exchange rate which constitutes an arithmetic mean of average NBP exchange rates announced on the last day of each month of the financial period from 1 January 2010 to 31 December 2010 – 4.0044 PLN/EUR (for the period from 1 January 2009 to 31 December 2009 – 4.3406 PLN/EUR).

The Polish original should be referred to in matters of interpretation.
Translation of auditors' report originally issued in Polish.

INDEPENDENT AUDITORS' OPINION

To the General Shareholders' Meeting and the Supervisory Board of TAURON Polska Energia S.A.

1. We have audited the attached financial statements for the year ended 31 December 2010 of TAURON Polska Energia S.A. ('the Company') located in Katowice at Lwowska Street 23, containing statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of changes in equity, the statement of cash flow for the period from 1 January 2010 to 31 December 2010 and the summary of significant accounting policies and other explanatory notes ('the attached financial statements').
2. The truth and fairness[1] of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit of the attached financial statements in accordance with:
   - chapter 7 of the Accounting Act,
   - national auditing standards issued by the National Council of Statutory Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelnie i jasno*'

4. In our opinion, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2010 to 31 December 2010, as well as its financial position[3] as at 31 December 2010;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
   - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.
5. We have read the 'Directors' Report for the period from 1 January 2010 to 31 December 2010 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259).

on behalf of:
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key certified auditor

Artur Żwak
Certified auditor No. 9894

Warsaw, 1 March 2011

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

TAURON POLSKA ENERGIA S.A.

LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

(in thousand zlotys)

I. GENERAL NOTES

1. Background

TAURON Polska Energia S.A. (hereinafter 'the Company') was incorporated on the basis of a Notarial Deed dated 6 December 2006 under the name Energetyka Południe S.A. Change of the name into TAURON Polska Energia S.A. was registered by the District Court on 16 November 2007. The Company's registered office is located in Katowice at Lwowska Street 23.

On 8 January 2007 the Company was entered in the Register of Entrepreneurs of the National Court Register maintained by the Katowice – Wschód District Court in Katowice VIII Commercial Department of the National Court Register, Entry No. KRS 0000271562.

The Company was issued with tax identification number (NIP) 9542583988 on 13 March 2007 and statistical number (REGON) 240524697 on 11 December 2006.

The Company is the holding company of the TAURON Polska Energia S.A. capital group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Notes 33 and 8 of the explanatory notes ("the additional notes") to the audited financial statements for the year ended 31 December 2010.

The principal activities of the Company are as follows:

- activities of head offices and holdings,
- electricity trade.

As at 31 December 2010, the Company's issued share capital amounted to 15,772,945 thousand zlotys. Equity as at that date amounted to 16,523,681 thousand zlotys.

In accordance with the information included in Note 22 of the additional notes to the accompanying financial statements as at 31 December 2010, the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
State Treasury	735,361,897	735,361,897	6,618,257	41.96%
KGHM Polska Miedź S.A.	81,822,499	81,822,499	736,402	4.67%
Other shareholders	935,364,998	935,364,998	8,418,286	53.37%
Total	1,752,549,394	1,752,549,394	15,772,945	100.00%

(in thousand zlotys)

According to information obtained from the Company, the following changes took place in the structure of the Company's issued share capital during the period from 1 January 2010 to 31 December 2010.

	Number of shares	Par value of shares
Balance as at 1 January 2010	13,986,283,558	13,986,284
Issuance of the shares related to merger	318,665,300	318,665
Balance before the share consolidation	14,304,948,858	14,304,949
Reverse split (the "share consolidation")	-12,715,510,096	-
Balance after share consolidation	1,589,438,762	14,304,949
Issuance of shares covered by contribution in kind	163,110,632	1,467,996
Balance as at 31 December 2010	1,752,549,394	15,772,945

On 10 June 2010, the Company merged with its subsidiaries ENION Zarządzanie Aktywami sp. z o.o. and Energomix Servis sp. z o.o. As a result of the merger, the Company issued 318,665 thousand shares with a total nominal value of 318,665 thousand zlotys.

In June 2010, the Company conducted a share consolidation process pursuant to which the nominal value per share increased from 1 to 9 Polish zlotys, what has reduced the number of shares from 14,304,948,858 to 1,589,438,762. As a result of the share consolidation the share capital has not changed.

On 30 June 2010, the State Treasury carried out a public offering of the shares of TAURON Polska Energia S.A. as a result of which individual and institutional investors acquired 51.6% of the Company's shares.

On 9 September 2010, the Company and the State Treasury concluded an agreement for acquisition of the Company's shares by the State Treasury, by way of a private subscription, under which, the State Treasury acquired 163,110,632 ordinary shares with a total nominal value of 1,467,996 thousand zlotys.

On 10 November 2010, based on the resolution of the Extraordinary General Shareholders' Meeting of TAURON Polska Energia S.A., the share capital was decreased by way of decreasing the nominal value of shares. The share capital was decreased by 7,010,198 thousand zlotys, from 15,772,945 thousand zlotys to 8,762,747 thousand zlotys, by decreasing the nominal value of each share by 4 zlotys, from 9 zlotys to 5 zlotys. Following the completion of the convocation proceedings on 25 February 2011, on 28 February 2011 an application was filed with the Katowice – Wschód District Court in Katowice for registration of the share capital decrease with the National Court Register. As of the date of this report the share capital decrease has not been registered.

There were no movements in the share capital during the period from the balance sheet date to the date of the opinion.

As at 1 March 2011, the Company's Management Board was composed of:

Dariusz Lubera	- President
Joanna Schmid	- Vice President
Dariusz Stolarczyk	- Vice President
Krzysztof Zamasz	- Vice President
Krzysztof Zawadzki	- Vice President

The following changes took place in the Company's Management Board composition during the reporting period:

- on 31 August 2010 Mr. Stanislaw Tokarski resigned from the position of Vice President,
- with effect from 1 October 2010 Mrs. Joanna Schmid was appointed to the Management Board for the position of Vice President.

On 24 February 2011 the Supervisory Board appointed the current Management Board to the third term.

2. Financial Statements

On 7 June 2010 the Extraordinary General Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by the Supervisory Board on 29 October 2010 to audit the Company's financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649).

Under the contract executed on 19 November 2010 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2010.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an unqualified auditors' opinion dated 1 March 2011, stating the following:

"To the General Shareholders' Meeting and the Supervisory Board of TAURON Polska Energia S.A.

1. We have audited the attached financial statements for the year ended 31 December 2010 of TAURON Polska Energia S.A. ('the Company') located in Katowice at Lwowska Street 23, containing statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of changes in equity, the statement of cash flow for the period from 1 January 2010 to 31 December 2010 and the summary of significant accounting policies and other explanatory notes ('the attached financial statements').

2. The truth and fairness[1] of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.

3. We conducted our audit of the attached financial statements in accordance with:
   - chapter 7 of the Accounting Act,
   - national auditing standards issued by the National Council of Statutory Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

4. In our opinion, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2010 to 31 December 2010, as well as its financial position3 as at 31 December 2010;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
   - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelnie i jasno*'
[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

5. We have read the 'Directors' Report for the period from 1 January 2010 to 31 December 2010 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259)."

We conducted the audit of the Company's financial statements during the period from 29 November 2010 to 1 March 2011. We were present at the Company's head office from 29 November to 3 December 2010 and from 31 January to 4 February 2011.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness[4] of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 1 March 2011, confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements.

In the representation letter there was confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

[4] Translation of the following expression in Polish: "*rzetelność i jasność*"

(in thousand zlotys)

2.3 Financial statements for prior financial year

The Company's financial statements (prepared in accordance with Polish Accounting Regulations) for the year ended 31 December 2009 were audited by Artur Żwak, key certified auditor no. 9894, acting on behalf of Ernst & Young Audit sp. z o.o. with its seats in Warsaw, Rondo ONZ 1, registered on the list of entities authorized to audit financial statements under no. 130. The key certified auditor issued an opinion on the financial statements for the year ended 31 December 2009 with emphasis of matter considering preparation of consolidated financial statements. The Company's financial statements for the year ended 31 December 2009 were approved by the General Shareholders' Meeting on 4 March 2010, and the shareholders resolved to appropriate the 2009 net profit in the amount of 184,535 thousand zlotys as follows:

reserve capital	176,159
payment of the profit to State Treasury	8,376

	184,535
	========

The financial statements for the financial year ended 31 December 2009, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 8 March 2010 with the National Court Register.

The balance sheet as at 31 December 2009, the profit and loss account, statement of changes in equity and cash flow statement for the year ended 31 December 2009, together with the auditors' opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the appropriation of profit were published in Monitor Polski B No. 850 on 24 May 2010.

(in thousand zlotys)

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2009 - 2010. The ratios were calculated on the basis of financial information included in the financial statements for the year ended 31 December 2010. The selected financial information and data for 2008 were not presented as the Company has changed in 2010 the accounting policies to International Financial Reporting Standards as adopted by the EU and the comparable data for earlier periods are not available.

	2010	2009
Total assets	18,445,185	14,755,018
Shareholders' equity	16,523,681	14,226,493
Net profit/ loss	190.478	184.535
Return on assets (%)	1.03%	1.25%
$\frac{\text{Net profit x 100}}{\text{Total assets}}$		
Return on equity (%)	1.15%	1.30%
$\frac{\text{Net profit x 100}}{\text{Shareholders' equity}}$		
Profit margin (%)	2.7%	2.6%
$\frac{\text{Net profit x 100}}{\text{Sales of finished goods, goods for resale and raw materials}}$		
Liquidity I	1.13	1.09
$\frac{\text{Current assets}}{\text{Short-term creditors}}$		
Liquidity III	0.49	0.41
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$		
Debtors days	31 days	17 days
$\frac{\text{Trade debtors x 365}}{\text{Sales of finished goods, goods for resale and raw materials}}$		

(in thousand zlotys)

	2010	2009
Creditors days	28 days	27 days
Trade creditors x 365 / Costs of finished goods, goods for resale and raw materials sold		
Stability of financing (%)	94.2%	96.4%
(Equity + long-term provisions and liabilities) x 100 / Total liabilities, provisions and equity		
Debt ratio (%)	10.4%	3.6%
(Total liabilities and provisions) x 100 / Total assets		
Rate of inflation:		
yearly average	2.60%	3.50%
December to December	3.10%	3.50%

3.2 Comments

The following trends may be observed based on the above financial ratios:

- The return on assets ratio for the year 2010 was 1.03% and was lower in comparison to 2009, when it reached 1.25%.
- The return on equity ratio for the year 2010 was 1.15% and was lower in comparison to the year 2009, when it reached 1.30%.
- Profit margin ratio for the year 2010 was 2.7% and was slightly higher in comparison to the year 2009, when it reached 2.6%.
- The liquidity I ratio increased as at 31 December 2010 to the level of 1.13 in comparison to 1.09 as at 31 December 2009.
- The liquidity ratio III increased as at 31 December 2010 to the level of 0.49 in comparison to the level of 0.41 as at 31 December 2009.
- Debtors days' ratio increased in 2010 to 31 days in comparison to 17 days in 2009.
- Creditors days' ratio in 2010 reached 28 days and was slightly higher in comparison to the year 2009.
- In the analyzed period, the Company has preserved a very high level of stability of financing ratio and inconsiderable debt ratio.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2010 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 2 of the additional notes to the audited financial statements for the year ended 31 December 2010, the Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2010 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the IFS Finance computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'), including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfillment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2010.

Verification of assets and liabilities was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2010.

3. Additional Notes

The additional notes to the financial statements for the year ended 31 December 2010 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2010 to 31 December 2010 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259).

5. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Company's Articles of Association were breached during the financial year.

on behalf of:
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1
00-124 Warsaw
Reg. No. 130

Key certified auditor

Artur Żwak
Certified auditor No. 9894

Warsaw, 1 March 2011

STATEMENTS OF THE MANAGEMENT BOARD OF TAURON POLSKA ENERGIA S.A.

STATEMENT

**of the Management Board of TAURON Polska Energia S.A.
on the compliance of the financial report prepared in accordance with
International Financial Reporting Standards
for the year ended 31 December 2010
and the Management Board's report on the activities of TAURON Polska Energia S.A.
for the year of 2010**

I, the undersigned, represent that, to my best knowledge, the financial report of TAURON Polska Energia S.A., prepared in accordance with International Financial Reporting Standards, for the year ended 31 December 2010 and comparable figures have been prepared in accordance with applicable accounting rules and give the true and fair picture of the assets, financial standing and performance of TAURON Polska Energia S.A. and TAURON Polska Energia S.A. Capital Group.

I also certify that the report on the activities of TAURON Polska Energia S.A. gives the true picture of the development, achievements and situation of TAURON Polska Energia S.A. Capital Group, including the description of key risks and threats.

The Management Board Members:

Dariusz Lubera	– President of the Management Board	....
Joanna Schmid	– Vice-President of the Management Board	....
Dariusz Stolarczyk	– Vice-President of the Management Board	....
Krzysztof Zamasz	– Vice-President of the Management Board	....
Krzysztof Zawadzki	– Vice-President of the Management Board	....

1 March 2011

date

STATEMENT

of the Management Board of TAURON Polska Energia S.A.
on the appointment of an entity authorised to audit financial reports
(the financial report prepared in accordance with
International Financial Reporting Standards
for the year ended 31 December 2010)

I, the undersigned, represent that an entity authorised to audit financial reports and review the financial reports of TAURON Polska Energia S.A., prepared in accordance with International Financial Reporting Standards, for the year ended 31 December 2010 was appointed in accordance with legal regulations, and this entity and auditors examining the reports met conditions for developing an impartial and independent report on the review of the audited annual financial report in accordance with applicable regulations and professional standards.

The Management Board Members:

Dariusz Lubera	– President of the Management Board	....
Joanna Schmid	– Vice-President of the Management Board	....
Dariusz Stolarczyk	– Vice-President of the Management Board	....
Krzysztof Zamasz	– Vice-President of the Management Board	....
Krzysztof Zawadzki	– Vice-President of the Management Board	....

1 March 2011
date

TAURON Polska Energia S.A.

Financial statements
prepared according to the International Financial Reporting Standards
for the year ended 31 December 2010
including the independent auditor's report

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(in PLN thousands)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Continuing operations			
Sale of goods for resale, finished goods and materials		7 172 814	6 972 672
Rendering of services		12 444	9 609
Other income		13	20
Sales revenue		**7 185 271**	**6 982 301**
Cost of sales	**12.3.**	(7 067 452)	(6 832 197)
Gross profit		**117 819**	**150 104**
Other operating income		742	37
Selling and distribution expenses	**12.3.**	(12 493)	(4 859)
Administrative expenses	**12.3.**	(95 789)	(58 965)
Other operating expenses		(652)	(315)
Operating profit		**9 627**	**86 002**
Finance income	**12.1.**	195 648	135 038
Finance costs	**12.2.**	(6 476)	(4 733)
Profit before tax		**198 799**	**216 307**
Income tax expense	**13**	(8 321)	(31 772)
Net profit from continuing operations		**190 478**	**184 535**
Net profit for the period		**190 478**	**184 535**
Other comprehensive income:		–	–
Total comprehensive income for the period		**190 478**	**184 535**
Earnings per share (in PLN)	**23**		
– basic, for profit for the period		0,12	0,12
– basic, for profit from continuing operations for the period		0,12	0,12
– diluted, for profit for the period		0,12	0,12
– diluted, for profit from continuing operations for the period		0,12	0,12

Explanatory notes are an integral part of these financial statements.

(in PLN thousands)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	As at 31 December 2010	As at 31 December 2009	As at 1 January 2009
ASSETS				
Non-current assets				
Property, plant and equipment		5 425	5 574	4 269
Intangible assets	**16**	17 095	3 939	1 974
Shares in unlisted and listed companies	**17**	16 353 470	14 170 251	13 878 146
Bonds, T-bills and other debt securities	**34**	848 200	–	–
Other long-term non-financial assets		1 686	417	8
Deferred tax asset	**13**	8 514	3 355	959
		17 234 390	**14 183 536**	**13 885 356**
Current assets				
Inventories	**18**	9 238	109	–
Corporate income tax receivables		2 822	9 097	–
Trade and other receivables	**19, 34**	634 531	340 560	232 605
Bonds, T-bills and other debt securities	**34**	383	–	–
Other financial assets	**34**	257	–	–
Other current non-financial assets	**21**	36 553	8 283	1 757
Cash and cash equivalents	**20**	527 011	213 433	68 130
		1 210 795	**571 482**	**302 492**
Non-current assets classified as held for sale		–	–	–
TOTAL ASSETS		**18 445 185**	**14 755 018**	**14 187 848**

Explanatory notes are an integral part of these financial statements.

(in PLN thousands)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010 – continued

	Note	As at 31 December 2010	As at 31 December 2009	As at 1 January 2009
EQUITY AND LIABILITIES				
Equity				
Issued capital	**22.1.**	15 772 945	13 986 284	13 698 646
Reserve capital	**22.3.**	475 088	64 050	59 601
Retained earnings/Accumulated losses	**22.4.**	275 648	176 159	55 616
Total equity		**16 523 681**	**14 226 493**	**13 813 863**
Non-current liabilities				
Interest-bearing loans and borrowings	**27, 34**	845 650	–	–
Finance lease and hire purchase commitments	**26.2., 34**	136	1 013	822
Long-term provisions and employee benefits	**24**	2 606	1 320	743
		848 392	**2 333**	**1 565**
Current liabilities				
Trade and other payables	**34**	540 702	517 157	243 033
Current portion of interest-bearing loans and borrowings	**27, 34**	461 627	–	125 089
Current portion of finance lease and hire purchase commitments	**26.2., 34**	906	839	328
Other current liabilities	**30**	26 094	4 010	1 633
Accruals and government grants	**31**	6 719	4 019	2 251
Short-term provisions and employee benefits	**24, 25**	37 064	167	86
		1 073 112	**526 192**	**372 420**
Total liabilities		**1 921 504**	**528 525**	**373 985**
TOTAL EQUITY AND LIABILITIES		**18 445 185**	**14 755 018**	**14 187 848**

Explanatory notes are an integral part of these financial statements.

(in PLN thousands)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Issued capital	Reserve capital	Retained earnings/ Accumulated losses	Total equity
As at 1 January 2010		**13 986 284**	**64 050**	**176 159**	**14 226 493**
Profit for the period		–	–	190 478	**190 478**
Other comprehensive income		–	–	–	–
Total comprehensive income for the period		–	–	**190 478**	**190 478**
Appropriation of prior year profits	**15, 22**	–	176 159	(176 159)	–
Issue of shares	**22.1.**	1 786 661	–	–	**1 786 661**
Payment from profit	**22.4.**	–	–	32	**32**
Dividends	**15**	–	–	–	–
Surplus of the value of shares contributed over the nominal value of issued capital	**20.3.**	–	234 879	–	**234 879**
Accounting for merger with subsidiaries	**22.4., 32**	–	–	85 138	**85 138**
As at 31 December 2010		**15 772 945**	**475 088**	**275 648**	**16 523 681**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	Issued capital	Reserve capital	Retained earnings/ Accumulated losses	Total equity
As at 1 January 2009		**13 698 646**	**59 601**	**55 616**	**13 813 863**
Profit for the period		–	–	184 535	**184 535**
Other comprehensive income		–	–	–	–
Total comprehensive income for the period		–	–	**184 535**	**184 535**
Appropriation of prior year profits	**15, 22.4.**	–	4 449	(4 449)	–
Issue of shares	**17**	287 883	–	–	**287 883**
Payment from profit		–	–	(8 376)	**(8 376)**
Dividends	**15**	–	–	(51 167)	**(51 167)**
Redemption of treasury shares		(245)	–	–	**(245)**
As at 31 December 2009		**13 986 284**	**64 050**	**176 159**	**14 226 493**

Explanatory notes are an integral part of these financial statements.

(in PLN thousands)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Cash flows from operating activities			
Profit/(loss) before taxation		198 799	216 307
Adjustments for:			
Depreciation and amortization		3 224	2 106
(Gain)/loss on foreign exchange differences		44	(31)
Interest and dividends, net		(181 801)	(123 335)
(Gain)/loss on investing activities		(259)	67
(Increase)/decrease in receivables		(273 492)	(107 955)
(Increase)/decrease in inventories		(9 129)	(109)
Increase/(decrease) in payables excluding loans and borrowings		44 140	278 943
Change in other non-current and current assets		(37 960)	(6 272)
Change in deferred income, government grants and accruals		2 700	1 768
Change in provisions		38 183	658
Income tax paid		(7 206)	(43 265)
Other		37	–
Net cash from (used in) operating activities		**(222 720)**	**218 882**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		11	2
Purchase of property, plant and equipment and intangible assets		(6 970)	(7 281)
Proceeds from sale of bonds, T-bills and other debt securities		–	12 508
Purchase of bonds, T-bills and other debt securities		(848 200)	(12 226)
Purchase of shares in related entities		(80 711)	(4 223)
Dividends received		181 948	127 308
Interest received		–	192
Other		3 548	–
Net cash from (used in) investing activities		**(750 374)**	**116 280**
Cash flows from financing activities			
Acquisition of treasury shares		(245)	–
Payment of finance lease liabilities		(811)	(548)
Issue of debt securities		848 200	–
Redemption of debt securities		–	(125 000)
Dividends paid		–	(51 167)
Interest paid		(178)	(4 039)
Other disbursments to owners		–	(8 376)
Other		(1 700)	(760)
Net cash from (used in) financing activities		**845 266**	**(189 890)**
Net increase/(decrease) in cash and cash equivalents		**(127 828)**	**145 272**
Net foreign exchange difference		(44)	31
Cash and cash equivalents at the beginning of the period		**213 402**	**68 130**
Cash and cash equivalents at the end of the period, of which:	**20**	**85 574**	**213 402**
restricted cash		154 589	17 626

Explanatory notes are an integral part of these financial statements.

EXPLANATORY NOTES

1. General information

The financial statements have been prepared by TAURON Polska Energia Spółka Akcyjna ("the Company") with its registered office in Katowice at ul. Lwowska 23, whose shares are in public trading.

The financial statements of the Company cover the year ended 31 December 2010 and include comparative data for the year ended 31 December 2009.

The latest published financial statements of the Company for the year ended 31 December 2009 were prepared in accordance with the Accounting Act (Journal of Laws 1994 No. 121 item 591 with subsequent amendments) and were audited by a statutory auditor.

As these financial statements were prepared for the first time in accordance with International Financial Reporting Standards ("IFRS") and the IFRSs endorsed by the EU, therefore they also contain the opening statement of financial position as at 1 January 2009.

The Company was set up based on a Notarial Deed dated 6 December 2006 under the name Energetyka Południe S.A. and was registered on 8 January 2007 by the Katowice–Wschód District Court Economic Department of the National Court Register under Entry No. KRS 0000271562. The change of the Company's name into TAURON Polska Energia S.A. was registered by the District Court on 16 November 2007.

The Company was granted a statistical number REGON 240524697 and tax identification number NIP 9542583988.

TAURON Polska Energia S.A. has an unlimited period of operation.

The principal business activities of TAURON Polska Energia S.A. include:

- Activities of head offices and holdings, excluding financial holdings – PKD 70.10 Z,
- Trading in electricity – PKD 35.14 Z.

TAURON Polska Energia S.A. is the parent of the TAURON Polska Energia S.A. Capital Group ("Group, TAURON Group").

2. Basis of preparation of financial statements

Based on the resolution of the Company's Extraordinary General Shareholders' Meeting held on 7 June 2010, the Company prepares its financial statements in accordance with IFRS starting from the financial statements for the periods beginning on 1 January 2010.

These financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and the IFRSs endorsed by the EU. At the date of authorization of these financial statements, considering the pending process of IFRS endorsement in the EU and the nature of the Company's activities, within the scope of the accounting principles applied by the Company there is no difference between the IFRSs that came into effect and the IFRSs endorsed by the EU.

IFRSs comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

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

These financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future. As at the date of authorization of these financial statements, management is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Company.

These financial statements for the year ended 31 December 2010 were authorized for issue on 1 March 2011.

The Company also prepared consolidated financial statements for the year ended 31 December 2010, which were authorized for issue on 1 March 2011.

3. New standards and interpretations issued but not yet effective

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

- Amendments to IAS 32 *Financial instruments: Presentation: Classification of Rights Issues* – effective for annual periods beginning on or after 1 February 2010,
- IAS 24 *Related Party Disclosures* (revised in November 2009) – effective for annual periods beginning on or after 1 January 2011,
- IFRS 9 *Financial Instruments* – effective for annual periods beginning on or after 1 January 2013 – not endorsed by the EU until the date of authorization of these financial statements. In the next phases, IASB will deal with hedge accounting and impairment methodology. The project is expected to be completed in mid 2011. The application of Phase 1 of IFRS 9 will have an impact on the classification and measurement of the Company's financial assets. The Comapny will assess the impact in correspondence with the other phases when they are issued, in order to provide a consistent view.

(in PLN thousands)

- Amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of Minimum Funding Requirements* – effective for annual periods beginning on or after 1 January 2011,
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* – effective for annual periods beginning on or after 1 July 2010,
- Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* – effective for annual periods beginning on or after 1 July 2010,
- Improvements to IFRSs (issued in May 2010) – some improvements are effective for annual periods beginning on or after 1 July 2010, the rest is effective for annual periods beginning on or after 1 January 2011 – not endorsed by the EU until the date of authorization of these financial statements,
- Amendment to IFRS 7 *Financial Instruments – Disclosures: Transfer of Financial Assets* – effective for annual periods beginning on or after 1 July 2011 – not endorsed by the EU unitl the date of authorization of these financial statements,
- Amendments to IAS 12 *Income Taxes: Deferred Tax: Recovery of Underlying Assets* – effective for annual periods beginning on or after 1 January 2012 – not endorsed by the EU until the date of authorization of these financial statements,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – effective for annual periods beginning on or after 1 July 2011 – not endorsed by the EU until the date of authorization of these financial statements.

The Company's Management do not expect the introduction of the above standards and interpretations to have a significant effect on the accounting policies applied by the Company.

4. Summary of significant accounting policies

These financial statements were prepared using the standards and interpretations effective for annual periods beginning on or after 1 January 2010.

On 13 September 2010, "*The Accounting Policy of the TAURON Polska Energia S.A. Group*", developed based on the International Financial Reporting Standards endorsed by the European Union, was implemented by way of the decree of the President of the Board.

The latest published annual financial statements of the Company were the financial statements for the year ended 31 December 2009, prepared in accordance with the Accounting Act and authorized for issue on 9 February 2010.

4.1. Foreign currency translation

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

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

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

Exchange differences resulting from translation of non-monetary items such as equity instruments carried at fair value through profit or loss are recognized as part of changes in fair value. Exchange differences resulting from translation of non-monetary items such as equity instruments classified as available-for-sale financial assets and measured at fair value are recognized in the statement of comprehensive income.

The following exchange rates were used for valuation purposes:

Currency	31 December 2010	31 December 2009
EUR	3.9603	4.1082
CZK	0.1580	0.1554

4.2. Business combinations

In accounting for the merger with the subsidiaries, the Company makes use of its consolidated financial statements as the source of the value of assets and liabilities in the acquired subsidiaries. The difference resulting from the net assets acquired and issued in consequence of the merger is taken to retained earnings. No restatement is made with respect to comparative data.

4.3. Property, plant and equipment

Property, plant and equipment are fixed assets which:

- are held by the enterprise for use in production, supply of goods or services or for administrative purposes, and
- are expected to be used over a period exceeding one year,
- for which it is probable that future economic benefits associated with the asset will flow to the enterprise,
- the cost of the asset to the enterprise can be measured reliably.

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The initial cost of an item of property, plant and equipment comprises its purchase price or manufacturing cost plus any directly attributable costs of buying and bringing the asset to working condition for its intended use. Cost also comprises the expected cost of dismantling the items of property, plant and equipment, removing them and restoring the site on which the asset is located to the original condition, the obligation for which an entity incurs when the asset is installed or is used for purposes other than to produce inventories. Subsequent expenditures, such as repair or maintenance costs, are expensed in the reporting period in which they were incurred.

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

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

Tangible fixed assets by type	Average remaining depreciation period in years
Plant and machinery	2 years
Motor vehicles	3 years
Other tangible fixed assets	2 years

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its further use. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the profit or loss for the period in which derecognition took place.

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

4.4. Intangible assets

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

- property rights acquired by the enterprise and included under non-current assets which can be of economic use and have an expected useful life of more than one year, designated to be used for internal purposes, including in particular:
  - copyright and related rights, concessions, licenses (including computer software licenses),
  - rights to inventions, patents, trade marks, utility and ornamental patterns, computer software,
  - know-how, i.e. value being the equivalent of the acquired industrial, commercial, scientific or organizational knowledge,
  - renewable energy and cogeneration certificates purchased or received as a result of production which are intended to be used for internal purposes,
- development expenses,
- other intangible assets recognized at acquisition as part of a business combination.

Intangible assets also include:

- third party intangible assets used in exchange for payments under rental, lease or other agreements of a similar nature if such agreements are classified as finance leases in accordance with IAS 17 *Leases*,
- property rights given over for use by other enterprises under rental, lease or other agreements of a similar nature if such agreements are classified as operating leases in accordance with IAS 17 *Leases*.

Intangible assets are initially measured at cost (purchase price or manufacturing cost in the case of development activity). Following initial recognition, intangible assets are carried at cost less accumulated amortization and impairment losses.

Expenditures incurred for internally generated intangible assets, excluding capitalized development expenses, are not capitalized and are charged against profits in the period in which they are incurred.

The useful lives of intangible assets are assessed by the Company to be either finite or indefinite. If they are finite, the Company estimates the length of the useful life or the amount of production or other measure providing the basis for determining the useful life.

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

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

Certificates of electricity generated using renewable sources as well as certificates of electricity generated using cogeneration or sources fuelled with natural gas which have been purchased or received as a result of production and are intended to be used for internal purposes, are recognized under intangible assets at cost or fair value at the date of receipt, as appropriate.

Research costs are expensed in profit or loss as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

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

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

Development activities include:

- the design, construction and testing of pre-production or pre-use prototypes and models,
- the design of tools, jigs, moulds and dies involving new technology,
- the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

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

Intangible assets by type	Average remaining amortization period in years
Software	7 years
Other intangible assets	3 years

4.5. Impairment of non-financial long-term assets

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

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

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

4.6. Borrowing costs

Borrowing costs are capitalized as part of the cost of property, plant and equipment and intangible assets. Borrowing costs include interest and foreign exchange gains or losses to the extent they are regarded as an adjustment to interest costs.

4.7. Financial assets

Financial assets are classified into one of the following categories:

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

Financial assets held to maturity

Financial assets held to maturity are financial assets with fixed or determinable payments and fixed maturities, which the Company has the positive intention and ability to hold until maturity, other than:

- those that upon initial recognition are designated as at fair value through profit or loss,
- those that are designated as available for sale and
- those that meet the definition of loans and receivables.

Financial assets held to maturity are measured at amortized cost using the effective interest rate. Financial assets held to maturity are classified as non-current assets if they are falling due within more than 12 months from the balance sheet date.

Financial assets at fair value through profit or loss

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

- It is classified as held for trading. A financial asset is classified as held for trading if it is:
  - acquired principally for the purpose of selling it in the near term,
  - part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or
  - a derivative – except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.
- Upon initial recognition it was designated as at fair value through profit or loss, in accordance with IAS 39. Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis, or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy, or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Financial assets at fair value through profit or loss are measured at fair value taking into account their market value at the balance sheet date excluding costs to sell. Changes in the values of these financial instruments are recognized in the statement of comprehensive income as finance income or finance costs. If a contract includes one or more embedded derivatives, the whole contract can be classified as a financial asset at fair value through profit and loss. This does not relate to cases where the embedded derivative has no significant impact on the contractual cash flows or where separate recognition of embedded derivatives is clearly prohibited.

Loans and receivables

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

Available-for-sale financial assets

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

Positive and negative differences between the fair value of financial assets available for sale (if a quoted market price determined in an active regulated market is available or the fair value can be reliably measured using an alternative method) and the cost of such assets, net of deferred tax, are taken to the revaluation reserve, except for the following:

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

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

4.8. Impairment of financial assets

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

Assets carried at amortized cost

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

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included on a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

Financial assets carried at cost

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

Available-for-sale financial assets

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

4.9. Shares in subsidiaries, associates and joint ventures

Shares in subsidiaries, associates and joint ventures are stated at historical cost. The Company has made use of an exemption from the obligation to apply certain IFRS requirements relating to the measurement of investments in subsidiaries, as discussed in detail in Note 7 hereto, and measured its investments in the subsidiaries at the date of transition to IFRSs at deemed cost, which is their carrying amount determined at that date in accordance with the Accounting Act.

4.10. Derivative financial instruments

The Company uses derivative financial instruments such as forward currency contracts to hedge against the risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are measured at fair value. Derivatives are recognized as assets when their fair value is positive and as liabilities when their fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles or based on valuations provided by financial institutions.

The Company did not use hedge accounting policy at the date of these financial statements.

4.11. Other non-financial assets

The Company recognizes prepayments under other non-financial assets if the following conditions are satisfied:

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

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

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

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

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

- property insurance expenses,
- transfers to the Social Fund,
- subscriptions,
- other expenses relating to future reporting periods.

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

4.12. Inventories

Inventories include assets:

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

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

Inventories are initially recognized at cost.

At the balance sheet date inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

If the cost of inventories is higher than the net realizable value, the Company recognizes an appropriate write-down.

The closing balance of materials and goods for resale is determined on the weighted average basis. The cost of advertising and promotional materials as well as stationary materials can be expensed directly in the costs of materials usage at the moment of purchase.

4.13. Trade and other receivables

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

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

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

4.14. Cash and cash equivalents

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

The balance of cash and cash equivalents in the statement of cash flows consists of cash and cash equivalents as defined above. If bank overdrafts are used as part of cash management, subject to the provisions of IAS 7, the balance of cash and cash equivalents in the statement of cash flows is presented net of the outstanding bank overdrafts. In addition, the balance of cash and cash equivalents is adjusted for the balances of loans granted and taken out under cash pool transactions, due to the fact that they mainly serve the purpose of management of current financial liquidity.

4.15. Issued capital

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

4.16. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

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

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

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

In particular, the Company has recognized the following provisions:

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

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

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

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

With respect to post-employment benefits, actuarial gains and losses are recognized in accordance with the provisions of IAS 19 using the so-called "corridor approach". According to the "corridor approach", in measuring its defined benefit liability the Company recognizes a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognized actuarial gains and losses at the end of the preceding reporting period exceed 10% of the present value of the defined benefit obligation at that date. The portion of actuarial gains and losses exceeding the above limit is recognized in the profit or loss for the period at an amount equal to the excess mentioned above divided by the expected average remaining working lives of the Company's employees.

- *provision for obligation to submit energy certificates*

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

  – in the portion covered by the certificates held at the balance sheet date – at the cost of certificates held,

  – in the portion not covered by certificates held at the balance sheet date – at the market value of the certificates required to fulfill the obligation at the balance sheet date.

  The provision is charged to operating expenses.

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

4.17. Appropriation of profit for employee purposes and special funds

Appropriations of profit for the purpose of increasing the Social Fund or for payment of profit-based bonuses to employees are classified under operating expenses of the year to which such profit appropriation relates.

4.18. Loans, borrowings and debt securities

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

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

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

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

4.19. Trade and other payables

Current trade payables are carried at the amount due and payable. Other payables include wages and salaries, which are measured at the amount due and payable.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis, or (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy, or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

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

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

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing debt instrument is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

4.20. Other non-financial liabilities

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

4.21. Social Fund

The Social Fund Act dated 4 March 1994 (with subsequent amendments) requires enterprises that have more than 20 employees (counted on a full time basis) to establish and run a Social Fund ("the Fund"). The Company operates such a Fund and makes periodic contributions to the Fund. The Fund's purpose is to subsidize social activities of the Company, to grant loans to its employees and to incur other social expenses.

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

4.22. Leases

Company as lessee

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

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

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

4.23. Taxes

Current income tax

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

Deferred income tax

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

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

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

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

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

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

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

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

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

The income tax relating to items that are recognized outside the profit or loss is also recognized outside the profit or loss: under other comprehensive income for items recognized under other comprehensive income or directly in equity for items recognized directly under equity.

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

Value added tax

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

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

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

4.24. Revenue

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

Revenue from sale of goods for resale and finished goods

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

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

4.25. Costs

Cost of sales

Cost of sales includes:

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

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

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

4.26. Other operating income and expenses

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

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

4.27. Finance income and finance costs

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

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

The Company offsets foreign exchange gains and losses if they arise from similar transactions. If the exchange differences are significant and do not arise from similar transactions, then the Company considers whether or not to present them separately.

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

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

4.28. Earnings per share

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

4.29. Statement of cash flows

Statement of cash flows is prepared using the indirect method.

5. Significant judgments and estimates

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

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

Impairment of assets

As a result of the analyses conducted as at 31 December 2010, the Company did not identify any indicators of assets' impairment. Therefore, the Company did not conduct any impairment tests for non-current assets/cash-generating units.

Depreciation and amortization rates

Depreciation and amortization rates and charges are determined based on the anticipated economic useful lives of property, plant and equipment or intangible assets and the estimated residual values of property, plant and equipment. The economic useful lives are reviewed annually by the Company based on current estimates.

Valuation of provisions for employee benefits

Provisions for employee benefits (provision for retirement and disability benefits, provision for transfers to the Social Fund for future pensioners, provision for special electricity rates and charges granted to employees) were determined using actuarial valuations. The assumptions made are presented in note 24.

Deferred tax assets

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

Classification of financial instruments

In accordance with the guidelines to IAS 39 regarding classification of non-derivative financial instruments with fixed payment dates or determinable maturity dates, such assets are classified as financial assets held to maturity. In making such a judgment an assessment is made of the intention and ability to hold such investments to maturity.

The intercompany debentures issued on 29 December 2010 by three subsidiaries and acquired by TAURON Polska Energia S.A., with a total nominal value of PLN 848,200 thousand and maturity date of 29 December 2011, were classified as long-term instruments. Such a classification reflects the nature of the financing being part of the intercompany debentures issue program, under which funds are managed in a mid-term and long-term horizon.

Fair value of financial instruments

The fair value of financial instruments for which no active market exists is assessed by means of appropriate valuation techniques. The Company applies professional judgment in selecting appropriate methods and assumptions. The methods used for measuring the fair value of the individual financial instruments are presented in Note 34.

Allowances for doubtful debts

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

6. Changes in estimates

In the period covered by these financial statements, the following significant changes in estimates took place which affected the amounts presented in the financial statements:

- change in actuarial assumptions – the impact of changes in estimates on the amount of provisions is presented in Note 24;
- estimates regarding the assumptions for impairment tests.

7. First-time adoption of IFRSs

The International Accounting Standards Board issued International Financial Reporting Standard 1 (“IFRS 1”) *First-time Adoption of International Financial Reporting Standards*, which is applicable to financial statements prepared for the periods beginning on or after 1 January 2004. IFRS 1 applies to entities which are preparing their IFRS financial statements for the first time as well as entities which have been applying IFRS but included in their financial statements a statement of non-compliance with specific standards. IFRS 1 requires that the first IFRS financial statements be the first annual financial statements in which an entity adopts all IFRSs and includes a statement of full compliance with all IFRSs.

For the purposes of these financial statements, the date of transition to IFRSs is 1 January 2009. The last financial statements of the Company prepared in accordance with Polish Accounting Standards that were available at the date of authorization of these financial statements were the financial statements prepared for the year ended 31 December 2009.

In accordance with IFRS 1, these financial statements were prepared by applying all standards effective as at 31 December 2010 as if they were effective as at 1 January 2009, with a provision that the Company used an exemption from the obligation to apply certain requirements of the remaining IFRSs, as referred to in IFRS 1, relating to the measurement of investments in subsidiaries (IFRS 1.12, Appendix D). According to the provisions of paragraph 15 b (ii) of Appendix D to IFRS 1, in the opening statement of financial position as at the date of transition to IFRSs the Company measured its investments in the subsidiaries at deemed cost, which is their carrying amount determined at that date in accordance with the previously applied accounting principles as specified in the Accounting Act.

Presented below is reconciliation of equity reported under the Accounting Act with equity reported under IFRS as at the date of transition to IFRSs and as at 31 December 2009, reconciliation of comprehensive income reported under the Accounting Act with comprehensive income reported under IFRS for the year ended 31 December 2009 and reconciliation of assets reported under the Accounting Act with assets reported under IFRS as at 31 December 2009.

(in PLN thousands)

The impact of IFRS restatements on equity as at the date of transition and as at 31 December 2009, on assets as at 31 December 2009 and on the net profit for the year 2009 has been presented with reference to the authorized financial statements of the Company for the year ended 31 December 2009.

The types of restatements that had to be made by the Company to achieve full conformity with IFRS and their impact on comprehensive income, assets and equity are presented below:

	Equity as at 1 January 2009	Equity as at 31 December 2009	Total comprehensive income for the year ended 31 December 2009	Assets as at 31 December 2009
Figures in the financial statements under the Accounting Act	**13 813 863**	**14 226 493**	**184 535**	**14 755 081**
Presentation of Social Fund assets and liabilities on a net basis	–	–	–	(63)
Figures in the financial statements under IFRS	**13 813 863**	**14 226 493**	**184 535**	**14 755 018**

Presented below is reconciliation of cash flows from operating, investing and financing activities and movement in cash and cash equivalents under the Accounting Act with the cash flows from operating, investing and financing activities and movement in cash and cash equivalents under IFRS as at 31 December 2009 and for the year then ended.

The impact of IFRS restatements on cash flows from operating, investing and financing activities and movement in cash and cash equivalents for the year 2009 has been presented with reference to the authorized financial statements of TAURON Polska Energia S.A.

	Net cash flows from operating activities	Net cash flows from investing activities	Net cash flows from financing activities	Net increase/ (decrease) in cash and cash equivalents
Figures in the financial statements under the Accounting Act	**218 942**	**116 280**	**(189 890)**	**145 332**
Presentation of Social Fund assets and liabilities on a net basis	(60)	–	–	(60)
Figures in the financial statements under IFRS	**218 882**	**116 280**	**(189 890)**	**145 272**

In accordance with Polish law, the Company administers the Social Fund on behalf of its employees. Transfers made to the Social Fund are placed in the Company's separate bank accounts.

In the financial statements prepared in accordance with PAS the assets of the Social Fund were recognized as cash and cash equivalents, receivables or prepayments and deferred costs.

In the financial information prepared in accordance with IFRS no Social Fund assets were recognized due to the lack of expected future economic benefits that could result in the inflow of cash and cash equivalents into the Company's bank account.

(in PLN thousands)

8. Shares in unlisted and listed related entities

In 2010, restructuring changes took place in the TAURON Polska Energia S.A. Group, which are described in detail in Note 17 hereto.

As at 31 December 2010, TAURON Polska Energia S.A. held, either directly or indirectly, shares in the following significant subsidiaries:

No.	Name of the entity	Address	Principal business activities	% held by TAURON in the entity's share capital	Holder of shares as at 31 December 2010	% held by TAURON in the entity's governing body	Holder of shares as at 31 December 2010
1.	Południowy Koncern Energetyczny S.A.	40-389 Katowice; ul. Lwowska 23	Generation, transmission and distribution of electricity and heat	99.46%	TAURON Polska Energia S.A. – 99.46%	99.46%	TAURON Polska Energia S.A. – 99.46%
2.	ENION S.A.[1]	30-390 Kraków; ul. Zawiła 65 L	Distribution of electricity	99.68%	TAURON Polska Energia S.A. – 99.68%	99.68%	TAURON Polska Energia S.A. – 99.68%
3.	EnergiaPro S.A.	53-314 Wrocław; Pl. Powstańców Śląskich 20	Transmission and distribution of electricity	98.76%	TAURON Polska Energia S.A. – 98.76%	98.76%	TAURON Polska Energia S.A. – 98.76%
4.	Elektrownia Stalowa Wola S.A.	37-450 Stalowa Wola; ul. Energetyków 13	Generation and distribution of electricity and heat	99.74%	TAURON Polska Energia S.A. – 99.74%	99.74%	TAURON Polska Energia S.A. – 99.74%
5.	TAURON Sprzedaż Sp. z o.o.[2]	30-417 Kraków; ul. Łagiewnicka 60	Sale of electricity	100.00%	TAURON Polska Energia S.A. – 100.00%	100.00%	TAURON Polska Energia S.A. – 100.00%
6.	TAURON Obsługa Klienta Sp. z o.o.[2]	53-314 Wrocław; Pl. Powstańców Śląskich 16	Sale of electricity	100.00%	TAURON Polska Energia S.A. – 100.00%	100.00%	TAURON Polska Energia S.A. – 100.00%
7.	TAURON Ekoenergia Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity	100.00%	TAURON Polska Energia S.A. – 100.00%	100.00%	TAURON Polska Energia S.A. – 100.00%
8.	Elektrociepłownia Tychy S.A.	43-100 Tychy; ul. Przemysłowa 47	Generation of electricity, production and distribution of heat	95.47%	TAURON Polska Energia S.A. – 95.47%	95.47%	TAURON Polska Energia S.A. – 95.47%
9.	Kopalnia Wapienia Czatkowice Sp. z o.o. [3]	32-063 Krzeszowice 3; os. Czatkowice 248	Quarrying, crushing and breaking of limestone, quarrying of stone for construction industry	99.46%	PKE S.A. – 100.00%	99.46%	PKE S.A. – 100.00%
10.	Południowy Koncern Węglowy S.A.[3]	43-600 Jaworzno; ul. Grunwaldzka 37	Hard coal mining	52.20%	PKE S.A. – 52.48%	67.64%	PKE S.A. – 68.01%
11.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.[3]	40-389 Katowice; ul. Lwowska 23	Trading in electricity	79.62%	PKE S.A. – 70.00%; TAURON Polska Energia S.A. – 10.00%	88.55%	PKE S.A. – 61.11%; TAURON Polska Energia S.A. – 27.78%
12.	Przedsiębiorstwo Energetyki Cieplnej Katowice S.A.	40-126 Katowice; ul. Grażyńskiego 49	Heat production and distribution	95.66%	TAURON Polska Energia S.A. – 95.66%	95.66%	TAURON Polska Energia S.A. – 95.66%

(in PLN thousands)

No.	Name of the entity	Address	Principal business activities	% held by TAURON in the entity's share capital	Holder of shares as at 31 December 2010	% held by TAURON in the entity's governing body	Holder of shares as at 31 December 2010
13.	Elektrociepłownia EC Nowa Sp. z o.o.	41-308 Dąbrowa Górnicza; al. J. Piłsudskiego 92	Generation of electricity, production of heat and of technical gases	84.00%	TAURON Polska Energia S.A. – 84.00%	84.00%	TAURON Polska Energia S.A. – 84.00%
14.	Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A.	41-300 Dąbrowa Górnicza; al. J. Piłsudskiego 2	Heat production and distribution	85.00%	TAURON Polska Energia S.A. – 85.00%	85.00%	TAURON Polska Energia S.A. – 85.00%
15.	TAURON Czech Energy s.r.o.	750 00 Ostrava, Na Rovince 879/C Czech Republic	Trading in electricity	100%	TAURON Polska Energia S.A. – 100%	100%	TAURON Polska Energia S.A. – 100%
16.	BELS INVESTMENT Sp. z o.o.[4]	02-674 Warszawa; ul. Marynarska 11	Generation of electricity	100%	TAURON Ekoenergia Sp. z o.o. – 100%	100%	TAURON Ekoenergia Sp. z o.o. – 100%
17.	Megawat Marszewo Sp. z o.o.[4]	02-674 Warszawa; ul. Marynarska 11	Generation of electricity	100%	TAURON Ekoenergia Sp. z o.o. – 100%	100%	TAURON Ekoenergia Sp. z o.o. – 100%

[1] As at the date of these financial statements, the share of TAURON Polska Energia S.A. in the share capital and the governing body of ENION S.A. increased from 99.68% to 99.71% due to the registration of the redemption of treasury shares acquired by the company.

[2] On 3 January 2011 changes took place in the Group companies. EnergiaPro Gigawat Sp. z o.o. changed its name to TAURON Obsługa Klienta Sp. z o.o. based in Wrocław, and its principal activity is customer service. ENION Energia Sp. z o.o. changed its name to TAURON Sprzedaż Sp. z o.o. based in Cracow, whose main activity is sale of electricity. At the same moment in time the companies were split and a transfer was made of an organized part of the enterprise related to the sale of electricity from EnergiaPro Gigawat Sp. z o.o. to ENION Energia Sp. z o.o. and of the customer service activity from ENION Energia Sp. z o.o. to EnergiaPro Gigawat Sp. z o.o.

[3] TAURON Polska Energia S.A. is the usufructuary of the shares held by PKE S.A., as described in detail in Note 17 hereto.

[4] As at the date of these financial statements, the companies' addresses have been changed to the following address: 58-500 Jelenia Góra, ul. Obrońców Pokoju 2B.

9. Composition of the Board of Directors

As at 1 January 2009, the Board of Directors consisted of:

Dariusz Lubera – President,

Dariusz Stolarczyk – Vice President,

Stanisław Tokarski – Vice President,

Bogusław Oleksy – Vice President,

Krzysztof Zamasz – Vice President.

The following changes took place in the composition of the Board of Directors during the period from 1 January 2009 to 31 December 2009:

- Vice President of the Board Bogusław Oleksy – resigned on 30 June 2009,
- Vice President of the Board Krzysztof Zawadzki – appointed Vice President of the Board as of 21 August 2009.

As at 31 December 2009, the Board of Directors consisted of:

Dariusz Lubera – President,

Dariusz Stolarczyk – Vice President,

Stanisław Tokarski – Vice President,

Krzysztof Zamasz – Vice President,

Krzysztof Zawadzki – Vice President.

The following changes took place in the composition of the Board of Directors during the period from 1 January 2010 to 31 December 2010:

- On 27 August 2010, Vice President of the Board Stanisław Tokarski resigned from the position of Board Member as of 31 August 2010,
- On 28 September 2010, Joanna Schmid was appointed Vice President of the Board as of 1 October 2010.

As at 31 December 2010, the Board of Directors consisted of:

Dariusz Lubera – President,

Joanna Schmid – Vice President,

Dariusz Stolarczyk – Vice President,

Krzysztof Zamasz – Vice President,

Krzysztof Zawadzki – Vice President.

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

On 24 February 2011, the Supervisory Board elected the current Board of Directors for the next term of office, as discussed in detail in Note 39.

10. Seasonality of operations

The Company's operations in the area of trading in electricity are not seasonal in nature, hence the Company's results in this area show no significant fluctuations during the year.

Due to holding activities conducted by the Company, its finance income may show significant fluctuations relating to revenue from dividends, which is recognized at the dates of resolutions on the payment of dividends, unless such resolutions indicate other dates for establishing the right to the dividend.

(in PLN thousands)

11. Segment information

11.1. Operating segment

The Company's operating activity is presented in the segment of "Sale of Electricity and Other Energy Market Products".

Year ended 31 December 2010	Sales of electricity and other energy market products	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	498 535			**498 535**
Sales within the Group	6 686 736			**6 686 736**
Segment revenue	**7 185 271**			**7 185 271**
Profit/(loss) of the segment	**9 627**			**9 627**
Unallocated expenses				–
Profit/(loss) from continuing operations before tax and net finance income (costs)				**9 627**
Net finance income (costs)		181 948	7 224	189 172
Profit/(loss) before income tax				**198 799**
Income tax expense			(8 321)	(8 321)
Net profit/(loss) for the period				**190 478**
Assets and liabilities				
Segment assets	1 211 720	17 221 872		18 433 592
Unallocated assets			11 593	11 593
Total assets				**18 445 185**
Segment liabilities	609 217	1 307 303		1 916 520
Unallocated liabilities			4 984	4 984
Total liabilities				**1 921 504**
Other segment information				
Capital expenditure*	6 441			6 441
Depreciation/amortization	(3 224)			(3 224)
Impairment of non-financial assets	(205)			(205)

* Capital expenditure includes expenditures for property, plant and equipment and intangible assets, excluding acquisition of energy certificates.

In the year ended 31 December 2010, the Company's revenue from its two main clients, amounting to the total of PLN 5,986,877 thousand, accounted for 83.32% of the Company's total revenue in the "Sale of electricity and other energy market products" segment.

(in PLN thousands)

Year ended 31 December 2009	Sales of electricity and other energy market products	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	192 333			**192 333**
Sales within the Group	6 789 968			**6 789 968**
Segment revenue	**6 982 301**			**6 982 301**
Profit/(loss) of the segment	**86 002**			**86 002**
Unallocated expenses				–
Profit/(loss) from continuing operations before tax and net finance income (costs)				**86 002**
Net finance income (costs)		127 308	2 997	130 305
Profit/(loss) before income tax				**216 307**
Income tax expense			(31 772)	(31 772)
Net profit/(loss) for the period				**184 535**
Assets and liabilities				
Segment assets	572 315	14 170 251		14 742 566
Unallocated assets			12 452	12 452
Total assets				**14 755 018**
Segment liabilities	525 782			525 782
Unallocated liabilities			2 743	2 743
Total liabilities				**528 525**
Other segment information				
Capital expenditure*	5 556			5 556
Depreciation/amortization	(2 106)			(2 106)
Impairment of non-financial assets	(66)			(66)

* Capital expenditure includes expenditures for property, plant and equipment and intangible assets, excluding acquisition of energy certificates.

11.2. Operations by geographical areas

The Company's operations are mainly conducted on the territory of Poland. Sales to overseas customers in the years ended 31 December 2010 and 31 December 2009 amounted to PLN 158,776 thousand and PLN 5,751 thousand, respectively.

12. Revenues and expenses

12.1 Finance income

	Year ended 31 December 2010	Year ended 31 December 2009
Income from financial instruments, of which:	**195 582**	**134 921**
Interest income	13 186	7 319
Dividends	181 948	127 308
Revaluation of derivative instruments	257	–
Net income from exercised derivative instruments	78	–
Income from extended payment terms	107	294
Reversal of impairment losses on financial assets	6	–
Other finance income	**66**	**117**
Total finance income	**195 648**	**135 038**

(in PLN thousands)

12.2. Finance costs

	Year ended 31 December 2010	Year ended 31 December 2009
Financial instrument costs, of which:	**(6 096)**	**(4 542)**
Interest costs	(4 855)	(3 961)
Foreign exchange losses	(544)	(85)
Commissions	(697)	(496)
Other finance costs, of which:	**(380)**	**(191)**
Interest on employee benefits	(135)	(63)
Interest on amounts due to the state budget	(231)	(116)
Other finance costs	(14)	(12)
Total	**(6 476)**	**(4 733)**

12.3. Costs by type

	Year ended 31 December 2010	Year ended 31 December 2009
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(3 224)	(2 106)
Impairment of property, plant and equipment and intangible assets	–	(66)
Materials and energy	(935)	(704)
Maintenance and repair services	(42)	(42)
Consultancy services	(12 790)	(5 515)
Other external services	(16 666)	(14 670)
Taxes and charges	(9 695)	(3 722)
Employee benefits expense	(45 224)	(33 275)
Inventory write-downs	(205)	–
Allowance for doubtful debts	(11)	(18)
Distribution services	(1 487)	–
Advertising expenses	(15 630)	(4 906)
Other	(2 260)	(1 119)
Total costs by type	**(108 169)**	**(66 143)**
Change in inventories, prepayments, accruals and deferred income	(2 533)	(485)
Cost of goods produced for internal purposes	229	141
Selling and distribution expenses	12 493	4 859
Administrative expenses	95 789	58 965
Cost of goods for resale and materials sold	(7 065 261)	(6 829 534)
Cost of sales	**(7 067 452)**	**(6 832 197)**

An increase in the administrative expenses in the year ended 31 December 2010 compared with the year ended 31 December 2009 results from the costs of introducing the Company's shares into the public trading, amounting to PLN 17,031 thousand, and the costs of the Company's merger with its subsidiaries, Energomix Servis Sp. z o.o. and ENION Zarządzanie Aktywami Sp. z o.o., amounting to PLN 1,348 thousand.

The increase of selling expenses in the year ended 31 December 2010 compared with the year ended 31 December 2009 results from:

- Increase of costs arising from the fee for transmission capabilities made available by the operator, amounting to PLN 2,319 thousand,
- Increase of costs arising from Stock Exchange fees, amounting to PLN 1,501 thousand,
- Costs incurred for concession fee for 2010 to the Energy Regulatory Office, amounting to PLN 1,000 thousand.

(in PLN thousands)

12.4. Depreciation/amortization expense and impairment losses recognized in the statement of comprehensive income

	Year ended 31 December 2010	Year ended 31 December 2009
Items included in cost of sales:	**(4)**	**(76)**
Depreciation of property, plant and equipment	(3)	(7)
Amortization of intangible assets	(1)	(3)
Impairment of intangible assets	–	(66)
Items included in administrative expenses:	**(3 220)**	**(2 096)**
Depreciation of property, plant and equipment	(2 212)	(1 563)
Amortization of intangible assets	(1 008)	(533)
Total	**(3 224)**	**(2 172)**

12.5. Employee benefits expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Wages and salaries	(33 515)	(23 905)
Social security costs	(3 988)	(3 222)
Jubilee bonuses	(1 442)	(903)
Transfers to the Social Fund	(593)	(476)
Post-employment benefits expenses, of which:	(2 432)	(1 525)
Retirement, disability and similar benefits	(167)	(67)
Special electricity rates and charges	(145)	(39)
Social Fund	(45)	(19)
Costs of employee retirement plans	(2 075)	(1 400)
Other employee benefits expenses	(3 254)	(3 244)
Employee benefits expenses, of which:	**(45 224)**	**(33 275)**
Items included in cost of sales	(586)	(695)
Items included in selling and distribution expenses	(5 229)	(4 605)
Movement in stocks of finished goods	(1 894)	(1 150)
Items included in administrative expenses	(37 515)	(26 825)

13. Income tax

13.1. Tax expense in the statement of comprehensive income

Major components of income tax expense in the statement of comprehensive income are as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Current income tax	**(13 480)**	**(34 168)**
Current income tax expense	(13 480)	(36 123)
Adjustments to current income tax from previous years	–	1 955
Deferred tax	**5 159**	**2 396**
Income tax expense in the statement of comprehensive income	**(8 321)**	**(31 772)**

(in PLN thousands)

13.2. Reconciliation of the effective income tax rate

	Year ended 31 December 2010	Year ended 31 December 2009
Profit/(loss) before tax from continuing operations	**198 799**	**216 307**
Profit/(loss) before tax	**198 799**	**216 307**
Tax at Poland's statutory tax rate of 19%	**(37 772)**	**(41 098)**
Adjustments to income tax from previous years	–	1 955
Tax resulting from tax non-deductible costs, of which:	(5 072)	(2 317)
National Disabled Persons Rehabilitation Fund (PFRON)	(34)	(31)
Donations	(53)	(11)
Costs relating to IPO	(3 246)	–
Other	(1 739)	(2 275)
Dividend tax	–	(17 162)
Tax resulting from income not included in taxable profit, of which:	34 570	24 408
Dividends	34 570	24 188
Other	–	220
Changes in deferred tax estimates	–	2 442
Other	(47)	–
Tax at the effective tax rate of 4.2% (2009: 14.7%)	**(8 321)**	**(31 772)**
Income tax expense in the statement of comprehensive income	(8 321)	(31 772)

13.3. Deferred income tax

Deferred income tax relates to the following:

	As at 31 December 2010	As at 31 December 2009
Deferred tax liability		
– difference between tax base and carrying amount of fixed and intangible assets	691	332
– difference between tax base and carrying amount of financial assets	174	5
– other	99	–
Deferred tax liability	**964**	**337**

	As at 31 December 2010	As at 31 December 2009
Deferred tax assets		
– provisions	8 860	1 024
– tax losses	–	2 443
– difference between tax base and carrying amount of fixed and intangible assets	27	3
– difference between tax base and carrying amount of financial assets	3	–
– difference between tax base and carrying amount of inventories	39	–
– other accrued expenses	299	146
– other	250	76
Deferred tax assets	**9 478**	**3 692**
After the offsetting of the balances, deferred tax is presented as a deferred tax asset in the statement of financial position	**8 514**	**3 355**

(in PLN thousands)

14. Social assets, Social Fund liabilities

The transfer to the Social Fund amounted to PLN 593 thousand in the year ended 31 December 2010 and PLN 476 thousand in the year ended 31 December 2009.

15. Dividends paid and proposed

On 4 March 2010, the Ordinary General Shareholders' Meeting resolved to allocate the Company's net profit for 2009 in the amount of PLN 184,535 thousand for payment from profit made in accordance with separate regulations (PLN 8,376 thousand) and to the Company's reserve capital (PLN 176,159 thousand).

On 17 June 2009, the Ordinary General Shareholders' Meeting resolved to allocate the Company's net profit for 2008 in the amount of PLN 55,616 thousand for dividend distribution (PLN 51,167 thousand) and to the reserve capital (PLN 4,449 thousand).

16. Intangible assets

Year ended 31 December 2010

	Software	Energy certificates	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST					
Opening balance	**3 727**	–	**375**	**657**	**4 759**
Direct purchase	–	9 773	–	4 391	**14 164**
Allocation of intangible assets not made available for use	4 301	–	242	(4 543)	–
Other	16	–	–	–	**16**
Closing balance	**8 044**	**9 773**	**617**	**505**	**18 939**
ACCUMULATED AMORTIZATION					
Opening balance	**(690)**	–	**(130)**	–	**(820)**
Amortization for the period	(878)	–	(131)	–	**(1 009)**
Other	(15)	–	–	–	**(15)**
Closing balance	**(1 583)**	–	**(261)**	–	**(1 844)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**3 037**	–	**245**	**657**	**3 939**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**6 461**	**9 773**	**356**	**505**	**17 095**

Year ended 31 December 2009

	Software	Energy certificates	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST					
Opening balance	**1 768**	–	**146**	**278**	**2 192**
Direct purchase	–	–	–	2 567	**2 567**
Allocation of intangible assets not made available for use	1 959	–	229	(2 188)	–
Closing balance	**3 727**	–	**375**	**657**	**4 759**
ACCUMULATED AMORTIZATION					
Opening balance	**(191)**	–	**(27)**	–	**(218)**
Amortization for the period	(499)	–	(37)	–	**(536)**
Increase of impairment	–	–	(66)	–	**(66)**
Closing balance	**(690)**	–	**(130)**	–	**(820)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**1 577**	–	**119**	**278**	**1 974**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**3 037**	–	**245**	**657**	**3 939**

(in PLN thousands)

17. Shares in unlisted and listed companies

The tables below present movements in long-term investments in the period from 1 January 2010 to 31 December 2010 and in the comparative period from 1 January 2009 to 31 December 2009.

Changes in the balance of long-term investments in the period from 1 January to 31 December 2010

No.	Company	Opening balance	Increases	Decreases	Closing balance
1.	Południowy Koncern Energetyczny S.A.	6 697 999	864 251	–	**7 562 250**
2.	ENION S.A.	2 948 630	407 785	–	**3 356 415**
3.	EnergiaPro S.A.	2 206 153	350 957	–	**2 557 110**
4.	Elektrownia Stalowa Wola S.A.	475 106	80 591	–	**555 697**
5.	Elektrociepłownia Tychy S.A.	40 862	–	–	**40 862**
6.	Przedsiębiorstwo Energetyki Cieplnej Katowice S.A.	345 285	–	–	**345 285**
7.	Energomix Servis Sp. z o.o.	586 092	–	(586 092)	–
8.	TAURON Obsługa Klienta Sp. z o.o.	–	345 015	–	**345 015**
9.	TAURON Ekoenergia Sp. z o.o.	–	897 069	–	**897 069**
10.	Energetyka Cieplna w Kamiennej Górze Sp. z o.o.	–	6 959	–	**6 959**
11.	Elektrociepłownia EC Nowa Sp. z o.o.	125 327	92 086	–	**217 413**
12.	ENION Zarządzanie Aktywami Sp. z o.o.	578 017	–	(578 017)	–
13.	TAURON Sprzedaż Sp. z o.o.	–	692 550	(397 752)	**294 798**
14.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	–	6 886	–	**6 886**
15.	Zespół Elektrowni Wodnych Rożnów Sp. z o.o.	–	931	–	**931**
16.	Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A.	162 557	–	–	**162 557**
17.	TAURON Czech Energy s.r.o.	4 223	–	–	**4 223**
		14 170 251	**3 745 080**	**(1 561 861)**	**16 353 470**

The changes in the balances of the Company's long-term investments in the period from 1 January to 31 December 2010 were due to the following events:

- Merger of the parent, TAURON Polska Energia S.A., with its subsidiaries, Energomix Servis Sp. z o.o. and ENION Zarządzanie Aktywami Sp. z o.o., as described in detail in Note 32. As a result of the merger, the balance of long-term investments was reduced due to the derecognition of investments in the acquired companies, Energomix Servis Sp. z o.o. and ENION Zarządzanie Aktywami Sp. z o.o., amounting to PLN 1,164,109 thousand.
- Division of TAURON Sprzedaż Sp. z o.o. by way of a take-over by TAURON Ekoenergia Sp. z o.o. of some of the assets of TAURON Sprzedaż Sp. z o.o. representing an organized part of the enterprise, comprising tangible and intangible assets connected with generation of electricity using renewable sources of energy – hydroelectric plants. The division was effected pursuant to Article 529 § 1 section 4 of the Code of Commercial Companies. On 1 October 2010, the District Court in Wrocław recorded an increase in the share capital of TAURON Ekoenergia Sp. z o.o., and at the same taime the division of TAURON Sprzedaż Sp. z o.o. In addition, TAURON Polska Energia S.A. contributed PLN 2 thousand to TAURON Ekoenergia Sp. z o.o. As a result of the above division, the Company reallocated the value of shares between TAURON Sprzedaż Sp. z o.o. and TAURON Ekoenergia Sp. z o.o., by dividing the value of shares in TAURON Sprzedaż Sp. z o.o. in proportion to the relation of the value of assets allocated to TAURON Ekoenergia Sp. z o.o., as determined for the purpose of the division, to the value of total assets of TAURON Sprzedaż Sp. z o.o. determined for the purpose of the division.
- Contributions in kind made by the State Treasury on 21 October 2010 for the increase of the Company's share capital, as described in detail in Note 22 hereto, which included the following key subsidiaries: Południowy Koncern Energetyczny S.A. with fair value of PLN 863,754 thousand, Elektrownia Stalowa Wola S.A. with fair value of PLN 80,524 thousand, ENION S.A. with fair value of PLN 407,740 thousand and EnergiaPro S.A. with fair value of PLN 350,858 thousand. On 21 December 2010, the Company acquired additional shares in the aforementioned companies in exchange for cash, i.e. in Południowy Koncern Energetyczny S.A. for PLN 497 thousand, in Elektrownia Stalowa Wola S.A. for PLN 67 thousand, in ENION S.A. for PLN 45 thousand and in EnergiaPro S.A. for PLN 99 thousand.
- Acquisition on 23 November 2010 of 80 thousand shares with a nominal value of PLN 1 thousand each in the increased share capital of TAURON Ekoenergia Sp. z o.o., in exchange for cash.

On 17 May 2010, the Company signed an agreement with Południowy Koncern Energetyczny S.A. for the usufruct of shares, under which TAURON Polska Energia S.A. is the usufructuary of the shares of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. Under this agreement, the Company disposes of an 80% interest in the share capital and an 88.88% interest in the governing body of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

(in PLN thousands)

On 22 December 2010, TAURON Polska Energia S.A. and Południowy Koncern Energetyczny S.A. signed agreements for the usufruct of shares in Kopalnia Wapienia Czatkowice Sp. z o.o. and Południowy Koncern Węglowy S.A., owned by Południowy Koncern Energetyczny S.A. In consequence, TAURON Polska Energia S.A. disposes of a 100% interest in the share capital and in the governing body of Kopalnia Wapienia Czatkowice Sp. z o.o. and a 52.48% interest in the share capital of Południowy Koncern Węglowy S.A., giving 68.01% votes at the company's General Shareholders' Meeting.

Changes in the balance of long-term investments in the period from 1 January to 31 December 2009

No.	Company	Opening balance	Increases	Decreases	Closing balance
1.	Południowy Koncern Energetyczny S.A.	6 697 999	–	–	**6 697 999**
2.	ENION S.A.	3 526 647	–	(578 017)	**2 948 630**
3.	EnergiaPro S.A.	2 206 153	–	–	**2 206 153**
4.	Elektrownia Stalowa Wola S.A.	475 106	–	–	**475 106**
5.	Elektrociepłownia Tychy S.A.	40 862	–	–	**40 862**
6.	Przedsiębiorstwo Energetyki Cieplnej Katowice S.A.	345 285	–	–	**345 285**
7.	Energomix Servis Sp. z o.o.	586 092	–	–	**586 092**
8.	ENION Zarządzanie Aktywami Sp. z o.o.	–	578 017	–	**578 017**
9.	Elektrociepłownia EC Nowa Sp. z o.o.	–	125 327	–	**125 327**
10.	Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A.	–	162 557	–	**162 557**
11.	TAURON Czech Energy s.r.o.	–	4 223	–	**4 223**
		13 878 144	**870 124**	**(578 017)**	**14 170 251**

The change in the balance of the Company's long-term investments in the period from 1 January to 31 December 2009 was due to the following events:

- the separation (spin-off) of ENION Zarządzanie Aktywami Sp. z o.o. (PLN 578,017 thousand) from the assets of ENION S.A.;
- the acquisition of shares in Elektrociepłownia EC Nowa Sp. z o.o. and Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A. from the State Treasury by TAURON Polska Energia S.A., in exchange for issued shares with a nominal value of PLN 287,883 thousand;
- the set-up of TAURON Czech Energy s.r.o. in Ostrava, Czech Republic (PLN 4,223 thousand).

18. Inventories

	As at 31 December 2010	As at 31 December 2009
Historical cost		
Property rights arising from energy certificates	4 779	–
CO_2 emission allowances	4 664	109
Total	**9 443**	**109**
Write-downs to net realizable value	**(205)**	–
Net realizable value		
Property rights arising from energy certificates	4 779	–
CO_2 emission allowances	4 459	109
Total	**9 238**	**109**

On 22 December 2010, TAURON Polska Energia S.A. purchased 3,000,000 CO_2 EUAs from Południowy Koncern Energetyczny S.A. for an agreed price of PLN 56.00/EUA, for a total amount of PLN 168,000 thousand. At the same time, the Company committed to sell back the same amount of allowances on 21 March 2011 for an agreed price of PLN 56.68/EUA. Due to the nature of this transaction, it was recognized as a loan (purchase with a commitment to sell back), as, in the Company's opinion, the risks and rewards, including the risk of changes in fair value, had not been transferred to the Company. In the statement of financial position as at 31 December 2010, this transaction has been presented on a net basis, i.e. after offsetting the loan against the liability (at the amount of input VAT).

(in PLN thousands)

19. Trade and other receivables

As at 31 December 2010, the balance of trade and other receivables amounted to PLN 634,531 thousand, including trade receivables of PLN 605,425 thousand, other financial receivables of PLN 9,287 thousand and cash pool loans of PLN 19,819 thousand. Bid bonds and collaterals of PLN 9,097 thousand represented the largest item of other financial receivables.

As at 31 December 2009, the balance of trade and other receivables amounted to PLN 340,560 thousand, including trade receivables of PLN 322,625 thousand and other financial receivables of PLN 17,935 thousand. Bid bonds and collaterals of PLN 17,861 thousand represented the largest item of other financial receivables.

Trade receivables are non-interest-bearing and are usually receivable within 30 days. Sales are only made to customers who have undergone an appropriate credit verification procedure. As a result, Management believe there is no additional credit risk that would exceed the doubtful debts allowance recognized for the Company's trade receivables.

The aging structure and allowances/write-downs recognized for trade and other financial receivables are presented in the tables below.

Trade and other financial receivables as at 31 December 2010

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Value of item before allowance/write-down	614 694	18	5	–	–	301	**615 018**
Allowance/write-down	–	–	(5)	–	–	(301)	**(306)**
Value of item net of allowance (carrying amount)	**614 694**	**18**	**–**	**–**	**–**	**–**	**614 712**

Trade and other financial receivables as at 31 December 2009

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Value of item before allowance/write-down	339 985	575	–	–	–	301	**340 861**
Allowance/write-down	–	–	–	–	–	(301)	**(301)**
Value of item net of allowance (carrying amount)	**339 985**	**575**	**–**	**–**	**–**	**–**	**340 560**

As at 31 December 2010 and 31 December 2009, the largest balances of trade receivables were the receivables from TAURON Sprzedaż Sp. z o.o. amounting to PLN 261,939 thousand and PLN 131,273 thousand respectively, and from TAURON Obsługa Klienta Sp. z o.o. amounting to PLN 227,728 thousand and PLN 99,717 thousand, respectively, which resulted from sales of electricity and energy certificates. Related party transactions and balances are presented in Note 33 hereto.

20. Cash and cash equivalents

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

	As at 31 December 2010	As at 31 December 2009
Cash at bank and in hand	321 942	13 111
Short-term deposits (up to 3 months)	205 069	200 322
Other	–	–
Total cash and cash equivalents presented in the statement of financial position, of which:	**527 011**	**213 433**
– restricted cash	154 589	17 626
Cash pool	(441 451)	–
Foreign exchange and other differences	14	(31)
Total cash and cash equivalents presented in the statement of cash flows	**85 574**	**213 402**

Restricted cash consists of cash held in the settlement account for trading in electricity at Towarowa Giełda Energii S.A. (Commodities Exchange), amounting to PLN 150 375 thousand, and cash held in the special purpose account for trading in electricity at the POEE energy exchange, amounting to PLN 4,214 thousand.

(in PLN thousands)

The balances of loans granted and taken out under cash pool transactions, which mainly serve the purpose of management of current financial liquidity in the Group, do not represent cash flows from investing or financing activity, but instead they represent an adjustment to the balance of cash and cash equivalents.

The details of cash pool balances are presented in Note 27 hereto.

21. Other current non-financial assets

	As at 31 December 2010	As at 31 December 2009
Other deferred costs	1 408	1 780
Prepayments for deliveries	250	4 038
Receivables from input VAT	34 883	2 465
Other current assets	12	–
Total	**36 553**	**8 283**

22. Issued capital and other items of equity

22.1. Issued capital

Issued capital as at 31 December 2010

Class/ issue	Type of shares	Type of preference	Number of shares	Nominal value of one share (in PLN)	Value of class/issue at nominal value	Method of payment
AA	bearer shares	–	1 589 438 762	9	14 304 949	cash/in-kind contribution
BB	registered shares	–	163 110 632	9	1 467 996	in-kind contribution
		Total	**1 752 549 394**		**15 772 945**	

Issued capital as at 31 December 2009

Class/ issue	Type of shares	Type of preference	Number of shares	Nominal value of one share (in PLN)	Value of class/issue at nominal value	Method of payment
A	registered shares	–	255 000	1	255	cash
B	registered shares	–	6 697 999 312	1	6 697 999	in-kind contribution
C	registered shares	–	3 526 647 223	1	3 526 648	in-kind contribution
D	registered shares	–	2 792 245 893	1	2 792 246	in-kind contribution
E	registered shares	–	475 106 055	1	475 106	in-kind contribution
F	registered shares	–	10 862 150	1	10 862	in-kind contribution
G	registered shares	–	195 284 950	1	195 285	in-kind contribution
H	registered shares	–	125 326 000	1	125 326	in-kind contribution
I	registered shares	–	162 556 975	1	162 557	in-kind contribution
		Total	**13 986 283 558**		**13 986 284**	

On 30 June 2010, the State Treasury carried out a public offering of the shares of TAURON Polska Energia S.A., as a result of which individual and institutional investors acquired 51.6% of the Company's shares. Employee shares, which represented about 13% of the Company's capital, were also introduced into trading on the stock exchange market. In addition, as a result of a reverse stock split the nominal value of one share increased from PLN 1 to PLN 9.

The number of shares was reduced 9 times, from 14,304,948,858 (shares classes from A to K, including the existing shares from class A to class I and merger shares classes J and K issued by TAURON Polska Energia S.A. as a result of the Company's merger with its subsidiaries, ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o.) to 1,589,438,762 shares class AA. The amount of the issued capital did not change as a result of the reverse split and it is equal to PLN 14,304,949 thousand.

On 9 September 2010, the Company and the State Treasury concluded an agreement for acquisition of the Company's BB class shares by the State Treasury, by way of a private subscription. Under this agreement, the State Treasury acquired 163,110,632 ordinary registered

(in PLN thousands)

"BB" class shares with a nominal value of PLN 9 each and a total nominal value of PLN 1,467,996 thousand, in connection with the share capital increase made by resolution of the Extraordinary General Shareholders' Meeting of 26 April 2010.

In connection with the aforementioned agreement, on 21 October 2010 the State Treasury made contributions in kind for the increase of the Company's share capital, in the following form:

- 22,528,790 shares held by the State Treasury in Południowy Koncern Energetyczny S.A. based in Katowice, accounting for 14.45% of all registered shares of Południowy Koncern Energetyczny S.A., with a fair value of PLN 863,754 thousand,
- 3,387,636 shares held by the State Treasury in Elektrownia Stalowa Wola S.A. based in Stalowa Wola, accounting for 14.69% of all registered shares of Elektrownia Stalowa Wola S.A., with a fair value of PLN 80,524 thousand,
- 3,706,725,306 shares held by the State Treasury in ENION S.A. based in Cracow, accounting for 14.65% of all registered shares of ENION S.A., with a fair value of PLN 407,740 thousand,
- 1,131,797,798 shares held by the State Treasury in EnergiaPro S.A. based in Wrocław, accounting for 13.75% of all registered shares of EnergiaPro S.A., with a fair value of PLN 350,858 thousand.

On 2 November 2010, the Katowice–Wschód District Court 8th Commercial Department of the National Court Register registered the increase of the Company's share capital up to the amount of PLN 15,772,945 thousand. Following the registration, the number of shares amounts to 1,752,549,394.

On 10 November 2010, based on the resolution of the Extraordinary General Shareholders' Meeting of TAURON Polska Energia S.A., the share capital was decreased by way of decreasing the nominal value of shares. The share capital was decreased by PLN 7,010,198 thousand, from PLN 15,772,945 thousand to PLN 8,762,747 thousand, by decreasing the nominal value of each share by PLN 4, from PLN 9 to PLN 5. The decrease of the Company's share capital is made in order to restructure the Company's equity by eliminating the gap between its share capital and reserve capital as well as between the nominal value of shares and their market value.

In accordance with Article 456 § 1 of the Code of Commercial Companies, the share capital decrease was announced in Monitor Sądowy i Gospodarczy No. 229 of 25 November 2010. In the same announcement, the Company requested the creditors to submit their claims against TAURON Polska Energia S.A. within 3 months of the date of announcement.

Following the completion of the above-mentioned convocation proceedings on 25 February 2011, on 28 February 2011 an application was filed with the Katowice–Wschód District Court in Katowice for registration of the share capital decrease with the National Court Register.

22.2. Shareholders with significant interest

Shareholding structure as at 31 December 2010 (to the best knowledge of the Company)

Shareholder	Value of shares	% of issued capital	% of total vote
State Treasury (notification of 28 February 2011)	6 618 257	41.96%	41.96%
KGHM Polska Miedź S.A.	736 402	4.67%	4.67%
Other shareholders	8 418 286	53.37%	53.37%
Total	**15 772 945**	**100.00%**	**100.00%**

According to the notification of 1 July 2010, the share of KGHM Polska Miedź S.A. in the share capital and total vote was 5.15%. On 2 November 2010, there was an increase in the share capital and in the number of shares to 1,752,549,394, as a result of which the share of KGHM Polska Miedź S.A. in the share capital and total vote as at 31 December 2010 amounts to 4.67%.

Shareholding structure as at 31 December 2009

Shareholder	Value of shares	% of issued capital	% of total vote
State Treasury	12 306 444	87.9894%	87.9894%
Other shareholders	1 679 840	12.0106%	12.0106%
Total	**13 986 284**	**100.00%**	**100.00%**

22.3. Reserve capital

Changes in the reserve capital in the period under review included the following amounts:

- In accordance with resolution of the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. dated 4 March 2010, as described in detail in Note 15 hereto, the Company's reserve capital was increased by an amount of PLN 176,159 thousand allocated from the Company's profit for 2009.

(in PLN thousands)

- As a result of the agreement of 9 September 2010 between TAURON Polska Energia S.A. and the State Treasury on the acquisition of the Company's BB class shares by the State Treasury, as described in detail in Note 22.1 hereto, the Company's reserve capital was increased by an amount of PLN 234,879 thousand, representing the difference between the fair value of the in-kind contribution made to the Company in the form of subsidiaries' shares and the nominal value of the share capital acquired by the State Treasury in exchange for the contribution.

22.4. Retained earnings and restrictions on distribution

Changes in retained earnings in the period under review included:

- The net profit for the period of PLN 190,478 thousand.
- In accordance with the resolution of the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. dated 4 March 2010, as described in detail in Note 15 hereto, an amount of PLN 176,159 thousand from the Company's profit for 2009 was allocated for the increase of the Company's reserve capital.
- As a result of the Company's merger of 10 June 2010 with its subsidiaries, ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o., as described in detail in Note 32 hereto, an amount of PLN 85,138 thousand representing the difference between the acquired net assets of the subsidiaries, the value of their derecognized shares and the nominal value of the shares issued, after taking into account the additional payments due from the existing shareholders, was taken to retained earnings.
- In the financial year under review, an adjustment was also made to the declaration of payment from the profit of State Treasury companies for 2009, in the amount of PLN 32 thousand.

Retained earnings include amounts that are not subject to distribution.

	As at 31 December 2010	As at 31 December 2009
Non-distributable amounts included in retained earnings:	85 138	14 763
– 8% of statutory net profit of the Company allocated to reserve capital under the Commercial Companies Code	–	14 763
– retained earnings from merger with subsidiaries	85 138	–
Retained earnings of the Company eligible for distribution	190 510	169 772

Due to filing, on 28 February 2011, an application for registration with the National Court Register of a share capital decrease effected by the resolution of the Extraordinary Shareholders' Meeting of TAURON Polska Energia S.A. dated 10 November 2010 (as described in detail in Note 22.1.), the parent will not be required to allocate 8% of the statutory net profit to the reserve capital for absorption of losses if the decrease of the Company's share capital is registered before the date on which the General Shareholders' Meeting passes resolution on the appropriation of the profit of TAURON Polska Energia S.A. for 2010.

23. Earnings per share

In June 2010, the process of the reverse stock split came to an end. The number of shares was reduced 9 times, from 14,304,948,858 to 1,589,438,762. For comparability purposes, earnings per share for the year ended 31 December 2009 as presented in the statement of comprehensive income in these financial statements was calculated for the period on the assumption that the nominal value of one share had always been equal to PLN 9 and the weighted average number of shares was nine times smaller.

Presented below are figures relating to profit and shares, which were used in the calculation of basic and diluted earnings per share as presented in the statement of comprehensive income.

	Year ended 31 December 2010	Year ended 31 December 2009
Net profit from continuing operations	190 478	184 535
Net profit from discontinued operations	–	–
Net profit	**190 478**	**184 535**
Net profit attributable to ordinary shareholders, used in calculation of diluted earnings per share	190 478	184 535
Number of ordinary shares, used in calculation of basic earnings per share	1 600 730 480	1 535 551 431
Number of ordinary shares, used in calculation of diluted earnings per share	1 600 730 480	1 535 551 431

Earnings per share before the reverse split for the year ended 31 December 2009 amounted to PLN 0.013.

(in PLN thousands)

24. Employee benefits

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

- retirement, disability and death benefits,
- reduced electricity rates and charges granted to employees,
- transfers to the Social Fund for former employees,
- jubilee bonuses.

The amounts of these provisions and reconciliation presenting the movements in provisions during the financial period are presented in the tables below. The corridor approach presented below does not relate to provisions for jubilee bonuses.

Movement in provisions for employee benefits, year ended 31 December 2010

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	**193**	**139**	**46**	**1 109**	**1 487**
Current service costs	156	126	42	781	**1 105**
Actuarial gains and losses	11	19	3	660	**693**
Benefits paid	–	–	–	(545)	**(545)**
Interest expense	27	31	7	70	**135**
Closing balance	**387**	**315**	**98**	**2 075**	**2 875**
CURRENT	**10**	**1**	**2**	**256**	**269**
NON-CURRENT	**377**	**314**	**96**	**1 819**	**2 606**

Provisions for employee benefits under corridor approach, year ended 31 December 2010

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provisions, total
Present value of liability at the end of the period	**594**	**469**	**117**	**1 180**
Unrecognized liability, of which:	(207)	(154)	(19)	**(380)**
Unrecognized actuarial gains/losses	(207)	(154)	(19)	**(380)**
Net liability at the end of period	**387**	**315**	**98**	**800**
Present value of the liability at the beginning of period	**388**	**473**	**98**	**959**
Net cumulative unrecognized actuarial gains/(losses) at the beginning of period	**(195)**	**(334)**	**(52)**	**(581)**
Corridor limits	39	47	10	**96**
Exceeded	(156)	(287)	(42)	**(485)**
Actuarial gain (loss) to be recognized	(11)	(19)	(3)	**(33)**
Actuarial gain (loss) for the period	(23)	161	30	**168**
Unrecognized actuarial gains/(losses) at the end of period	**(207)**	**(154)**	**(19)**	**(380)**

(in PLN thousands)

Movement in provisions for employee benefits, year ended 31 December 2009

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	**122**	**87**	**24**	**596**	**829**
Current service costs	60	33	17	316	**426**
Actuarial gains and losses	6	6	1	588	**601**
Benefits paid	(11)	–	–	(421)	**(432)**
Interest expense	16	13	4	30	**63**
Closing balance	**193**	**139**	**46**	**1 109**	**1 487**
CURRENT	**9**	**2**	**2**	**154**	**167**
NON-CURRENT	**184**	**137**	**44**	**955**	**1 320**

Provisions for employee benefits under corridor approach, year ended 31 December 2009

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provisions, total
Present value of liability at the end of the period	**388**	**473**	**98**	**959**
Unrecognized liability, of which:	(195)	(334)	(52)	**(581)**
Unrecognized actuarial gains/losses	(195)	(334)	(52)	**(581)**
Net liability at the end of period	**193**	**139**	**46**	**378**
Present value of the liability at the beginning of period	**269**	**234**	**58**	**561**
Net cumulative unrecognized actuarial gains/(losses) at the beginning of period	**(148)**	**(147)**	**(34)**	**(329)**
Corridor limits	27	23	6	**56**
Exceeded	(121)	(124)	(28)	**(273)**
Actuarial gain (loss) to be recognized	(6)	(6)	(1)	**(13)**
Actuarial gain (loss) for the period	(53)	(193)	(20)	**(265)**
Unrecognized actuarial gains/(losses) at the end of period	**(195)**	**(334)**	**(52)**	**(581)**

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

	Year ended 31 December 2010	Year ended 31 December 2009
Discount rate (%)	5.50%	5.75%
Estimated inflation rate (%)	2.50%	2.50%
Employee rotation rate (%)	2.85%	2.31%
Estimated salary increase rate (%)	2.50%	2.50%
Estimated electricity price increase rate (%)	2.80%	2.70%
Estimated increase rate for contribution to the Social Fund (%)	4.20%	4.10%
Remaining average employment period	16.30	14.79

25. Provisions

Due to the sale of electricity to final users, the Company is required to surrender for cancellation a certain amount of certificates of electricity generated using renewable sources, gas-fired plants and cogeneration. As at 31 December 2010, the Company recognized a short-term provision for the obligation to surrender energy certificates for cancellation, amounting to PLN 36,795 thousand. As at 31 December 2009, no provision was recognized for the obligation to surrender energy certificates for cancellation due to the lack of sales to final users.

26. Leases

26.1. Operating lease commitments

The Company rents a real estate located in Katowice at ul. Lwowska 23, with a surface of 4,389.17 m^2, from Południowy Koncern Energetyczny S.A. Monthly rentals amount to PLN 338 thousand net. In addition, the Company rents three cars from TAURON Obsługa Klienta Sp. z o.o. and one car from PUH ETRANS Sp. z o.o. Monthly rentals for each of those cars amount to PLN 2.5 thousand net.

26.2. Finance lease and hire purchase commitments

Future minimum rentals payable under finance leases and hire purchase contracts and the present value of the net minimum lease payments are as follows:

	As at 31 December 2010		As at 31 December 2009	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
Within 1 year	987	906	1 035	839
Within 1 to 5 years	143	136	1 097	1 013
More than 5 years	–	–	–	–
Minimum lease payments, total	**1 130**	**1 042**	**2 132**	**1 852**
Less amounts representing finance	(88)	–	(280)	–
Present value of minimum lease payments, of which:	**1 042**	**1 042**	**1 852**	**1 852**
current	906	906	839	839
non-current	136	136	1 013	1 013

27. Interest-bearing loans and borrowings, including issued debentures

As at 31 December 2010, Company's liabilities under loans taken out or issued debentures resulted from loans taken out from affiliates under the "Agreement for the Provision of Cash Pool Services" and debentures issued on 29 December 2010 under the debenture issue program.

Agreement for the Provision of Cash Pool Services

On 28 May 2010, the parent, TAURON Polska Energia S.A., and its subsidiaries: TAURON Ekoenergia Sp. z o.o., Elektrociepłownia EC Nowa Sp. z o.o., Elektrownia Stalowa Wola S.A., TAURON Obsługa Klienta Sp. z o.o., EnergiaPro S.A., TAURON Sprzedaż Sp. z o.o., Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A. signed an agreement with Bank Polska Kasa Opieki S.A. for the provision of cash pool services. Subsequently, the following subsidiaries became parties to the agreement as a result of signing annexes thereto: Przedsiębiorstwo Energetyki Cieplnej Katowice S.A., ENION S.A., Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., TAURON Czech Energy s.r.o., Południowy Koncern Energetyczny S.A., Południowy Koncern Węglowy S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

The purpose of the agreement is to ensure the most effective management of cash held by the companies, efficient funding of day-to-day working capital requirements of the Group companies, improvement of financial liquidity and optimization of finance income and finance costs of the individual Group companies participating in the agreement as well as of the entire TAURON Polska Energia S.A. Group. TAURON Polska Energia S.A. plays the role of the pool leader. The first cash pool transactions were made in June 2010. Interest terms have been determined at an arm's length.

The balances of receivables and payables arising from cash pool transactions are presented in the tables below.

	As at 31 December 2010	As at 31 December 2009
Loans granted under cash pool agreement	19 700	–
Interest receivable on loans granted under cash pool agreement	119	–
Total	**19 819**	–

(in PLN thousands)

	As at 31 December 2010	As at 31 December 2009
Loans received under cash pool agreement	460 051	–
Interest payable on loans received under cash pool agreement	1 219	–
Total	**461 270**	–
Balance of cash pool	**441 451**	–

The surplus of cash acquired by the Company under the cash pool agreement is invested in bank accounts.

Under the cash pool agreement the Company may use external funding amounting to PLN 100,000 thousand by 28 May 2011.

Issue of debentures

On 16 December 2010, agreements were signed between the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Nordea Bank Polska S.A., with respect to the program of issue of TAURON Polska Energia S.A.'s debentures for an amount of PLN 1,300,000 thousand. The agreements will be binding for 5 years from the date of the issue of the first series of debentures under the program.

Debentures are issued in two tranches. Under Tranche A the Company was entitled to issue one series of debentures with a total nominal value up to PLN 900,000 thousand within one month from the date of the agreement, i.e. 16 December 2010. On 29 December 2010, in order to refinance the existing debt of Południowy Koncern Energetyczny S.A., ENION S.A. and Południowy Koncern Węglowy S.A., TAURON Polska Energia S.A. issued 5-year corporate debentures with a nominal value of PLN 848,200 thousand.

Under Tranche B the Company is entitled to issue a number of next series of debentures during the term of the program as well as to redeem and reissue debentures up to the amount of Tranche B i.e. PLN 400,000 thousand, with a proviso that any unused amount of Tranche A not exceeding PLN 50,000 thousand can be added to Tranche B up to the total amount not exceeding PLN 450,000 thousand. The total nominal value of the debentures issued under the program may not exceed PLN 1,300,000 thousand.

Debentures are issued in a dematerialized form. These are unsecured bearer debentures with a floating interest rate of WIBOR 6M plus a fixed margin. The Company provided a declaration of submission to enforcement up to PLN 1,560,000 thousand as a security for the debenture issue program.

The main purpose of the debentures issue program is to acquire funds for the repayment of part of the liabilities of the TAURON Group companies whose terms are less favorable than the terms obtained by the Company in this process, as well as a simultaneous reduction of the level of subordinated debt within the Group. An additional purpose is to acquire funds for the financing of the Company's general corporate needs.

The table below presents the balance of the Company's liability under issued debentures, together with interest calculated as at 31 December 2010 using the effective interest rate.

Interest rate	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)					
		Accrued interest	Principal at amortized cost	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
floating	PLN	357	845 650	–	–	–	–	845 650	–
Total debentures		**357**	**845 650**	–	–	–	–	**845 650**	–

Assets pledged as security

Under the debentures issue program the Company provided a declaration of submission to enforcement up to the amount of PLN 1,560,000 thousand.

In order to secure the transactions made by the Company at Towarowa Giełda Energii S.A. on electricity markets and its participation in the system securing the liquidity of settlements, restrictions were placed on the property rights of TAURON Sprzedaż Sp. z o.o. in the Register of Energy Certificates. In addition, TAURON Sprzedaż Sp. z o.o. issued a suretyship in favor of the Company to Izba Rozliczeniowa Giełd Towarowych S.A. in respect of the settlement of future transactions up to the amount of PLN 12,000 thousand. It was agreed that the Company would pay a consideration to TAURON Sprzedaż Sp. z o.o. in respect of the suretyship.

The common types of security used by the Company to secure its liabilities include pledges on the vehicles leased by the Company and restricted cash in bank accounts.

(in PLN thousands)

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

	As at 31 December 2010	As at 31 December 2009
Motor vehicles	1 576	2 088
Trade receivables	–	17 751
Cash	–	7 000
Total assets pledged as security for liabilities	**1 576**	**26 839**

28. Capital commitments

As at 31 December 2010, the Company had capital commitments of PLN 1,126 thousand, which resulted from the contract signed for implementation of the SAP integrated system.

The Company had no capital commitments as at 31 December 2009.

29. Contingent liabilities

Guarantees issued by the Company as at 31 December 2010 amounted to PLN 5,940 thousand and included:

- A guarantee of EUR 1,000 thousand (PLN 3,960 thousand) granted in favor of TAURON Czech Energy s.r.o. in connection with the EFET framework agreement for sale of electricity, for the benefit of CEZ a.s. The guarantee is binding from 1 April 2010 to 31 December 2011;
- A bank guarantee for OTE amounting to EUR 500 thousand (PLN 1,980 thousand), granted in favor of TAURON Czech Energy s.r.o. for the benefit of UniCredit Bank Czech Republik a.s. The guarantee is binding from 9 June 2010 to 8 June 2011.

The Company issued two blank promissory notes for a total amount of PLN 40,000 thousand for the benefit of the Voivodship Fund for Environmental Protection and Water Management in Katowice, in order to secure the loan granted to its subsidiary Południowy Koncern Energetyczny S.A.

30. Other non-financial liabilities

Other current non-financial liabilities

	As at 31 December 2010	As at 31 December 2009
Taxes, customs, social security and other payables, of which:	**25 432**	**4 010**
VAT	22 904	2 101
Social security	1 619	1 182
Personal Income Tax	894	619
Other	15	108
Other non-financial liabilities:	**662**	–
Supply advances received from clients	662	–
Total	**26 094**	**4 010**

31. Deferred income and government grants

	As at 31 December 2010	As at 31 December 2009
Unused holidays	1 050	781
Annual bonuses	5 489	2 779
Audit fees	70	96
Other accrued expenses	7	260
Other deferred income	103	103
Total, of which:	**6 719**	**4 019**
non-current	–	–
current	6 719	4 019

(in PLN thousands)

32. Business combinations

On 10 June 2010, the parent, TAURON Polska Energia S.A., combined with its subsidiaries, ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o. As a result of this business combination, the shareholders of the acquired companies, ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o., received newly issued shares of the Company:

- 193,850,314 shares class K, with a nominal value of PLN 1 each, were granted to the shareholders of ENION Zarządzanie Aktywami Sp. z o.o.,
- 124,814,986 shares class L, with a nominal value of PLN 1 each, were granted to the shareholders of Energomix Servis Sp. z o.o.

The parities of exchange were determined on the basis of the market value of the entities being combined, calculated based on a valuation performed by an independent expert as at 1 December 2009. The parities of exchange were determined as follows: the shareholders of ENION Zarządzanie Aktywami Sp. z o.o. received 427 shares of TAURON Polska Energia S.A. (426.01 shares before rounding) in exchange for 1 share of ENION Zarządzanie Aktywami Sp. z o.o., while the shareholders of Energomix Servis Sp. z o.o. received 799 shares of TAURON Polska Energia S.A. (798.86 shares before rounding) in exchange for 1 share of Energomix Servis Sp. z o.o.

In addition, the non-controlling shareholders of ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o. were required to make their contributions in cash (in accordance with art. 492 par. 3 of the Code of Commercial Companies), i.e. to make an additional payment of PLN 1.15 for each share of ENION Zarządzanie Aktywami Sp. z o.o. exchanged for the Company's shares, and PLN 0.16 for each share of Energomix Servis Sp. z o.o. exchanged for the Company's shares.

Following registration of merger shares, the Company's issued capital was increased by PLN 318,665 thousand, up to PLN 14,304,949 thousand.

The Company's merger with its subsidiaries, ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o., resulted in the recognition, in these financial statements, of the assets of the acquired companies with a total value of PLN 1,567,366 thousand. At the same time, investments previously held in these companies, with a total value of PLN 1,164,109 thousand, were derecognized. In exchange for the acquired non-controlling interests in the acquired companies, the Company issued shares with a total nominal value of PLN 318,665 thousand. The difference between the net assets acquired, the value of derecognized shares in ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o., and the nominal value of the issued shares amounting to PLN 318,665 thousand, after taking into account the additional payments of PLN 547 thousand due from the previous shareholders, was taken to retained earnings.

33. Related party disclosures

33.1. Transactions with related companies and State Treasury companies

The Company enters into transactions with related companies as presented in Note 8. In addition, due to the fact that the Company's main shareholder is the State Treasury of the Republic of Poland, State Treasury companies are treated as related parties. Transactions with State Treasury companies mainly relate to the operating activity of the Company. All transactions with related companies are made on an arm's length basis.

As at 31 December 2010, the scope of the State Treasury companies with a significant share in revenue and costs in 2010 was reviewed. The comparative data shows the amounts applicable to the State Treasury companies according to their classification as at 31 December 2009.

The total value of revenues and costs from transactions with the aforementioned entities and the balances of receivables and payables are presented in the tables below.

Revenues and expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Revenue from related companies, of which:	**6 869 937**	**6 917 874**
Dividends	181 126	127 308
Revenue from State Treasury companies	**295 982**	**95 237**
Costs from related companies	**(3 845 812)**	**(4 128 732)**
Costs from State Treasury companies	**(1 532 008)**	**(51 539)**

(in PLN thousands)

Receivables and payables

	Year ended 31 December 2010	Year ended 31 December 2009
Receivables from related companies, of which:	**563 470**	**294 658**
Trade receivables	543 651	294 658
Loans granted under cash pool agreement	19 819	–
Related companies' debentures	**848 583**	–
Receivables from State Treasury companies	**60 694**	**14 335**
Payables to related companies, of which:	**811 964**	**267 261**
Trade payables	350 694	267 261
Loans received under cash pool agreement	461 270	–
Payables to State Treasury companies	**45 928**	**4 675**

Among the State Treasury companies, the largest contractors of TAURON Polska Energia S.A. in the year ended 31 December 2010 as regards sales revenue included Kompania Węglowa S.A. and PSE Operator S.A. Revenue from those companies accounted for 99% of total revenue from transactions with State Treasury companies. The largest costs were incurred as a result of purchases from PGE Electra S.A. and Izba Rozliczeniowa Giełd Towarowych S.A., representing 68% of total costs incurred as a result of purchases from State Treasury companies. In the year ended 31 December 2009, PSE Operator S.A. and Kompania Węglowa S.A. were the Company's largest contractors among the State Treasury companies.

33.2. Compensation of key management personnel

Until 28 June 2010, the compensation of the Directors and the Supervisory Board members was subject to the provisions of the Act of 3 March 2000 on Remunerating Individuals Being in Charge of Certain Legal Entities (companies with a majority shareholding of the State Treasury).

The amount of compensation and other benefits of the Board of Directors, Supervisory Board and other key management personnel of the Company for the year ended 31 December 2010 is presented in the table below.

	Year ended 31 December 2010	Year ended 31 December 2009
Board of Directors	**5 967**	**1 622**
Short-term employee benefits (salaries and surcharges)	5 200	1 261
Other	767	361
Supervisory Board	**329**	**279**
Short-term employee benefits (salaries and surcharges)	329	279
Total	**6 296**	**1 901**
Other members of key management personnel	**5 745**	**4 204**
Short-term employee benefits (salaries and surcharges)	5 079	3 818
Other	666	386

No loans were granted from the Social Fund to members of the parent's Board of Directors, Supervisory Board members or other members of key management personnel.

(in PLN thousands)

34. Financial instruments

34.1. Carrying amounts and fair values of the categories and classes of financial instruments

The fair values of the financial instruments held by the Company as at 31 December 2010 and 31 December 2009 did not significantly differ from their values presented in the financial statements for the particular periods, due to the following reasons:

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

The carrying amounts and fair values of the particular classes and categories of financial instruments as at 31 December 2010 and 31 December 2009 are presented in the tables below.

Categories and classes of financial assets	Carrying amount	
	As at 31 December 2010	As at 31 December 2009
1 Assets at fair value through profit or loss	**257**	–
2 Financial assets available for sale	**7 890**	–
3 Financial assets held to maturity	–	–
4 Loans and receivables	**1 483 114**	**340 560**
Trade receivables	605 425	322 625
Bonds, T-bills and other debt securities	848 583	–
Loans granted	19 819	–
Other	9 287	17 935
5 Financial assets excluded from the scope of IAS 39	**16 345 580**	**14 170 251**
6 Cash and cash equivalents	**527 011**	**213 433**

Categories and classes of financial liabilities	Carrying amount	
	As at 31 December 2010	As at 31 December 2009
1 Financial liabilities at fair value through profit or loss	–	–
2 Financial liabilities measured at amortized cost	**1 847 979**	**517 157**
Arm's length loans	461 270	–
Issued debentures	846 007	–
Trade payables	533 969	512 139
Other financial liabilities	3 969	2 487
Commitments resulting from purchases of fixed and intangible assets	803	1 141
Salaries and wages	1 961	1 390
Insurance contracts	–	–
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**1 042**	**1 852**
Obligations under finance leases and hire purchase contracts	1 042	1 852

(in PLN thousands)

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

Year ended 31 December 2010

	Assets at fair value through profit or loss	Financial assets available for sale	Financial assets held to maturity	Loans and receivables	Financial assets excluded from the scope of IAS 39	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Total
Dividends and shares in profits	–	822	–	–	181 126	–	–	–	**181 948**
Interest income/(expense)	6 769	–	–	6 417	–	–	(4 680)	(175)	**8 331**
Commissions	–	–	–	–	–	–	(697)	–	**(697)**
Exchange differences	(39)	–	–	(505)	–	–	–	–	**(544)**
Reversal of impairment losses/ “upwards” revaluation	257	–	–	6	–	–	–	–	**263**
Other	78	–	–	107	–	–	–	–	**185**
Net profit/(loss)	**7 065**	**822**	–	**6 025**	**181 126**	–	**(5 377)**	**(175)**	**189 486**

Year ended 31 December 2009

	Assets at fair value through profit or loss	Financial assets available for sale	Financial assets held to maturity	Loans and receivables	Financial assets excluded from the scope of IAS 39	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Total
Dividends and shares in profits	–	–	–	–	127 308	–	–	–	**127 308**
Interest income/(expense)	7 319	–	–	–	–	–	(3 743)	(218)	**3 358**
Commissions	–	–	–	–	–	–	(496)	–	**(496)**
Exchange differences	20	–	–	–	–	–	(105)	–	**(85)**
Reversal of impairment losses/ “upwards” revaluation	–	–	–	–	–	–	–	–	–
Other	–	–	–	294	–	–	–	–	**294**
Net profit/(loss)	**7 339**	–	–	**294**	**127 308**	–	**(4 344)**	**(218)**	**130 379**

(in PLN thousands)

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

Bonds, treasury bills and other debt securities in the category of loans and receivables, amounting to PLN 848,583 thousand, and issued debentures amounting to PLN 846,007 thousand relate to the program of issue of external and intercompany debentures which was launched in December 2010.

On 16 December 2010, agreements were signed between the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Nordea Bank Polska S.A., with respect to the program of issue of TAURON Polska Energia S.A.'s debentures for an amount of PLN 1,300,000 thousand. The details of the agreement and of the balance of the Company's liability under issued debentures as at 31 December 2010 have been described in Note 27 hereto.

On 17 December 2010, an agreement was signed between the Company and ING Bank Śląski S.A. which established the framework for the financing of the Group companies by debentures issued and acquired by the Group companies. As at 31 December 2010, the balance of the intercompany debentures acquired by TAURON Polska Energia S.A. was PLN 848,583 thousand. The debentures were issued by the following subsidiaries: Południowy Koncern Energetyczny S.A., ENION S.A. and Południowy Koncern Węglowy S.A.

Loans granted, falling within the category of loans and receivables, amounting to PLN 19,819 thousand, as well as arm's length loans falling within the category of financial liabilities measured at amortized cost, amounting to PLN 461,270 thousand, relate to intercompany transactions concluded as part of the cash pool service that was implemented in the Group in 2010. The cash pool service has been described in detail in Note 27 hereto.

Assets at fair value through profit or loss, amounting to PLN 257 thousand, include an asset arising from the valuation of derivative instruments – currency forward contracts at the balance sheet date.

Financial assets available for sale include shares in Zespół Elektrowni Wodnych Rożnów Sp. z o.o. and Energetyka Cieplna w Kamiennej Górze Sp. z o.o., which were acquired as a result of the Company's merger with its subsidiaries, Energomix Servis Sp. z o.o. and ENION Zarządzanie Aktywami Sp. z o.o.

35. Financial risk management objectives and policies

Financial risk management takes place at the level of the TAURON Polska Energia S.A. Group. TAURON Polska Energia S.A. manages financial risk in a mindful and responsible manner. Due to correlation between the risk incurred and the level of income that can be earned, financial risk management is applied in order to keep the exposures within the pre-agreed and authorized safety levels rather than to fully eliminate them.

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

35.1. Interest rate risk

The Company is exposed to the risk of changes in interest rates due to acquiring financing subject to variable interest rates and investing in assets that are subject to variable interest rates. The Company has no assets or liabilities with fixed interest rates.

The tables below present the carrying amounts of the Company's financial instruments exposed to the interest rate risk, analyzed by maturity as at 31 December 2010.

	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Bonds, T-bills and other debt securities	383	–	–	848 200	–	**848 583**
Loans granted	19 819	–	–	–	–	**19 819**
Cash assets	527 011	–	–	–	–	**527 011**
Total	**547 213**	–	–	**848 200**	–	**1 395 413**
Financial liabilities						
Arm's length loans	461 270	–	–	–	–	**461 270**
Issued debentures and other debt securities	357	–	–	845 650	–	**846 007**
Total	**461 627**	–	–	**845 650**	–	**1 307 277**

As at 31 December 2009, the Company had only monetary assets of PLN 213,433 thousand which were exposed to the interest rate risk.

The remaining financial instruments of the Company, which have not been presented in the tables above, are non-interest-bearing and are therefore not subject to the interest rate risk.

(in PLN thousands)

35.2. Currency risk

In 2010, TAURON Polska Energia S.A. used currency forward contracts in the management of currency risk. The aim of such transactions is to hedge the Company against the currency risk arising in the course of the trading activity of the TAURON Group. The Company did not apply hedge accounting.

The tables below present the Company's exposure to currency risk, analyzed by the particular classes of financial instruments as at 31 December 2010 and 31 December 2009.

Currency position as at 31 December 2010

	Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN
Financial assets					
Trade receivables and other financial receivables	614 712	1 048	4 151	12 214	1 930
Cash and cash equivalents	527 011	2 115	8 376	2 681	424
Total	**1 141 723**	**3 163**	**12 527**	**14 895**	**2 354**
Financial liabilities					
Trade payables	533 969	1 393	5 518	–	–
Total	**533 969**	**1 393**	**5 518**	–	–
Net currency position		**1 770**	**7 009**	**14 895**	**2 354**

Currency position as at 31 December 2009

	Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN
Financial assets					
Trade receivables and other financial receivables	340 560	35	146	–	–
Cash and cash equivalents	213 433	631	2 592	–	–
Total	**553 993**	**666**	**2 738**	–	–
Financial liabilities					
Trade payables	512 139	1	5	–	–
Total	**512 139**	**1**	**5**	–	–
Net currency position		**665**	**2 733**	–	–

35.3. Commodity price risk

The Company is exposed to unfavorable impact of risks associated with changes in cash flows and financial results denominated in Polish currency due to changes in the prices of commodities in relation to the opened market position. The Company's exposure to commodity price risk is reflected in the volume of purchases and sales of electricity. The volumes and purchase costs of electricity from external suppliers are presented in the table below.

Fuel type	Unit	2010		2009	
		Volume	Purchase cost	Volume	Purchase cost
Electricity	MWh	16 061 744	3 092 507	12 482 314	2 624 133
Total		**16 061 744**	**3 092 507**	**12 482 314**	**2 624 133**

(in PLN thousands)

35.4. Credit risk

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

The Company monitors credit risk arising in the course of its business activity on a regular basis. In 2010, the Company was exposed to credit risk arising from concluded trade contracts. In order to mitigate credit risk, as a result of regular analyses of the creditworthiness and financial standing of its contractors, in justified cases the Company requested the contractors to provide proper collateral in the form of bank, insurance or corporate guarantees, and introduced clauses providing for the possibility of suspending power supplies in the event of late payment of liabilities.

The Company is exposed to credit risk arising in the following areas:

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

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

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

There is no significant concentration of credit risk within the Company's core activities, except as listed in Note 19 and 11.

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

35.5. Liquidity risk

The Company maintains a balance between continuity of funding and flexibility through the use of various sources of financing, which enable management of liquidity risk and successfully minimize any negative effects following from realization of such risk. The tables below summarize the maturity profiles of the Company's financial liabilities.

Financial liabilities as at 31 December 2010

	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years	Total
Interest-bearing loans and borrowings (including issued debentures)	460 051	42 834	42 834	42 834	933 868	–	**1 522 421**
Trade payables	533 969	–	–	–	–	–	**533 969**
Commitments to purchase fixed and intangible assets	803	–	–	–	–	–	**803**
Other financial liabilities	5 744	186	–	–	–	–	**5 930**
Finance lease and hire purchase commitments	257	649	136	–	–	–	**1 042**
Guarantees granted and similar items	45 940	–	–	–	–	–	**45 940**
Total	**1 046 764**	**43 669**	**42 970**	**42 834**	**933 868**	–	**2 110 105**

(in PLN thousands)

Financial liabilities as at 31 December 2009

	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years	Total
Interest-bearing loans and borrowings (including issued debentures)	–	–	–	–	–	–	–
Trade payables	512 139	–	–	–	–	–	**512 139**
Commitments to purchase fixed and intangible assets	1 141	–	–	–	–	–	**1 141**
Other financial liabilities	2 425	1 452	–	–	–	–	**3 877**
Finance lease and hire purchase commitments	186	653	1 013	–	–	–	**1 852**
Guarantees granted and similar items	7 000	–	–	–	–	–	**7 000**
Total	**522 891**	**2 105**	**1 013**	–	–	–	**526 009**

35.6. Market risk – sensitivity analysis

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

- interest rate risk,
- currency risk,
- electricity price risk,
- risk of changes in the prices of CO_2 emission allowances and energy certificates.

Currently, TAURON Polska Energia S.A. is mainly exposed to the risk of changes in the EUR/PLN and CZK/PLN exchange rates. In addition, the Company is exposed to changes in reference interest rates for PLN and EUR.

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

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

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

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

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

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

35.6.1. Currency risk sensitivity analysis

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

Year ended 31 December 2010

Classes of financial instruments	31 December 2010		Sensitivity analysis for currency risk as at 31 December 2010			
			EUR/PLN		CZK/PLN	
	Carrying amount	Value at Risk	exchange rate EUR/PLN +12.3%	exchange rate EUR/PLN -12.3%	exchange rate CZK/PLN +9.6%	exchange rate CZK/PLN -9.6%
	In PLN thousand	In PLN thousand	*Profit/(Loss)*		*Profit/(Loss)*	
Trade receivables and other financial receivables	614 712	6 081	511	(511)	185	(185)
Cash and cash equivalents	527 011	8 800	1 030	(1 030)	41	(41)
Trade payables	533 969	5 518	(1)	1	–	–
Total			**1 540**	**(1 540)**	**226**	**(226)**

The risk exposure as at 31 December 2010 is representative of the Company's risk exposure within the 1-year period preceding that date.

Year ended 31 December 2009

Classes of financial instruments	31 December 2009		Sensitivity analysis for currency risk as at 31 December 2009	
			EUR/PLN	
	Carrying amount	Value at Risk	exchange rate EUR/PLN +13.25%	exchange rate EUR/PLN -13.25%
	In PLN thousand	In PLN thousand	*Profit/(Loss)*	
Trade receivables and other financial receivables	340 560	146	19	(19)
Cash and cash equivalents	213 433	2 592	343	(343)
Trade payables	512 139	5	–	–
Total			**362**	**(362)**

The risk exposure as at 31 December 2009 is representative of the Company's risk exposure within the 1-year period preceding that date.

35.6.2. Interest rate risk sensitivity analysis

The Company identifies its exposure to the risk of changes in WIBOR and EURIBOR interest rates. The tables below demonstrate the sensitivity of profit before taxation to reasonably possible changes in interest rates within a time horizon up until the date of the next financial statements, with all other variables held constant:

Year ended 31 December 2010

Classes of financial instruments	31 December 2010		Sensitivity analysis for interest rate risk as at 31 December 2010			
			WIBOR		EURIBOR	
	Carrying amount	Value at Risk	WIBOR + 60 bp	WIBOR - 60 bp	EURIBOR + 33 bp	EURIBOR - 33 bp
	In PLN thousand	In PLN thousand	*Profit/(loss)*		*Profit/(loss)*	
Bonds, T-bills and other debt securities	848 583	848 583	5 092	(5 092)	–	–
Loans granted	19 819	19 819	119	(119)	–	–
Cash and cash equivalents	527 011	527 011	3 109	(3 109)	28	(28)
Arm's length loans	461 270	461 270	(2 768)	2 768	–	–
Issued debentures and debt securities	846 007	846 007	(5 076)	5 076	–	–
Total			**476**	**(476)**	**28**	**(28)**

Year ended 31 December 2009

Classes of financial instruments	31 December 2009		Sensitivity analysis for interest rate risk as at 31 December 2009			
			WIBOR		EURIBOR	
	Carrying amount	Value at Risk	WIBOR + 81 bp	WIBOR - 81 bp	EURIBOR + 66 bp	EURIBOR - 66 bp
	In PLN thousand	In PLN thousand	*Profit/(Loss)*		*Profit/(Loss)*	
Cash and cash equivalents	213 433	213 433	1 708	(1 708)	17	(17)
Total			**1 708**	**(1 708)**	**17**	**(17)**

36. Capital management

Capital management takes place at the level of the TAURON Polska Energia S.A. Group. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group monitors the level of its equity using the leverage ratio, which will be presented in the consolidated financial statements for the year ended 31 December 2010.

During the year ended 31 December 2010, TAURON Polska Energia S.A., its subsidiaries and Bank Polska Kasa Opieki S.A. signed an agreement for the provision of cash pool services, as described in detail in Note 27 hereto.

On 29 December 2010, the Company issued debentures with a nominal value of PLN 848,200 thousand under the debentures issue program described in detail in Note 27. The funds were then transferred to key subsidiaries: Południowy Koncern Energetyczny S.A., ENION S.A. and Południowy Koncern Węglowy S.A. by way of issue of intercompany debentures.

37. Employment structure

	Year ended 31 December 2010	Year ended 31 December 2009
Management	5	5
Administration	165	145
Sales department	66	48
Total	**236**	**198**

38. Auditor's fees

On 19 November 2010, TAURON Polska Energia S.A. entered into a contract with Ernst & Young Audit Sp. z o.o. for the audit of:

- the financial statements of the Company for the years 2010–2012 prepared according to IFRS,
- the financial statements of selected Group companies for the years 2010–2012 prepared according to the accounting regulations applicable to such companies, i.e. IFRS or the Accounting Act,
- consolidated financial statements for the years 2010–2012 prepared according to IFRS.

The scope of the contract also includes periodic reviews of half-year consolidated financial statements prepared according to IFRS for the periods ending 30 June 2011 and 30 June 2012.

The amount of the auditor's fees for the services rendered to the Company is presented in the table below.

	Year ended 31 December 2010	Year ended 31 December 2009
Statutory audit	64	230
Audit services relating to IPO	1 469	–
Other services (including training)	86	–
Total	**1 619**	**230**

39. Events after the balance sheet date

On 24 February 2010, following the completion of the qualification procedure, the Supervisory Board passed resolutions and appointed the following individuals to the third-term Board of Directors of TAURON Polska Energia S.A.:

Dariusz Lubera – appointed as President of the Board,

Joanna Schmid – appointed as Vice President for Strategy and Development,

Dariusz Stolarczyk – appointed as Vice President for Corporate Affairs,

Krzysztof Zamasz – appointed as Vice President for Trade Affairs,

Krzysztof Zawadzki – appointed as Vice President for Economics and Finance.

The resolutions passed by the Supervisory Board come into force as of the date on which they were taken, with an effect from the date of the Company's Ordinary General Shareholders' Meeting which authorizes the financial statements for the last full financial year of holding the position of a member of the second-term Board of Directors, i.e. for the financial year 2010.

Board of Directors of the Company

Katowice, 1 March 2011

Dariusz Lubera	– President of the Management Board	....
Joanna Schmid	– Vice-President of the Management Board	....
Dariusz Stolarczyk	– Vice-President of the Management Board	....
Krzysztof Zamasz	– Vice-President of the Management Board	....
Krzysztof Zawadzki	– Vice-President of the Management Board	....

THE MANAGEMENT BOARD'S REPORT ON THE OPERATIONS OF TAURON Polska Energia S.A. FOR THE TRADING YEAR OF 2010

MARCH 2011

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1.1. Organisational and capital relations and major domestic and foreign investments

Organisational and capital relations

According to the status as at 31 December 2010, TAURON Polska Energia S.A. (hereinafter referred to as TAURON or the Company) held directly and indirectly shares and stock in the following subsidiaries of the TAURON Polska Energia S.A. Capital Group (hereinafter referred to as the TAURON Group).

Table no. 1. The list of major subsidiaries according to the status as at 31st Dec 2010

Item	Name of the entity	Address	Principal business activities	% held by TAURON in the entity's share capital	Holder of shares/stock as at 31 December 2010	% held by TAURON in the entity's governing body	Holder of shares/stock as at 31 December 2010
1.	Południowy Koncern Energetyczny S.A.	40-389 Katowice; ul. Lwowska 23	Generation, transmission and distribution of electricity and heat	99.46%	TAURON Polska Energia S.A. – 99.46%	99.46%	TAURON Polska Energia S.A. – 99.46%
2.	ENION S.A.	30-390 Kraków; ul. Zawiła 65 L	Distribution of electricity	99.68%	TAURON Polska Energia S.A. – 99.68%	99.68%	TAURON Polska Energia S.A. – 99.68%
3.	EnergiaPro S.A.	53-314 Wrocław; Pl. Powstańców Śląskich 20	Transmission and distribution of electricity	98.76%	TAURON Polska Energia S.A. – 98.76%	98.76%	TAURON Polska Energia S.A. – 98.76%
4.	Elektrownia Stalowa Wola S.A.	37-450 Stalowa Wola; ul. Energetyków 13	Generation and distribution of electricity and heat	99.74%	TAURON Polska Energia S.A. – 99.74%	99.74%	TAURON Polska Energia S.A. – 99.74%
5.	TAURON Sprzedaż sp. z o.o.[1]	30-417 Kraków; ul. Łagiewnicka 60	Sale of electricity	100.00%	TAURON Polska Energia S.A. – 100.00%	100.00%	TAURON Polska Energia S.A. – 100.00%
6.	TAURON Obsługa Klienta sp. z o.o.[1]	53-314 Wrocław; Pl. Powstańców Śląskich 16	Sale of electricity	100.00%	TAURON Polska Energia S.A. – 100.00%	100.00%	TAURON Polska Energia S.A. – 100.00%
7.	TAURON Ekoenergia sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity	100.00%	TAURON Polska Energia S.A. – 100.00%	100.00%	TAURON Polska Energia S.A. – 100.00%
8.	Elektrociepłownia Tychy S.A.	43-100 Tychy; ul. Przemysłowa 47	Generation of electricity, production and distribution of heat	95.47%	TAURON Polska Energia S.A. – 95.47%	95.47%	TAURON Polska Energia S.A. – 95.47%
9.	Kopalnia Wapienia Czatkowice sp. z o.o.[2]	32-063 Krzeszowice 3; os. Czatkowice 248	Quarrying, crushing and breaking of limestone, quarrying of stone for construction industry	99.46%	PKE S.A. – 100.00%	99.46%	PKE S.A. – 100.00%
10.	Południowy Koncern Węglowy S.A.[2]	43-600 Jaworzno; ul. Grunwaldzka 37	Hard coal mining	52.20%	PKE S.A. – 52.48%	67.64%	PKE S.A. – 68.01%
11.	Polska Energia Pierwsza Kompania Handlowa sp. z o.o.[2]	40-389 Katowice; ul. Lwowska 23	Trading in electricity	79.62%	PKE S.A. – 70.00%; TAURON Polska Energia S.A. – 10.00%	88.55%	PKE S.A. – 61.11%; TAURON Polska Energia S.A. – 27.78%
12.	Przedsiębiorstwo Energetyki Cieplnej Katowice S.A.	40-126 Katowice; ul. Grażyńskiego 49	Heat production and distribution	95.66%	TAURON Polska Energia S.A. – 95.66%	95.66%	TAURON Polska Energia S.A. – 95.66%
13.	Elektrociepłownia EC Nowa sp. z o.o.	41-308 Dąbrowa Górnicza; al. J. Piłsudskiego 92	Generation of electricity, production of heat and technical gases	84.00%	TAURON Polska Energia S.A. – 84.00%	84.00%	TAURON Polska Energia S.A. – 84.00%
14.	Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A.	41-300 Dąbrowa Górnicza; al. J. Piłsudskiego 2	Heat production and distribution	85.00%	TAURON Polska Energia S.A. – 85.00%	85.00%	TAURON Polska Energia S.A. – 85.00%

Item	Name of the entity	Address	Principal business activities	% held by TAURON in the entity's share capital	Holder of shares/stock as at 31 December 2010	% held by TAURON in the entity's governing body	Holder of shares/stock as at 31 December 2010
15.	TAURON Czech Energy s.r.o.	750 00 Ostrawa, Na Rovince 879/C The Czech Republic	Trading in electricity	100%	TAURON Polska Energia S.A. – 100%	100%	TAURON Polska Energia S.A. – 100%
16.	BELS INVESTMENT sp. z o.o.[3]	02-674 Warsaw; ul. Marynarska 11	Generation of electricity	100%	TAURON Ekoenergia sp. z o.o. – 100%	100%	TAURON Ekoenergia sp. z o.o. – 100%
17.	MEGAWAT MARSZEWO sp. z o.o. [3]	02-674 Warsaw; ul. Marynarska 11	Generation of electricity	100%	TAURON Ekoenergia sp. z o.o. – 100%	100%	TAURON Ekoenergia sp. z o.o. – 100%

[1] *The following organisational changes took place in January 2010 in the companies of the TAURON Group: EnergiaPro Gigawat sp. z o.o. changed the name to TAURON Obsługa Klienta sp. z o.o. with the registered seat in Wrocław with customer service being its main operations; Enion Energia sp. z o.o. changed the name to TAURON Sprzedaż sp. z o.o. with the registered seat in Kraków with electricity trading being its main operations. Given the above, the changed names of the above – mentioned companies have been applied in the further part of the report.*

[2] *The shares/stock being the property Południowy Koncern Energetyczny S.A. are in usufruct of TAURON.*

[3] *In 2010 the TAURON Ekoenergia sp. z o.o. company acquired shares accounting for 100% of the share capital in the BELS INVESTMENT sp. z o.o. and MEGAWAT MARSZEWO sp. z o.o. companies in order to perform tasks within Renewable Energy Sources.*

According to the status as at the day of drafting this report, the data regarding the following major subsidiaries have changed compared with the status as at 31 December 2010:

Table no 2. Changes in the list of major subsidiaries according to the status as at the day of drafting the report:

Item	Name of the entity	Address	Principal business activities	% held by TAURON in the entity's share capital	Holder of shares/stock as at 1 March 2011	% held by TAURON in the entity's governing body	Holder of shares/stock as at 1 March 2011
1.	ENION S.A.	30-390 Kraków; ul. Zawiła 65 L	Distribution of electricity	99.71%	TAURON Polska Energia S.A. – 99.71%	99.71%	TAURON Polska Energia S.A. – 99.71%
2.	TAURON Obsługa Klienta sp. z o.o.	53-314 Wrocław; Pl. Powstańców Śląskich 16	Service operations (customer service)	100%	TAURON Polska Energia S.A. – 100%	100%	TAURON Polska Energia S.A. – 100%
3.	BELS INVESTMENT sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity	100%	TAURON Ekoenergia sp. z o.o. – 100%	100%	TAURON Ekoenergia sp. z o.o. – 100%
4.	MEGAWAT MARSZEWO sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity	100%	TAURON Ekoenergia sp. z o.o. – 100%	100%	TAURON Ekoenergia sp. z o.o. – 100%

1.2. Major domestic and foreign investments

With regard to acquiring shares and stock in companies:

1. On 8 December 2010 TAURON, as the sole shareholder of TAURON Ekoenergia, took over 80,000 shares at PLN 1k each, which was covered with a contribution in cash. New shares were formed by raising the share capital of TAURON Ekoenergia by the amount of PLN 80,000k. The above process was connected with TAURON Ekoenergia acquiring 38,700 shares at the nominal value of PLN 50,00, which accounted for 100% of the share capital in MEGAWAT MARSZEWO sp. z o.o.;
2. Given the fact that the Extraordinary General Meeting made the resolution no. 4 dated 26 April 2010 on the range increase in the share capital, the Company and the State Treasure concluded on 21 October 2010 an agreement on the State Treasure taking over the BB series shares of the Company in the mode of a private underwriting, following which the State Treasure took over 163,110,632 ordinary registered shares of the BB series at the nominal value of PLN 9 each, at the total value of PLN 1,467,996k. Given the above-mentioned agreement the State Treasure made, in order to cover the increased share capital of the Company, contributions-in kind in the form of:
    - 22,528,790 shares of PKE belonging to the State Treasure at the nominal value of PLN 10 each, which accounts for 14.45% of all registered shares of PKE at the fair value of PLN 863.754k,

- 3,387,636 shares of ESW belonging to the State Treasure at the nominal value of PLN 10 each, which accounts for 14.69% of all registered shares of ESW at the fair value of PLN 80,524k,
- 3,706,725.306 shares of Enion belonging to the State Treasure at the nominal value of PLN 0.01 each, which accounts for 14.65% of all registered shares of Enion at the fair value of PLN 407,740k,
- 1.131.797.798 shares of EnergiaPro belonging to the State Treasure at the nominal value of PLN 0.01 each, which accounts for 13.75% of all registered shares of EnergiaPro at the fair value of PLN 350,857k.

On 2 November 2010 the District Court of Katowice-Wschód in Katowice, the 8th Commercial Division of the National Court Register made the registration of increasing the share capital of the Company up to PLN 15,772,944,546. Following the registration, the number of shares amounts to 1,752,549,394. On 21 December 2010 TAURON acquired additional shares from the State Treasure with cash: shares of PKE at PLN 497k, shares of ESW at 67k, shares of Enion at 45k, shares of EnergiaPro at 99k.

3. On 10 June 2010 the merger of the mother company – TAURON and its subsidiaries – ENION Zarządzanie Aktywami sp. z o.o. and Energomix Servis sp. z o.o. took place. As a result of the merger, the shareholders of the taken over companies – ENION Zarządzanie Aktywami sp. z o.o. and Energomix Servis sp. z o.o. received Company shares of a new issue.

- 193 850 314 shares at the nominal value of PLN 1 each were provided to the shareholders of ENION Zarządzanie Aktywami sp. z o.o.,
- 124 814 986 shares at the nominal value of PLN 1 each were provided to the shareholders of Energomix Servis sp. z o.o.

The exchange parities were agreed based on the market value of the entities being merged, calculated according to the appraisal of an independent assessor conducted as at 1 December 2009. The exchange parities were arranged in the following way: for one share of ENION Zarządzanie Aktywami sp. z o.o. shareholders of ENION Zarządzanie Aktywami sp. z o.o. received 427 shares of TAURON (426.01 shares prior to rounding), while for one share of Energomix Servis sp. z o.o. shareholders of Energomix Servis sp. z o.o. received 799 shares of TAURON (798.86 shares prior to rounding).

Additionally, shareholders not controlling ENION Zarządzanie Aktywami sp. z o.o. and Energomix Servis sp. z o.o. were obliged to make surcharges (in compliance with art. 492 §3 of the Act dated 15th September 2000 – *the Commercial Companies Code*) at the amount of PLN 1.15 for each share of ENION Zarządzanie Aktywami sp. z o.o. exchanged for Company share, while shareholders of Energomix Servis sp. z o.o. – at the amount of PLN 0.16 for each share exchanged for a Company share. Following the registration of the merging shares the primary capital of the Company was increased by PLN 318,665,300 up to the amount of PLN 14,304,948,858.

As a result of the merger, TAURON has become the owner of shares in the following companies:

- TAURON Ekoenergia at the value of PLN 419,315k,
- TAURON Obsługa Klienta at the value of PLN 345,015k,
- TAURON Sprzedaż at the value of PLN 692,550k,
- PEPKH at the value of PLN 6 886k,
- Elektrociepłownia EC Nowa at the value of PLN 92,087k,
- Zespół Elektrowni Wodnych Rożnów sp, z o,o, at the value of PLN 931k,
- Energetyka Cieplna w Kamiennej Górze sp, z o,o, at the value of PLN 6,959k.

In addition, in 2010, apart from the issue of internal bonds, TAURON and the TAURON Group companies did not make any significant purchase of securities.

Given the Scheme of internal bonds issue launched in December 2010, three companies of the TAURON Group issued bonds to refinance their financial commitments (credits and bonds) which were acquired in total by TAURON:

ENION S.A.	PLN 15.8m,
Południowy Koncern Węglowy S.A.	PLN 49.5m,
Południowy Koncern Energetyczny S.A.	PLN 782.9m.

1.3. Changes in the principles of governing the Company establishment and its Capital Group

Principles of governing the Company establishment

Pursuant to the provisions of "The Organisational Regulations of TAURON Polska Energia S.A." (hereinafter referred to as "The Organisational Regulations"), the Company is managed directly by the Management Board, as well as indirectly by established proxies, Department Officers and plenipotentiaries.

President of the Board, holding the post of Chief Executive Officer, manages current economic operations of the Company and takes decisions in all matters regarding the Company, not reserved as the decisions of the Management Board and other Company bodies, as well as directly supervises the performance of a subordinate department.

In particular, President of the Management Board – Chief Executive Officer:

1) conducts internal affairs of the Company and represents it in external contacts,
2) coordinates all the affairs related to the operations of the Company Management Board,
3) plays the role of an employer within the meaning of provisions of the labour law,
4) supervises operations of a subordinate department,
5) issues internal regulation acts related to current management of the Company,
6) takes decisions related to current management of the Company,
7) takes all factual and legal actions, considering fulfillment of the Company objectives,
8) takes all other actions ensuring efficient functioning of the Company.

Vice Presidents of the Management Board, respectively, hold the following positions:

1) Chief Communications and Management Officer,
2) Chief Commercial Officer,
3) Chief Strategy and Business Development Officer,
4) Chief Financial Officer.

Vice Presidents of the Management Board – Department Officers:

1) manage current economic operations of the Company within the entrusted scope and supervise directly the performance of subordinate departments,
2) take all decisions in matters not reserved to the competence of the Company Management Board within the functions entrusted to subordinate organisational units, organisational cells, independent positions, as well as other decisions within the powers of attorney and authorisations granted to them by the Company Management Board and President of the Management Board – the Chief Executive Officer.

In particular, Vice Presidents of the Management Board – Department Officers:

1) conduct internal affairs of the Company and represent it in external contacts,
2) supervise the performance of subordinate departments,
3) take decisions related to current management of the Company,
4) take all factual and legal actions, considering fulfillment of the Company objectives,
5) take all other decisions ensuring efficient functioning of the Company.

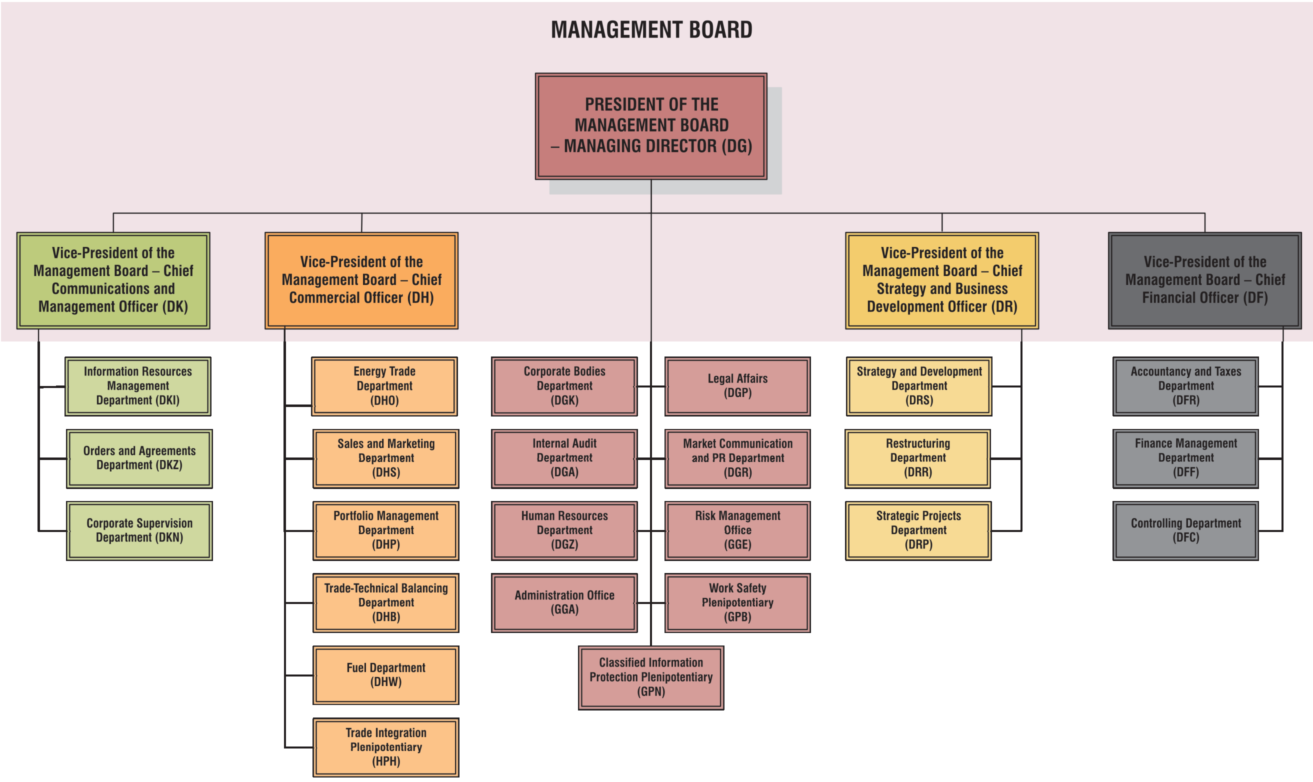
Department Officers:

1) manage subordinate departments, being held responsible for the effects of their performance,
2) within the scope of their ratione materiae competence, they stipulate the objectives and tasks of particular units and independent positions being part of the managed department,
3) coordinate the performance of subordinate structures in compliance with the best interest of the Company and legal provisions,
4) fulfil the guidelines and recommendations of Management Board Members – Department Officers and update them on the performance of a subordinate department,
5) take all other decisions ensuring efficient and effective functioning of a subordinate department.

In particularly justified cases, important given the proper functioning of the Company, the position of "Vice Department Officer" can be established. The scope of duties for Vice Department Officers is stipulated by a Department Director. Detailed scopes of activities for entities managing departments stipulate the scopes of obligations, entitlements and responsibility.

In 2010, as well as by the day of drafting this report, no changes were introduced in the above-mentioned principles of Company management included in the Organisational Regulations.

The organizational scheme of the Company, drafted according to the status as at 31st December 2010, as well as at the day of drafting this report, is as follows:



The above organisational scheme presenting the structure of the departments subordinate to the Management Board Members – Department Officers to the level of organizational units – Bureaus directly subordinate to Management Board Members – Department Officers is an attachment to the Organisational Regulations enacted by the Company Management Board and approved by the Supervisory Board.

It should be added, that on 24 February 2011 the Company Supervisory Board passed resolutions on appointing Management Board members for the third term to the following positions:

1) President of the Management Board,
2) Vice President of the Management Board – Chief Communications and Management Officer,
3) Vice President of the Management Board – Chief Corporate Officer,
4) Vice President of the Management Board – Chief Commercial Officer,
5) Vice President of the Management Board – Chief Financial Officer.

Detailed information on appointing the Management Board Members for the third term has been placed in item 3.8 hereof.

Changes in the governance principles of the TAURON Group

In order for the governing of TAURON Group, considered a uniform economic entity composed of autonomous commercial law companies, to be made more efficient and to increase the functionality of the Group, on 12 October 2010 the Company Management Board passed a resolution on establishing "The TAURON Group", functioning pursuant to "The TAURON Group" Code (hereinafter referred to as the Code).

"The TAURON Group" established in this way includes TAURON (as the mother-company) and the following companies:

1) Południowy Koncern Energetyczny S.A. with the registered seat in Katowice(hereinafter referred to as: PKE),
2) ENION S.A. with the registered seat in Kraków (hereinafter referred to as: Enion),
3) EnergiaPro S.A. with the registered seat in Wrocław (hereinafter referred to as: EnergiaPro),
4) Elektrownia Stalowa Wola S.A. with the registered seat in Stalowa Wola (hereinafter referred to as: ESW),

5) Elektrociepłownia Tychy S.A. with the registered seat in Tychy (hereinafter referred to as: Elektrociepłownia Tychy),
6) Przedsiębiorstwo Energetyki Cieplnej Katowice S.A. with the registered seat in Katowice (hereinafter referred to as: PEC Katowice),
7) Elektrociepłownia EC Nowa Sp. z o.o. with the registered seat in Dąbrowa Górnicza (hereinafter referred to as: Elektrociepłownia EC Nowa),
8) Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A. with the registered seat in Dąbrowa Górnicza (hereinafter referred to as: PEC Dąbrowa Górnicza),
9) Kopalnia Wapienia "Czatkowice" Sp. z o.o. with the registered seat in Krzeszowice (hereinafter referred to as: Kopalnia Wapienia Czatkowice),
10) Polska Energia – Polska Kompania Handlowa Sp. z o.o. with the registered seat in Katowice (hereinafter referred to as: PEPKH),
11) Południowy Koncern Węglowy S.A. with the registered seat in Jaworzno (hereinafter referred to as: PKW),
12) TAURON Sprzedaż sp. z o.o. with the registered seat in Kraków (hereinafter referred to as: TAURON Sprzedaż sp. z o.o.),
13) TAURON EKOENERGIA Sp. z o.o. with the registered seat in Jelenia Góra (hereinafter referred to as: TAURON Ekoenergia),
14) TAURON Obsługa Klienta sp. z o.o. with the registered seat in Wrocław (hereinafter referred to as: TAURON Obsługa Klienta),
15) TAURON Czech Energy s.r.o. with the registered seat in Ostrava, Czech Republic (hereinafter referred to as: TAURON Czech Energy).

The previous governance system of The TAURON Group was based on agreements made with major subsidiaries on governance in the meaning of art. 7 of the Act of 15 September 2000 *the Commercial Companies Code* (the so-called holding agreements). However, due to the actions taken by the Company intending to take over 100% of the capital in the major subsidiaries and the restrictions arising from the agreement relation governing the division of competences within the TAURON Group (including, among others, the interest autonomy of an agreement party, the decision to conclude and possibly terminate the agreement at the level of management boards), the Management Board of TAURON enacted the Code on 12 October 2010.

The Code became effective in every company the day a resolution on a company accessing the TAURON Group was passed by the General Meeting or the Shareholders' Meeting of a given company was made, which was equivalent to a given company giving consent to comply with the provisions of the Code.

The Code has become a basic, internal normative act of the TAURON Group, regulating its formation, organization and functioning. It is based on an assumption that the interest and strategy of the TAURON Group members are consistent and uniform. The Code regulates the functioning of the TAURON GROUP, ensuring that objectives are achieved by specially designed solutions with regard to governing entities of the TAURON Group including, in particular, establishing objectives of company operations, and allowing set effects to be reached.

The solutions suggested in the Code take into consideration the appropriately amended concepts worked out within the governance agreement in the meaning of art. 7 of the Act of 15 September 2000 *the Commercial Companies Code*, including the ones regarding the principles of establishing, consulting or changing the Business and Governance Areas.

In order to govern the TAURON Group effectively, on 12 October 2010 the Management Board of TAURON also made resolutions regarding:

a) the creation of Business Areas,
b) the belonging of particular companies included in the TAURON Group to particular Business Areas,
c) establishing Governance Areas within which Cooperation Principles are introduced.

Another significant element allowing operational decisions to be taken within the TAURON Group was the establishment of three committees pursuant to the Code:

1. TAURON Group Governance Committee
2. TAURON Group Compliance Committee
3. Project Assessment Committee

The objective of establishing the above-mentioned Committees was for the companies to begin conducting operations pursuant to uniform assumptions of the TAURON Group, in compliance with the law, the interest of the TAURON Group and its stakeholders.

The Committees serve the following functions:

1. the opinion-forming function of the Management Board of the Company
2. the decision-taking function,
3. the supervising function for the management boards of the TAURON Group subsidiaries.

The basic task of committees is to supervise the execution of set consistency scheme by the TAURON Group participants in the common interest of all its participants. Detailed tasks of committees have been specified in the regulations of their operations passed by the Management Board of the Company.

In order to ensure continuous functioning of governance competences within the TAURON Group, governance agreements within the meaning of art. 7 of the Act of 15 September 2000 – *the Commercial Companies Code* are going to be gradually terminated, while regulations pursuant to the Code are going to be introduced simultaneously.

1.4. The salary level of managing and supervising persons

The total amount of salaries, understood as the value of salaries, bonuses and perks received in cash, in kind or in any other form, paid out by TAURON to the Management Board members for 2010 amounted to PLN 5.691k. As the total amount of salaries and bonuses paid out or due for 2010 the gross value of salaries paid out or due between January and December 2010 has been provided.

Management Board members of TAURON were covered by the incentive or bonus scheme based on the TAURON capital. The following table presents the salary of Company Management Board members for 2010.

Table no 3. The salaries of Company Management Board members for 2010 (in PLN k)

Surname and name	The period of holding the post in 2010	Salary and bonuses*	Other perks*	Total	Income earned in subsidiaries**
Lubera Dariusz	1 Jan 2010 – 31 Dec 2010	1,116	151	1,267	51
Schmid Joanna	1 Oct 2010 – 31 Dec 2010	225	37	262	0
Stolarczyk Dariusz	1 Jan 2010 – 31 Dec 2010	975	138	1,113	58
Zamasz Krzysztof	1 Jan 2010 – 31 Dec 2010	958	113	1,071	58
Zawadzki Krzysztof	1 Jan 2010 – 31 Dec 2010	972	110	1,082	57
Tokarski Stanisław	1 Jan 2010 – 31 Aug 2010	768	128	896	60
Total		**5,014**	**677**	**5,691**	**284**

* *Without surcharges.*

** *Data pursuant to the Information on income and collected advance payments for the 2010 income tax in the PIT-11 declaration.*

It should be added that the salaries with surcharges paid out by the Company to all the persons who held the positions of the Management Board members in 2010 amounted in total to PLN 5,967k.

The salaries of the Company Supervisory Board members for 2010 have been presented in the table below:

Table no. 4. The salaries of Company Supervisory Board members for 2010 (in PLN k)

Surname and name	The period of holding the post in 2010	Salary and bonuses	Other perks	Total
Tajduś Antoni	1 Jan 2010 – 31 Dec 2010	47	0	47
Koziorowski Leszek	14 Sep 2010 – 31 Dec 2010	16	0	16
Kuciński Jacek	14 Sep 2010 – 31 Dec 2010	15	0	15
Luty Włodzimierz	1 Jan 2010 – 31 Dec 2010	44	0	44
Michalewski Michał	1 Jan 2010 – 31 Dec 2010	44	0	44
Szyke Jacek	14 Sep 2010 – 31 Dec 2010	15	0	15
Ściążko Marek	1 Jan 2010 – 31 Dec 2010	44	0	44
Trzaskalska Agnieszka	1 Jan 2010 – 31 Dec 2010	46	0	46
Kurowski Witold	1 Jan 2010 – 13 Sep 2010	29	0	29
Skrzypek Tadeusz	1 Jan 2010 – 13 Sep 2010	29	0	29
Total		**329**	**0**	**329**

In 2010 the Company Supervisory Board members did not receive any salaries and bonuses from the TAURON Group companies as they did not hold any positions in the supervisory boards or managements boards of these companies.

1.5. Agreements concluded with the governing persons providing for an indemnification in case of their resignation or dismissal with no significant cause or when their dismissal or the termination of their contract arises from the merger of the Company by a takeover

TAURON did not conclude agreements with the governing persons providing for an indemnification in case of their resignation or dismissal with no significant cause or when their dismissal or the termination of their contract arises from the merger of the Company by a takeover.

1.6. The number and nominal value of Company shares or shares and stock in the Company subsidiaries held by the governing and supervising persons

The status of holding TAURON shares and shares/stock of TAURON subsidiaries held by the Company governing and supervising persons is, as at 31st December 2010 and as at the day of drafting this report, is as follows:

Table no. 5. The status of holding TAURON shares and shares/stock of TAURON subsidiaries – the governing persons

Surname and name	TAURON shares		Shares/Stock in TAURON subsidiaries	
	Number	Nominal value (PLN)	Number	Nominal value (PLN)
The status as at 31st December 2010				
Dariusz Lubera	6,576	59,184	0	0
Joanna Schmid	0	0	0	0
Dariusz Stolarczyk	18,183	163,647	0	0
Krzysztof Zamasz	935	8,415	0	0
Krzysztof Zawadzki	21,454	193,086	0	0
The status as at the day of drafting this report				
Dariusz Lubera	6,576	59,184	0	0
Joanna Schmid	0	0	0	0
Dariusz Stolarczyk	18,183	163,647	0	0
Krzysztof Zamasz	935	8,415	0	0
Krzysztof Zawadzki	21,454	193,086	0	0

Table no. 6. The status of holding TAURON shares and shares/stock of TAURON subsidiaries – the supervising persons

Surname and name	TAURON shares		Shares/Stock in TAURON subsidiaries	
	Number	Nominal value (PLN)	Number	Nominal value (PLN)
The status as at 31st December 2010				
Antoni Tajduś	0	0	0	0
Agnieszka Trzaskalska	0	0	0	0
Leszek Koziorowski	0	0	0	0
Jacek Kuciński	935	8,415	0	0
Włodzimierz Luty	935	8,415	0	0
Michał Michalewski	42,405	381,645	0	0
Jacek Szyke	0	0	0	0
Marek Ściążko	0	0	0	0
The status as at the day of drafting this report				
Antoni Tajduś	0	0	0	0
Agnieszka Trzaskalska	0	0	0	0
Leszek Koziorowski	0	0	0	0
Jacek Kuciński	935	8,415	0	0
Włodzimierz Luty	935	8,415	0	0
Michał Michalewski	34,500	310,500	0	0
Jacek Szyke	0	0	0	0
Marek Ściążko	0	0	0	0

1.7. Agreements regarding potential changes in the shareholding structure

The Company is the party to the agreement dated 8 April 2010 concluded with Kompania Węglowa S.A.(hereinafter referred to as Kompania Węglowa), regarding the acquisition of the Bolesław Śmiały hard coal mine (hereinafter referred to as KWK Bolesław Śmiały) and shares in PKW.

Following this agreement the Company and Kompania Węglowa have undertaken to take actions aimed at Kompania Węglowa contributing the establishment of KWK Bolesław Śmiały to a special purpose vehicle, and then contributing the shares of this special purpose vehicle and all the shares of PKW held by Kompania Węglowa to the Company in exchange for the new shares-in-kind in the increased share capital of the Company which are to be assumed by Kompania Węglowa. Assuming shares-in-kind in the increased share capital of the Company will take place with the exclusion of the pre-emptive right of the Company shareholders to date on the basis of a private underwriting. Pursuant to the provisions of the agreement, shares-in-kind of the Company assumed by the Kompania Węglowa shall be then the subject of applying for their acceptance to public trading. The size of the issue of shares-in-kind shall be dependent on the final setting of the issue price of the Company shares-in-kind and the value of contributions made by Kompania Węglowa on covering the shares.

The Management Board does not possess any information on there being any other agreements (including these concluded following the reporting day), as a result of which there are to be changed in the future regarding the proportions of shares held by the shareholders to date.

1.8. Employee share schemes

In 2010, no employee share schemes functioned in the Company. It should be added that pursuant to the provisions of the Act of 7 September 2010 on the *principles of purchasing shares from the State Treasure in the process of power industry company consolidation*, the process of converting shares or rights to shares of the consolidated companies: PKE, Enion, EnergiaPro and ESW for the shares of the consolidating company, i.e. TAURON was continued. The authorized employees of the above-mentioned consolidated companies took over approx. 13% of shares in the Company share capital. Pursuant to the adopted schedule and the provisions of law in force, the process of exchanging shares ended on 13 August 2010, with the successors of the authorized persons who had filed the application for inheritance ascertainment by 12 August 2010 being able to exchange the shares within one year following the court ruling on the inheritance ascertainment becoming final succeeding the original person authorised to receive the shares.

1.9. Acquiring own shares

In 2010, the Company did not purchase its own shares.

In 2010 remuneration was paid to the subsidiaries: EnergiaPro, Enion and ESW for acquiring its own shares and their redemption, pursuant to the resolution of the Extraordinary General Shareholders' Meeting dated 15 January 2009.

1.10. The principles of drafting an annual financial report

On 7 June 2010 the Extraordinary General Meeting of the Company passed a resolution pursuant to which the Company drafts financial reports in compliance with the International Financial Reporting Standards (hereinafter referred to as the IFRS) beginning from the reports for the periods starting on 1 January 2010.

The financial report has been drafted in compliance with the IFRS. The IFRS cover standard and interpretations accepted by the International Accountancy Standards Board and the International Accounting Standards Committee.

The financial report has been drafted based on an assumption of the Company continuing the economic operations in the foreseeable future.

The accountancy principles (policy) applied in drafting the financial report have been presented in note 4 of the financial report for the year ended 31 December 2010.

2. THE CHARACTERISTICS OF THE OPERATIONS OF TAURON POLSKA ENERGIA S.A.

2.1. Describing financial figures

Basic financial figures revealed in the annual financial report

The consolidated annual report on total income has been presented in the following table:

Table no. 7. Consolidated annual financial report on total income (in PLN k)

Total income report drafted in compliance with IFRS	2010	2009	Dynamics (2010/2009)
Revenue from products, goods, and material trading	7,172,814	6,972,672	102.9%
Revenue from service trading	12,444	9,609	129.5%
Other revenue	13	20	65.0%
Trading revenue	**7,185,271**	**6,982,301**	102.9%
Trading costs	(7,067,452)	(6,832,197)	103.4%
Gross trading profit	**117,819**	**150,104**	78.5%
Other operating revenue	742	37	2,005.4%
Trading costs	(12,493)	(4,859)	257.1%
Comprehensive management costs	(95,789)	(58,965)	162.5%
Other operating costs	(652)	(315)	207.0%
Operating profit	**9,627**	**86,002**	11.2%
Operating profit margin (%)	*0.13%*	*1.23%*	
Finance revenue	195,648	135,038	144.9%
Finance costs	(6,476)	(4,733)	136.8%
Gross profit	**198,799**	**216,307**	91.9%
Gross profit margin (%)	*2.8%*	*3.1%*	
Income tax	(8,321)	(31,772)	26.2%
Net profit on continuing operations	**190,478**	**184,535**	103.2%
Net profit margin (%)	*2.7%*	*2.6%*	
Other total revenue	0	0	
Total revenue for the period	**190,478**	**184,535**	103.2%
EBITDA	**13,056**	**88,175**	14.8%
EBITDA margin (%)	*0.18%*	*1.26%*	

The net profit of the Company amounted in 2010 to PLN 190.5m, which means an increase by 3.2% versus 2009. The net profit margin of the Company (the ration of the net profit to the sales revenue) amounted to 2.7% versus 2.6% achieved in 2009. The increase in the net profit is caused mostly by better financial operation results. The paid income tax is also lower given the deferred tax at the amount of PLN 5.2m being provided for.

Table no. 8. Trading revenue of TAURON Polska Energia S.A. in 2010 and 2009 (in PLN k)

Details	2010	2009	Dynamics (2010/2009)
Trading revenue	**7,185,271**	**6,982,301**	102.9%
Revenue from products, goods, and material sales	**7,172,814**	**6,972,672**	102.9%
including: Trading of electricity	6,981,780	6,932,215	100.7%
Service trading revenue and other revenue	**12,457**	**9,629**	129.4%
Including: commercial services trading	9,716	5,869	165.5%
Revenue from other operating activities	**742**	**37**	2,005.4%
Revenue from financial activities	**195,648**	**135,038**	144.9%

An increase in trading revenue in 2010 versus 2009 is related to an increase in electricity trading volume by approx. 6.9% (lower increase in trading value is the result of the price of electricity trading lower by 5.8%).

A considerable rise in revenue on other operating activities in 2010 versus 2009 is related to revenue from indemnification and pecuniary penalties appearing in 2010.

An increase in revenue on financial activities in 2010 versus 2009 occurred mostly due to higher dividends gained from subsidiaries and higher interest on deposits of free financial means.

Table no. 9. The level and structure of costs (in PLN k)

Details	2010	2009	Dynamics (2010/2009)
Total costs	**7,182,862**	**6,901,069**	104.1%
Trading costs	7,067,452	6,832,197	103.4%
Trading and comprehensive management costs	108,282	63,824	169.7%
Other operating activities costs	652	315	207.0%
Financial activities costs	6,476	4,733	136.8%

In 2010, total costs of the Company operations amounted to PLN 7,182.9m and were higher than in the previous year by 4.1%.

The trading costs in 2010 amounted to PLN 7,067.5m which means an increase by 3.4 vs. 2009. The increase in the trading costs was affected by an increase in energy purchase costs due to an increase volume of purchase (by approx. 6.9%). The increase in energy purchase costs was weakened by the drop in the price of electricity purchase (by approx. 6.0%).

In 2010 the trading costs amounted to PLN 12.5m which accounted for an increase by 157%. This is related to an increase in exchange fees and the inclusion of a cross-border fee which did not apply in 2009.

The comprehensive management costs of the Company in 2010 amounted to PLN 95.8 and were higher by 62.5% vs. the previous year which is the result, among others, of the costs borne due to the introduction of the Company stock to public trading (at the amount of PLN 17.0m) and the costs of merging the Company with its subsidiaries Energomix Servis sp. z o.o. and ENION Zarządzanie Aktywami sp. z o.o. (at the amount of approx. PLN 1.3m).

In the other operating costs in 2010 there are, inter alia, donations (an increase in 2010 from PLN 60k to PLN 280k), organisations premiums (PLN 242k) and fixed asset damage costs (an increase from PLN 44k to PLN 111k).

An increase in financial costs by 36.8% vs. 2009 was caused by the costs of debt securities (own bonds) increased by PLN 894k and higher FX differences and commissions (a total increase in 2009 by PLN 660k).

The asset and financial position of the Company

The annual financial position report has been presented in the following table.

Table no 10. The consolidated annual financial position report (in PLN k)

The report on the financial position drafted in compliance with IFRS	Status as at 31st December 2010	Status as at 31st December 2009	Dynamics (2010/2009)
ASSETS			
Non-current assets	**17,234,390**	**14,183,536**	**121.5%**
Property, plant and equipment	5,425	5,574	97.3%
Intangible assets	17,095	3,939	434.0%
Stock and shares	16,353,470	14,170,251	115.4%
Corporate income tax receivables	848,200	–	–
Trade and other receivables	1,686	417	404.3%
Deferred tax assets	8,514	3,355	253.8%
Current assets	**1,210,795**	**571,482**	**211.9%**
Inventories	9,238	109	8,475.2%
Corporate income tax receivables	2,822	9,097	31.0%
Trade and service and other receivables	634,531	340,560	186.3%
Corporate income tax receivables	383	–	–
Trade and other receivables	257	–	–
Other current non-financial assets	36,553	8,283	441.3%
Cash and cash equivalents	527,011	213,433	246.9%
TOTAL ASSETS	**18,445,185**	**14,755,018**	**125.0%**

The report on the financial position drafted in compliance with IFRS	Status as at 31st December 2010	Status as at 31st December 2009	Dynamics (2010/2009)
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent	**16,523,681**	**14,226,493**	116.1%
Issued capital	15,772,945	13,986,284	112.8%
Reserve capital	475,088	64,050	741.7%
Retained earnings/Accumulated losses	275,648	176,159	156.5%
Long term liabilities	**848,392**	**2,333**	36,364.9%
Loans, borrowing and debt securities	845,650	–	–
Finance lease and hire purchase commitments	136	1,013	13.4%
Long-term provisions and employee benefits	2,606	1,320	197.4%
Short-term liabilities	**1,073,112**	**526,192**	203.9%
Trade and other payables	540,702	517,157	104.6%
Current portion of interest-bearing loans and borrowings	461,627	–	–
Current portion of finance lease and hire purchase commitments	906	839	108.0%
Other current liabilities	26,094	4,010	650.7%
Accruals and government grants	6,719	4,019	167.2%
Short-term provisions and employee benefits	37,064	167	22,194.0%
TOTAL LIABILITIES	**18,445,185**	**14,755,018**	125.0%

An increase in assets at the end of 2010 vs. the comparable period of 2009 is related mostly to an increase in the status of long-term investments, as well as bonds issued by the Company for the restructuring purposes of the TAURON Group companies' debt. An increased status of long-term investments by approx. PLN 2.2m is, among others, the result of:

– the merger of the TAURON company with its subsidiaries Energomix Servis sp. z o.o. and ENION Zarządzanie Aktywami sp. z o.o.,
– the State Treasure making contributions-in-kind in the form of shares of key subsidiaries: PKE, ESW, Enion and EnergaPro in order to cover the increased share capital of the Company.

Detailed information on the above-mentioned capital investments has been included in item 1.2. hereof.

In addition, pursuant to the share usufruct agreements concluded by PKE, TAURON is in usufruct of the stock/shares of the following companies: PKW, Kopalnia Wapienia Czatkowice and PEPKH held by PKE.

As at 31 December 2010 and as at 31 December 2009 the total equity of TAURON amounted to PLN 16,523.7m and 14,226.5m respectively which accounts for 89.6% and 96.4% of the total equity and liabilities value.

As at 31 December 2010 the liabilities of the Company from received loans and credits and issued bonds concerned loans from subsidiaries taken out as part of the *Agreement on rendering cash pool services* and bonds issued on 29 December 2010 (at the nominal value of PLN 848.2m) as part of the bond issuing scheme. Detailed information in this matter has been included in the further part of the report in chapters 2.8., 2.9. and 3.8.

A considerable change in the item of short-term provisions and employee benefits is related to the trading of electricity to final recipients (since 2010) and an obligation to write off a particular number of certificates of electricity generated from renewable, gas resources and cogeneration.

As at 31 December 2010 the Company thus created a short-term provision at the amount of PLN 36.8m. It is highlighted that as at 31 December 2009 the provision on the obligation of presenting electricity origin was not created as the Company did not trade electricity to final recipients in 2009.

Table no 11. Report on cash flows (in PLN k)

The report on the financial position drafted in compliance with IFRS	Status as at 31 December 2010	Status as at 31 December 2009	Dynamics (2010/2009)
Cash flows from operating activities			
Profit/(loss) before taxation	198.799	216.307	**91,9%**
Adjustments	**(421.519)**	**2.575**	–
Net cash from operating activities	**(222.720)**	**218.882**	–
Cash flows from investing			
Proceeds from sale of property, plant and equipment and intangible assets	11	2	550,0%
Purchase of property, plant and equipment and intangible assets	(6.970)	(7.281)	95,7%
Sale of bonds, treasure bills and other debt securities	–	12.508	–

The report on the financial position drafted in compliance with IFRS	Status as at 31 December 2010	Status as at 31 December 2009	Dynamics (2010/2009)
Purchase of bonds, treasure bills and other debt securities	(848.200)	(12.226)	6.937,7%
Purchase of shares and stock in subsidiaries	(80.711)	(4.223)	1.911,2%
Dividends received	181.948	127.308	142,9%
Interest received	–	192	–
Other	3.548	–	–
Net cash flows from investing	**(750.374)**	**116.280**	–
Cash flows from financing			
Purchase of own shares	(245)	–	–
Payment of finance lease liabilities	(811)	(548)	148,0%
Debt security issuing	848.200	–	–
Redemption of debt securities	–	(125.000)	–
Received dividends	–	(51.167)	–
Paid interest	(178)	(4.039)	4,4%
Other expenditure to owners	–	(8.376)	–
Other	(1 700)	(760)	223,7%
Net cash used in financing	**845.266**	**(189.890)**	–
Net increase/(decrease) in cash and cash equivalents	**(127.828)**	**145.272**	–
Net FX differences	(44)	31	–
Cash at the beginning of the period	**213.402**	**68.130**	313,2%
Cash at the end of the period	**85.574**	**213.402**	40,1%

Total cash flows from the Company operating, investment and financial activities for 2010 accounted for PLN 127.8m. Changes in the flows in 2010 vs. 2009 arise mostly from the refinancing of debt in the TAURON Group conducted in 2010.

The Company finances the working capital and ensures liquidity by means of cash earned from the operating and financial activities. The Management Board predicts that also in the future these will be main sources of cash for the Company and, given the launch of the central management of the TAURON Group finances, for the TAURON Group companies which are parties to the Agreement on Rendering the Cash Pool Service.

The Company uses cash mostly for financing the operating activities, investment outlays, paying off due liabilities and the paying dividends to shareholders.

Factors and untypical events affecting the operations of the Company and its result

The macroeconomic situation

The TAURON Group conducts its operations mostly in Poland; therefore it is dependent on domestic macroeconomic trends. The macroeconomic situation of the country has direct impact on the financial results achieved by the TAURON Group as there is a positive correlation between an increase in demand for electricity – the basic product of the TAURON Group and the economic development (the Gross Domestic Product increased at the end of 3Q 2010 by 4.2% yty). Such an increase was observed in 2010 vs. the period of stagnation in 2009.

According to the data of PSE Operator, the use of electricity in 2010 increased throughout Poland by 4.22% vs. 2009.

The situation of the power sector

The functioning of the power sector has been influenced by significant changes in regulations. As of 9th August 2010 the amendment of the Act dated 10th April 1997 – *The Energetic Law* which has imposed an obligation on energy generating entities to trade no less than 15% of energy generated in a given year on a power exchange. On the other hand, generating entities having the right to retain resources to cover stranded costs pursuant to the Act on Terminating Long-term Contacts have been obliged to trade the electricity generated by themselves which has not been covered by the obligation of trading electricity (referred to in the previous sentence) by means of an open tender, on the internet commercial platform on the regulated market or on power exchanges. Energy generated from renewable resources and cogeneration, among others, has been exempted from the obligation of exchange trading. The effect of these formal and legal changed was a leap in trading on the terminal market of the Polish Power Exchange (hereinafter referred to as the PPE). The electricity trading market has also been started by the Warsaw Stock Exchange (Giełda Papierów Wartościowych S.A. w Warszawie), competitive to PPE by launching the POEE platform.

The TAURON Group has started to comply with the obligation arising from the Act since the moment the new regulations came into force, i.e. since August 2010. The TAURON Group actively operates on the PPE. Launching terminal contracts on PPE has been a significant change for the whole wholesale energy trading, including the TAURON Group.

The amendment has also resulted in imposing on entities trading in electricity to final recipients an obligation to redeem property rights arising from generating electricity from sources using gas from demethaned mines or biogas. As at the day of drafting the report, the decree regulating the share of this energy in total trading did not come into force.

Electricity prices

In 2010 periodical fluctuations of market electricity prices appeared versus 2009 which translated into a decrease in average electricity trading price by approx. 5.8% in TAURON. The fluctuations were a result of natural disasters caused by floods entailing limited output and electricity provision to part of recipients. At the end of the year there was a short-term rise in wholesale electricity prices as a consequence of increased failure frequency in the power system.

Factors which shall affect the results of the Company operations

The results of the Company operations shall be affected mostly, as it has already been the case in the past, by the following factors:

- demand for electricity and other power market products,
- electricity prices on the wholesale market,
- prices of certificates of the origins of energy from renewable sources and cogeneration,
- prices of carbon emission certificates,
- changes in the legal environment, including the tax, commercial and energy law,
- the restructuring and consolidation process of the TAURON Group,
- the attitude of the competitors on the energy market,
- macroeconomic environment changes, including changes in interest rates, FX rates, etc. affecting the pricing of assets and liabilities indicated in the financial position report by the Company,
- building the target business model of the TAURON Group,
- the stands and decisions of the Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumenta – UOKIK) and the Energy Regulatory Office (Urząd Regulacji Energetyki – URE).

2.2. The assessment of factors and untypical events affecting the result

In 2010 increased demand for electricity was observed in the National Power System which was the result of the economic growth and the increased demand for power which influenced the increase in the volume of trading of the TAURON Sprzedaż and TAURON Obsługa Klienta companies as well as distribution system operators belonging to the TAURON Group (i.e. Enion and EnergiaPro). Compared with the previous year, 5.6% more electricity was traded to the subsidiaries of the TAURON Group. The total trading, covering also trading to retail clients and on the competitive market, is estimated to have increased by 6.9%.

Regulation changes, introducing the obligation to trade electricity by means of an open tender, on the internet commercial platform on the regulated market or on power exchanges, arising from the amendments of the Act dated 10th April 1997 – *The Energetic Law* forced the Company to be more active on the PPE. Concluding transactions on PPE entails the necessity to maintain particular securities and retain a deposit for settlements throughout the period of rendering a terminal transaction. Additional securities lead to an increase in financial and operating costs connected with conducting a business activity.

2.3. Basic products, goods and services

The following table presents the report on total revenue for 2010 divided between operation types.

Table no. 12. The report on total revenue for 2010 divided between operation types (in PLN k)

Year ended 31 December 2010	Total operations	Trading electricity and other power market products	Holding operations	Undistributed items
Revenue				
Trading to external clients	498,535	498,535		
Trading within the Group	6,686,736	6,686,736		
Total segment revenue	**7,185,271**	**7,185,271**		
Segment profit/(loss)	**9,627**	**9,627**		
Undistributed costs	–			
Profit/(loss) from ongoing operations prior to taxation and the financing revenue (costs)	**9,627**			

Year ended 31 December 2010	Total operations	Trading electricity and other power market products	Holding operations	Undistributed items
Net financing revenue (costs)	189,172		181,948	7,224
Profit/(loss) before tax	**198,799**			
Income tax	-8,321			-8,321
Net profit/(loss) for the period	**190,478**			

The basic operations of the Company, apart from governing the holding, are the wholesale trading of electricity and, additionally since 2009, the trading of certificates of electricity origins and carbon emission certificates.

The Company focuses on purchasing and trading electricity needed to secure the purchasing/trading position of the TAURON Group entities and on wholesale trading of electricity. The main direction of electricity trading conducted by TAURON in 2010 was the TRADING Group companies, i.e. TAURON Sprzedaż and TAURON Obsługa Klienta (conducting operations within electricity trading in 2010, as well).

In addition, TAURON, following the agreement on portfolio management, conducts electricity trading in order to cover the network losses of the TAURON Group distribution companies (Enion and Energia Pro).

Trading to external final recipients conducted both in the TAURON Group retail trading companies as well as in the Company itself is a significant element of the operations. TAURON manages the trading to clients of strategic significance (characterized by considerable use of electricity – over 40 GWh on an annual basis). Therefore, it is necessary to conduct trading of certificates of electricity of renewable sources and cogeneration units (gas and coal ones) in order to meet the legal obligation of remitting the above-mentioned certificates.

TAURON actively participates in the auctions of intersystem exchange with the neighbouring operators of transmission systems. The exchange is conducted with the use of transmission capacity gained at auctions serviced by CEPS a.s., a Czech company of transmission system servicing (within the Auction Bureau for the other Transmission System Operators). Moreover, the company conducts electricity import and export trading with the use of the 110 kV line (Boguszów-Porici, Trzyniec-Tryniec), pursuant to the agreements concluded with TAURON Czech Energy.

The trading of carbon emission certificates takes place on the terminal market and SPOT, mostly through the mediation of dedicated platforms and exchanges throughout Europe, such as Bluenext, NordPool, European Climat Exchange, and European Energy Exchange and on the OTC market. Mostly instruments such as EUA (European Union Allowances) and CER (Certified Emission Reduction), and sporadically ERU (Emission Reduction Unit) are subject to trading. The assets are mainly listed in Euro. The market of carbon emission certificates is a European market, a developed and relatively liquid one, which allows effective management of the TAURON Group issue portfolio.

2.4. Markets and supply sources

PKE – the TAURON Group company was the main supplier of electricity traded by the Company in 2010. The purchase of the energy from this Company amounted to approx. 18 TWh in 2010, the value of purchase accounts for 47% of the trading revenue. As a result of the amendment of the Act dated 10 April 1997 – *The Energetic Law* which has imposed an obligation of trading electricity by means of an open tender, on the internet commercial platform on the regulated market in the meaning of the Act dated 29 July 2005 on *financial instrument trading* or on power exchanges. The obligation refers to companies generating electricity, in particular to those which are covered with the system of compensations arising from the termination of long-term contracts (KDT). This means that pursuant to the regulations in force, in the TAURON Group 95% of the generated energy must be traded through the mediation of TGE or in any other form complaint with the legal requirements. As a result of the changes, the Company portfolio structure is going to change considerably (due to electricity trading directions). Energy purchased on the wholesale market (mostly TGE) and – to a lesser extent – from own generating sources (PKE, ESW, Elektrociepłownia Tychy) will be the object of the trade. In 2010, purchasing energy on exchanges accounted for 9.6% of trading revenue.

The volume of electricity purchasing has been presented in the following table.

Table no. 13. The volume of electricity purchasing (in TWh)

Details	2010	2009	Dynamics (2010/2009)
Total volume of purchased electricity	35.6	33.3	106.9%
Purchase from generators (within and outside the TAURON Group)	20.2	21.2	95.3%
Purchase from trading companies (outside the TAURON Group) and power exchanges	14.1	11.2	125.9%
Purchase on the balancing market	1.2	0.9	133.3%
Other purchase (import)	0.1	0.003	3,333.3%

The main recipients of TAURON in 2010 with regard to electricity trading were the TAURON Group companies from the Trading Sector: TAURON Sprzedaż and TAURON Obsługa Klienta in charge of retail trading to rate- and non-rate recipients in 2010. The volume of trade in 2010 accounted for 44% of trading revenue of TAURON Sprzedaż and 39% of TAURON Obsługa Klienta, respectively. In 2010 the Company traded 35.6 TWh of electricity which accounted for a 6.9% increase versus the trading executed in 2009 (33.3 TWh). The increase in trading in 2010 vs. 2009 resulted mostly from the increased demand for electricity related to the considerable economic recovery. The process of TAURION taking over the trading electricity to strategic clients of the TAURON Group, including distribution system operators, started in 2H2009 in order to cover the balance difference (the trading volume accounted for in the wholesale trading position). The continuation of the above-mentioned process in 2010 among clients purchasing energy for their own use, i.e. for the performance of the first agreements on energy trading with the clients of this type executed by TAURON as a trader made the electricity trading volume appear in the retail trading position (strategic clients are mostly final recipients, this they are included in the retail trading).

The electricity trading volume is presented in the following table.

Table no. 14. The electricity trading volume (in TWh)

Details	2010	2009	Dynamics (2010/2009)
Total electricity trading	35.6	33.3	106.9%
Wholesale trading	33.4	32.4	103.1%
Retail trading	1.1	0.0	–
Trading on the balancing market	1.1	0.9	120.1%
Other trading (export)	0.03	0.002	1,073.5%

The operations of the Company are, to a great extent, conducted in Poland. Trading to foreign clients ended on 31 December 2010 and 31 December 2009 amounted to PLN 158.8m and PLN 5.8m, respectively.

2.5. Information on agreements significant for the Company operations

TAURON did not conclude agreements significant for the operations of the Company, i.e. agreements where the Company or its subsidiaries is one of the parties, and the object of which is the amount of at least 10% of the Company own equity. Moreover, the Company does not possess any information on other significant agreements, other than mentioned below, concluded between shareholders, insurance, collaboration or cooperation agreements. Moreover, it is indicated that the Company Management Board in the Current Report no. 58/2010 dated 1st December 2010 informed of reaching the level of significant trading between the TAURON Group subsidiaries and Kompania Węglowa as the trader in the period between 11th June 2010, i.e. the day of admitting Company shares to trading and 1 December 2010. The total estimated net value of agreements as at the day of delivering the Report amounted to PLN 2.48bn. At the same time the Company informed that the highest value agreement concluded with Kompania Węglowa in this period was the agreement dated 1 December 2010 concluded with PKE as the purchaser (the Agreement). The object of the Agreement was trading coal for power purposes, originated in mines and mining plants of Kompania Węglowa, aimed at use in power plants and heat and power plants belonging to PKE. The Agreement was concluded for the period of 3 years, the estimated value hereof in the above-mentioned period is going to amount to approx. PLN 2.3bn net.

2.6. Information on significant transactions between affiliated entities

All transactions concluded with affiliated entities are subject to market terms and conditions.

Detailed information on transactions with affiliated entities has been presented in note 33.1. of the Financial Report for the year ended on 31 December 2010.

2.7. Information on concluded and terminated credit and loan agreements

In 1H2010 TAURON introduced the cash pooling structure concluding, at the same time, a credit facility agreement with the bank. Following this agreement, the Company holds a credit facility for current financing of the operations. Due to the introduction of the cash pooling in the TAURON Group, TAURON concluded Framework Loan Agreements with the TAURON Group companies. The structure of the cash pooling has been described in details in the further part of the Report, in chapter 2.8.

Table nr 15. A list of credit and loan agreements connected with cash pooling concluded in 2010

Agreement type	Interest rate type and level	Amount (PLN)	Due date
A Credit Facility Agreement	WIBOR 1M + fixe margin	100m	27th May 2011
A Framework Loan Agreement	WIBOR 1M + fixe margin	unlimited	28th May 2011

No credit and loan agreements were terminated by TAURON in 2010.

2.8. Information on granted loans and guaranteed and received guarantees and warranties

In 2010 cash pooling was introduced in TAURON, the structure of which is based on loans among all cash pooling participants. 13 companies of the TAURON Group participated in the cash pooling structure at the end of 2010, with TAURON as the governing entity.

Total amounts of loans granted by the Company in 2010 within the car pool structure (i.e. the sum of all the loans repeatedly granted during the year and subject to repeated repayments, arising from the nature of car pooling) to particular TAURON Group companies amounted to:

ESW: PLN 43.8m

TAURON Obsługa Klienta: PLN 754.2m

Elektrociepłownia Tychy: PLN 30.9m

PEC Dąbrowa Górnicza: PLN 32.3m

As at 31 December 2010 the balance of the loans granted by the Company amounted to PLN 19.7m and refers solely to Elektociepłownia Tychy.

Loans granted as part of the cash pooling are of short-term nature, aimed at servicing current liabilities, but they do not have stipulated maturity term, though. The granted loans may be paid off at any time, by the term of the agreement, i.e. 28 May 2011, at the latest.

Loans granted by the Company as part of the cash pooling are interest-bearing pursuant the WIBOR 1M interest rate + fixed margin and expressed in PLN. In 2010 the Company did not grant any loans to entities outside the TAURON Group.

The Status of warranties/guarantees granted by the Company as at 31 December 2010 has been presented in the following table.

Table no. 16. The Status of warranties/guarantees as at 31 December 2010

Item	Beneficiary	Warranty/guaranty	Warranty amount	Date of launch	Effective date
1.	CEZ a.s.	A corporate warranty for TAURON Czech Energy	EUR 1,000,000	1 Apr 2010	31 Dec 2011
2.	UniCredit Bank Czech Republic a.s.	A corporate warranty for TAURON Czech Energy	EUR 500,000	9 Jun 2010	8 Jun 2011
3.	Regional Fund for Environment Protection and Water Management (Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej)	A security of PKE's loan in the form of a blank bill of exchange	PLN 40,000,000	25 Oct 2010	15 Dec 2022

The granted securities result from the adopted model of TAURON Group financing and were granted to TAURON Czech Energy towards conducting commercial operations and to PKE as a security of the repayment of the loan granted by the Regional Fund for Environment Protection and Water Management.

In 2010, the Company held a launched limit for bank warranties up to the total amount of PLN 40m within which warranties at the total amount of PLN 31.9m were launched during the year. As at 31 December 2010 the Company did not hold issued bank warranties and the agreement regulating the limit of bank warranties has been terminated. No guarantees were received by the Company in 2010.

2.9. Managing financial resources

In 2010 the Company introduced the structure of cash pooling whose principle objective is providing liquidity to the TAURON Group and limiting the costs of external short-term financing and maximizing revenue on cash surplus at the same time. Thanks to the introduced cash pooling structure, companies having short-term cash deficits could use the resources of companies holding cash surpluses. The resources collected in cash pooling were actively managed by TAURON, while the surpluses allocated in money market instruments of the smallest risk.

As part of current financial operations, the TAURON Group effectively managed the cycle of money circulation by adjusting the liability and receivable payment terms.

In 2010 the Company adopted and introduced a central model of TAURON Group financing which resulted, among others, in lowering the costs of external financing and increasing the possibilities to gain financing, limits the number of covenants in financing agreements, reduced the need to grant collaterals-in-kind and reduced administrative costs leading to higher evaluation of the financial position of the Company issued by rating agencies.

In the first stage of launching the central financing model, an issue of bond was conducted at the total amount of PLN 848.2m in order to restructure part of the debt of the TAURON Group companies. Additionally, within the internal scheme of bond issue TAURON possesses a guaranteed flexible revolving line at the amount of PLN 450m which can be opened at any time.

Moreover, as part of the central model of managing TAURON Group finances, a scheme of internal bond issue was started in December 2010 through which financial resources of medium- and long-term holding period are managed. The adopted model of finance managing is aimed at optimizing finance gaining costs and providing means for current operations of the TAURON Group entities, as well as execution of investment plans stipulated in "The Corporate Strategy of the TAURON Polska Energia S.A. Capital Group for 2008–2012 with the perspective of up to 2020" (hereinafter referred to as the Corporate Strategy.

In 2010 the Company had full capacity to settle its liabilities at the maturity date.

2.10. Evaluation of the possibility to achieve investment objectives.

In 2010 investment expenditure born in TAURON was not significant due to the fact that strategic investment were executed in the companies of the TAURON Group.

Strategic investments and their financing are centrally managed at the level of the Company. Pursuant to the conducted analyses, the Company Management Board judges that the TAURON Group is capable of financing current and future investment objectives from the means generated from the operating activities and gaining debt financing.

2.11. Revenue from security issue

In 2010 TAURON signed a five-year scheme of security issue at the amount of PLN 1.300m.

The scheme is divided into two tranches:

- The A Tranche – at the amount of up to PLN 850m, aimed at refinancing part of liabilities of the TAURON Group
- The B Tranche – at the amount of PLN 450m, aimed at general corporate purposes.

By the day of drafting the Report the Company launched the A tranche as part of the Bond issue scheme at the amount of PLN 842.2m (December 2010) which was aimed at refinancing part of liabilities of the TAURON Group.

2.12. The differences between the financial results indicated in the annual report and the previously published result forecast for the given year.

The Company Management Board did not publish result forecasts for 2010.

3. OTHER INFORMATION

3.1. Risk factors and threats

By executing the Corporate Strategy, TAURON manages the business risks occurring in all the operations of the TAURON Group. The process of risk managing is aimed at achieving business targets of the TAURION Group in compliance with the acceptable risk level approved by the Company Management Board.

Given the above, the Company Management Board has approved the "Corporate Risk Management Policy of the TAURON Group" and appointed the Risk Committee as well as started the process of its introduction in the key subsidiaries.

The Thorough Risk Management System included significant risks occurring in the operations of the TAURON Group. The nature of the risks is defined in particular by setting the level of their importance and likelihood of materialization. The Thorough Risk Management System covers all the elements of the value chain of the TAURON Group, and all the employees of the TAURON Group participate in the risk management process.

Assessment of to what extent the Company is endangered by the risk factors and threats described below included the likelihood of their occurrence and significance, as well as the adequacy of the strategy of managing this risk. The sequence in which particular risk have been presented does not reflect this assessment.

1. ***The macroeconomic risk*** – the operations and the situation of the Company is significantly affected by the macroeconomic situation of Poland, the European Union and the global economy. The macroeconomic risks are, in particular, connected to the level of the Polish GDP, the inflation rate, FX rates, interest rates, fiscal and monetary policy of the state, as well as the economic downturn, the unemployment level, company liquidations, limitations in the residential construction industry and industrial investments in the region. Changes in the economic situation can affect the operations (especially the electricity and heat generation and the trading volume), financial results, the market position of the Company. Macroeconomic risk factors can have a negative impact on the operations of TAURON, its financial situation or its operational results.
2. ***The political risk*** – the operations of the Company are endangered by the changes in the state policy. An example of this is regulations of electricity distribution and transmission prices. Due to the fact that the State Treasure is a significant shareholder of the Company, there is also an additional risk connected with the instability of the political majority and possible changes in the power policy of the state and the dividend policy regarding companies with the State Treasure as a shareholder. Political risk factors can have negative influence on the operations of TAURON, its financial position or its operational results.
3. ***The risk of an unstable legal system and EU regulations related to power industry functioning, including environmental protection*** – the risk relates to all legal changes, of both Polish and EU regulations the Company and its major subsidiaries are subject to, and the uncertainty of the legal environment. Introducing new regulations or changing legal acts already in force may directly or indirectly affect the Company operations. There is a risk of unfavourable or imprecise provisions of law and regulations being introduced in many legal fields related to the activities of the Company. Changes of EU and domestic regulations of the power industry in its broad meaning, the necessity to fulfil the obligations arising from the new provisions and the entailing necessity to conduct the business activity pursuant to these regulations may lead to increased costs of establishment functioning as a result of bearing significant and unexpected costs, inter alia, of generating electricity and heat, and even result in the loss of the licence in the scope required for the operations conducted by the TAURON Group. Moreover, environmental protection regulations are becoming more and more rigorous, and complying with the changes in this area may be also connected with bearing considerable costs. Failure to comply with the environmental protection requirements may lead to the temporary stop or cessation of conducting a particular activity being necessary. Permanent exclusion of particular technologies arising from the implementation of EU regulations may limit the generation capacity of the TAURON Group and may weaken the negotiating position towards financial institution, as well as cause a loss of a market share. The risk of an unstable legal system and EU regulations related to power industry functioning, including environmental protection can have a significant negative impact on the operations of TAURON, its financial position and the results of its operations.
4. ***The risk involved in the strategic investment and strategic planning process*** – the execution of investments strategic for the Company, as a complex and long-lasting process of high capital-intensiveness, is endangered by many risk, inter alia, delays in execution, failure to execute them, failure to achieve desired objectives or exceeding the budget. The risks can result in a financial loss or loss of liquidity, increase in investments costs, smaller benefits than expected, or loss of the investment profitability, as well as the need to bear additional expenditure and lower the investment profitability, or suspend the project execution. The dangers connected with the strategic process investments may lead to failure to achieve the strategic objectives set for the TAURON Group in terms of investments. Changing external conditions (legal, economic, political and social ones) make setting particular strategic goals involve the risk that planned goals may turn out to be impossible to attain or improperly set for the changing environment. This may lead to the deterioration of the market position and image of the Company, achieving results not in line with the expectations or may cause the need to modify the strategy of the TAURON Group by establishing new strategic objectives. The risks involved in the strategic investment and strategic planning process can have a negative impact on the operations of TAURON, its financial position and the results of its operations.

5. ***The risk involved in finance gaining and finance servicing*** – the risk of having no possibility to gain financing for operating and investment needs or gaining financing under conditions deviating from the set assumptions (financing costs higher than benchmark ones, higher number of covenants). The risk translates into lack of resources for projects included in the Corporate Strategy and investment plans, and in extreme cases for servicing the Company operating and financing activities. The risk involved in inappropriate financing strategy and unsuitable finance servicing (execution, timeliness or failure to comply with the terms and conditions of financing agreements) may lead to a financing agreement being terminated or its conditions being deteriorated which negatively affects the financial result of the Company. The risks involved in finance gaining and finance servicing can have a negative impact on the operations of TAURON, its financial position and the results of its operations.
6. ***The risk of liquidity*** – the risk of the Company having no capacity to settle its liabilities on time. The risk is connected, inter alia, with the threat of lowering the efficiency of the debt collection, rising receivables and insolvency, lowering the trading volume, a disproportionate increase in costs versus revenue. The risk getting materialized can result in additional financial costs related to the payment of interest for the delays in settling liabilities, loss of benefits related to termination of a deposit, loss of reliability and the need to incur new liabilities. The risk may entail the deterioration of the financial result of the Company. The risk of liquidity can have a negative impact on the operations of TAURON, its financial position and the results of its operations.
7. ***The risk of price volatility on the electricity market*** – the uncertainty with regard to prices of electricity, carbon emission certificates and property rights arising from origin certificates. String fluctuations of electricity prices, the seasonality of prices, volatility of carbon emission certificate prices for open positions, the varied difference between the EUA/CER prices, varied prices of property rights arising from origin certificates and prices of appropriate derivatives may cause loss of revenue, lowering the margin and the decrease in the profitability of the operations. Moreover, the dangers may be related to making an unexpected loss by wrongly estimating the price level for particular purchase/trading portfolios, as well as making a loss in intersystem exchange trading and exceeding the value of terminal contract trading deposits. The risk of price volatility on the electricity market can have a negative impact on the operations of TAURON, its financial position and the results of its operations.
8. ***The risk of price valuation of traded electricity*** – failure to include specific conditions related to electricity trading of an offered product in the valuation of this particular product, which as a consequence can put the Company at the risk of losing the planned margin and lack of trading profitability. Wrongful product valuation may lead to failure to adjust trading conditions of the actually traded product, as a result of which attained electricity trading revenue may not be in line with the expectations. The materialization of the risk may be affected by the lack contractual collaterals regarding the terms and conditions of trading the offered product, which, as a consequence, may result in extra costs related to the execution of electricity trading contracts with regard to the cost of the product being the basis of the performed product valuation. The risk of price valuation of traded electricity can have a significant negative impact on the operations of TAURON, its financial position and the results of its operations.
9. ***The risk involved in the obligation to remit carbon emission certificated*** – the risk is connected with placing carbon dioxide in the atmosphere as a result of the operations conducted by the Company with regard to generating electricity and heat and the need for the Company to remit an appropriate number of carbon emission certificates corresponding to the actual electricity and heat generation. Failure to remit or remitting a wrong number of certificates can result in a penalty imposed for every unit of an unremitted certificate. The limitation of free allocations and as a result considerably higher cost of purchasing the lacking carbon emission certificated may result in the planned trading profitability getting lower or incomplete coverage of these costs by the electricity trading prices. An inadequate division of free certificates among entities on the power market with regard to the carbon emission volume and restricted availability of certificates on the market may deteriorate competitiveness of the Company on the electricity market. The risk involved in the obligation to remit carbon emission certificated can have a negative impact on the operations of TAURON, its financial position and the results of its operations.
10. ***The volumetric risk*** – the volumetric risk is connected in the volatility of the electricity trading volume dependent on the quality and the possibility of purchase/trading planning, the main result of which is the difference between the planned and the actually executed volume of supplies. The main risk factors are seasonality, changes in the demand of the client depending on weather or economic factors, the operations of the competition or the activities in gaining clients or technical conditions. The materialization of the risk may cause the increase in costs related to closing open positions on the market on the following day and/or the balancing one, on the terminal and/or the current one, as well as the loss of revenue and lowering the margin on trading electricity to recipients. The volumetric risk factors can have a negative impact on the operations of TAURON, its financial position and the results of its operations.

Information regarding the financial risk has been presented in item 3.10. hereof.

3.2. Significant factors for the development of the Company's establishment

The planned structure of the TAURON Group

The planned model of the TAURON Group structure has been presented in the Corporate Strategy adopted and approved by TAURON. The objectives regarding the main development directions of the TAURON Group arise from the above mentioned document, including:

1. direct supervision of the Company over all the links in the value chain, i.e. from mining to other operations;
2. functioning of leading companies, the so-called leaders, within each of the links (areas);
3. increasing the value of the TAURON Group by means of mergers and acquisitions;
4. concentrating the operations of the wholesale market and the function of supporting particular business areas of the TAURON Group in the Company.

Executing the Corporate Strategy

2010 was the second year of launching the Corporate Strategy adopted on 21 October 2008. During this year the main strategic objectives and development directions were retained. The primary strategic objective of the TAURON Group is constant increase in the value ensuring safe returns on the invested equity for the shareholders. The value is measured according to the basic economic and finance rates, i.e. the trading increase and the EBIT margin.

The Corporate Strategy is based on five main strategic objectives:

1. concentrating on the profitable increase in the areas of core operations – the increase in coal mining and electricity and heat generation and trading, wholesale market development, retaining the client base in the trading area, limiting the non-core operations in order to finance the development of core venture;
2. efficiency improvement – reducing operating costs, optimising directions and investment expenditure, improving the use of assets, using integration synergies, optimising the financial result;
3. integrating the management of all the value chain elements – defining and introducing the principles of ownership supervision, centralizing the decision making process, decentralizing operating activities, introducing an optimal investment financing model;
4. human capital development – launching a talent management scheme, intensifying cooperation with academic institutions, cooperating with academics, an effective motivation system and managing through objectives, promoting knowledge management in the TAURON Group;
5. developing operations on attractive Polish and foreign markets – expansion in other Polish regions, making use of the increase opportunities offered by the CEE market, monitoring markets and potential targets to be taken over and acquired, opening foreign commercial offices.

The adopted Corporate Structure, during the first years of its launch, is a strategy of integration where one of the most important tasks is to conduct the process of the TAURN group integration based on the basic value chain process. The second basic task for the TAURON Group arising from the Corporate Strategy is the execution of significant investments in the development of the core activities. Launching the Corporate Strategy takes place pursuant to the adopted Corporate Strategy Launch Scheme, appointed project entity, delegating tasks and competences.

The above-mentioned requirements determine the evolution of the existing fu national and organisational structure aimed at the target model which intends to create one company in each business area apart from the Other area. In 2011 crating one company in the Distribution Area, the integration of the companies in the Generation area and the integration of PEC Katowice and PEC Dąbrowa Górnicza are being planned.

3.3. Major achievements in Research and Development

On 5 January 2010 the National Research and Development Centre (Narodowe Centrum Badań i Rozwoju) announced the decision to co-fund four research assignments as part of the strategic scientific research and development work scheme "Advanced technologies of electricity generation". The objective of the scheme was to develop technological solution the introduction of which would contribute to meeting the requirements of the EU "3x20" strategy. The scheme is to be of significant support to launching the results of scientific research and technologies based mostly on the main Polish fuel resource, i.e. coal, as well as in alternative sources of energy.

TAURON, as a member of two winning consortiums, participates in the execution of the first (Developing a technology for high-pressure "zero-emission" coal blocks integrated with capturing carbon dioxide from fumes) and the third (Developing a technology of gasifying coal for highly efficient fuel and electricity generation) research task. In May 2010 agreements on executing the projects were signed, thus commencing their execution.

3.4. Issues regarding natural environment

Given the fact that TAURON uses company cars, the Company is subject to the provision of the Act of 27 April 2010 of *Environmental Protection Law* with regard to calculating the fee for using the environment for placing gases and dust in the air. However, due to the level of the calculated fee, the Company was not obliged to settle it in 2010.

3.5. Information on employment

The information concerning the employment in the Company has been presented in the following tables.

Table no. 17. Employment in TAURON

Average annual employment level	2010	2009
Average employment at positions (rounded to a full position)	236	198

Table no. 18. Employment structure according to education

Education	31 Dec 2010	31 Dec 2009
higher	96.2%	96.4%
secondary	3%	2.6%
vocational	0.4%	0.5%
primary	0.4%	0.5%

Table no. 19. Employment structure according to age

Age	31 Dec 2010	31 Dec 2009
under 30	21.9%	26.9%
31–40	52%	50.2%
41–50	18.2%	16.6%
51–60	7.2%	5.4%
over 60	0.7%	0.9%

Table no. 20. Employment structure according to gender

Gender	31 Dec 2010	31 Dec 2009
female	43.1%	43%
male	56.9%	57%

3.6. Information on the entity authorised to audit financial reports

The information regarding the agreement with the entity authorized to audit financial reports has been presented in note 38 of the Financial report for the year ended 31 December 2010.

3.7. Company branches

The Company does not hold branches (departments).

3.8. Events significantly affecting the operations of the Company

Events significantly affecting the operations of the Company which took place in the trading year (in the chronological order):

Introducing cash pooling services

On 28 May 2010 the dominant entity, TAURON with its selected subsidiaries and Bank Polska Kasa Opieki S.A. signed an agreement on rendering cash pooling services. The purpose of concluding the agreement is to allow more effective management of held cash, effective financing current needs of the TAURON Group companies in terms of the working capital, liquidity improvement and optimization of revenues and financial costs of particular TAURON Group companies being parties to the agreement and the TAURON Group as a whole. The Company serves the function of the Pool Leader. The first transactions within cash pooling took place in June 2010. The interest terms and conditions were arranged pursuant to market conditions.

Merging with ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o.

On 10th June 2010 the merger of TAURON, the dominant company and its subsidiaries – ENION Zarządzanie Aktywami sp. z o.o. and Energomix Servis sp. z o.o. took place. Detailed information on the above subject matter has been placed in 1.2 hereof.

Consolidating shares

Pursuant to the resolution of the General Meeting of the Company dated 26 April 2010 on consolidating Company shares and amending the Company Articles of Association, shares were consolidated by increasing the nominal value of one Company share from the previous amount of PLN 1 to the amount of PLN 9 and proportionately decreasing the total number of shares so that each nine shares of the nominal value of PLN 1 were exchanged for one Company share shares of the nominal value of PLN 9. Consolidating shares was not followed by increasing the share capital of the Company. As a result of the consolidation, the previous Company shares of the A, B, C, D, E, F, G, H, I, J and K series were replaced by the new AA series including 1,589,438,762 shares which was registered in the National Court Register on 14 June 2010.

A stock exchange debut

On 30 June 2010 the State Treasure conducted the public offering of TAURON shares as a result of which individual and institutional investors purchased 51.6% of the Company shares. Shares acquired from the State Treasure by authorized employees as part of the conversion of consolidated companies' shares, accounting for approx. 13% of the Company equity (the process has been described in chapter 1.8. hereof), were also subject to stock exchange trading. At the opening of the quotation on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) the Company shares were quoted at the rate of PLN 5.13, i.e. at the exactly same rate as the final price of selling shares to investors in the public offering). On 17 December 2010 the Company found itself in the index of the twenty biggest companies quoted on the Warsaw Stock Exchange.

Increasing the share capital due to contributing shares of subsidiaries

Given the fact that the Extraordinary General Meeting passed the resolution no. 4 dated 26 April 2010 on the range increase in the share capital, the Company and the State Treasure concluded on 21 October 2010 an agreement on the State Treasure taking over the BB series shares of the Company in the mode of a private underwriting following which the State Treasure took over 163,110,632 ordinary registered shares of the BB series at the nominal value of PLN 9 each, at the total value of PLN 1,467,996k. Detailed information regarding the above subject matter has been included in item 1.2. hereof.

The resolution on lowering the nominal share value

On 10 November 2010 the Extraordinary General Meeting passed the resolution considering the lowering of the nominal value of the share capital by lowering the nominal share value. Pursuant to the resolution in question the share capital is going to be lowered by PLN 7,010,197,576, from the amount of PLN 15,772,944,546 to the amount of PLN 8,762,746,970 by lowering the nominal value of each share by PLN 4.00, from the amount of PLN 9.00 to the amount of PLN 5.00. Lowering the share capital of the Company is performed in order to restructure the own capital of the Company by removing the disproportions between the share capital and the supplementary capital and between the nominal share value and their market value. Pursuant to art. 456 § 1 of the Act dated 15 September 2000 – *the Commercial Companies Code the* enacted lowering of the share capital was announced in the *Monitor Sądowy i Gospodarczy (the Court and Commercial Gazette)* issue no. 229 dated 25 November 2010. In the same announcement, the Company applied to the creditors to make claims against the Company within three months following the day of the announcement.

On 28 February 2011 the lowering of the Company share capital was reported to the District Court of Katowice-Wschód in Katowice in order to register it in the National Court Register.

A bond issue

On 16 December 2010 an agreement was signed by and 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. concerning the scheme of TAURON bond issue at the amount of PLN 1.3bn. The agreement is going to remain effective for five years. The main objective of the bond issue scheme is to gain financing for the payment of liabilities of TAURON Group companies the conditions of which are less favourable than the ones gained by the Company in this process and at the same time to lower the level of debt structurally subordinate within the TAURON Group. An additional objective is to gain resources to finance general corporate needs of the Company. On 29 December, in order to refinance the existing debt, the Company issued five-year corporate bonds at the nominal value of PLN 848.2m. The resources gained by TAURON have been transferred to the key subsidiaries: PKE, Enion and PKW by means of issuing intracompany bonds.

Appointing the Management Board of TAURON

On 24 February 2011, as a result of the completed recruitment procedure, the Supervisory Board of the Company made the resolutions on appointing the following persons to the Company Management Board of the third term:

1) Dariusz Lubera – to the position of the President of the Management Board,
2) Joanna Schmid – to the position of the Vice President of the Management Board, Chief Strategy and Business Development Officer,
3) Dariusz Stolarczyk – to the position of the Vice President of the Management Board, Chief Communications and Management Officer,
4) Krzysztof Zamasz – to the position of the Vice President of the Management Board, the Chief Commercial Officer,
5) Krzysztof Zawadzki – to the position of the Vice President of the Management Board, the Chief Financial Officer.

The Supervisory Board's resolutions on appointing the above-mentioned persons to the Company Management Board become effective on the day of holding the Ordinary General Meeting approving the Financial Report for the last full trading year of the Management Board member of the second term holding their position, i.e. for the 2010 trading year.

Information on significant events occurring following the balance day and prior to the day of drafting the Financial Report have been described in note 39 of the Financial Report for the trading year ended 31 December 2010.

3.9. Financial indices

The basic financial indices of the Company have been included in the following table.

Table no. 21. The basic financial indices of the Company

Details	2010	2009	Dynamics (2010/2009)
Gross profitability (gross result / net revenue of products, goods and materials)	**2.8%**	**3.1%**	**90.3%**
Net profitability (net result / net revenue of products, goods and materials)	**2.7%**	**2.6%**	**103.8%**
Own capital profitability (gross result / own capital)	**1.2%**	**1.5%**	**80.0%**
Asset profitability (net result / asset sum)	**1.0%**	**1.3%**	**76.9%**
EBIT (operating activity result)	**9 627**	**86 002**	**11.2%**
EBIT margin (EBIT / net revenue of trading products, goods and materials)	**0.1%**	**1.2%**	**8.3%**
EBITDA (operating activity result + amortization)	**13 056**	**88 175**	**14.8%**
EBITDA margin (EBITDA / net revenue of trading products, goods and materials)	**0.2%**	**1.3%**	**15.4%**
Current liquidity rate **(working assets / short-term liabilities)**	**1.13**	**1.09**	**103.7%**
Fast liquidity index **(working assets – stock – other short-term non-finance assets) / short-term liabilities)**	**1.09**	**1.07**	**101.9%**
Cash index **(cash and other monetary assets / short-term liabilities)**	**0.49**	**0.41**	**119.5%**

In 2010, the gross and net profitability of the Company is at the level similar to the one of the previous year. The level of the operating result is characteristic for the Company conducting holding management operations (costs involved in managing the TAURON group are included in the operating activities, while revenue on dividends are referred to the financial activities). The relatively high results for trading activities in 2009 were caused, inter alia, by the faster than expected recovery which allowed achieving the above-standard commercial margin (the Company took advantage of the occurring market opportunities).

It needs to be borne in mind that the Company results should be analysed along with the results of the TAURON Group which is mostly related to TAURON taking over new functions from its subsidiaries.

In 2010 the Company retained its high capacity to settle its liabilities. The liquidity indices rose significantly vs. 2009, which was caused by the high level of short-term financial assets. The operations of the Company are also financed based on the issued long-term bonds, considerably improving current solvency.

3.10. Financial Instruments

Applying financial instruments with regard to eliminating credit risk, other considerable threats to interruptions to the flow of cash and loss of financial liquidity

TAURON keeps monitoring its credit risk generated within the conducted operations. In 2010 the Company was exposed to the credit risk of a contractor arising from the concluded trading agreements. In order to reduce it, as a result of the regularly conducted reliability analysis and financial standing of the Company contractors, in justified cases, it is required from the contractor to present appropriate collaterals in the form of banking, insurance or corporate warranties as well as provisions allowing the energy supplied to be ceased in case of untimely settling of liabilities.

In order to minimise the likelihood of interruptions of cash flow and the risk of losing liquidity, the Company introduced in 2010 the cash pooling mechanism functioning within the TAURON Group. irrespective of the means collected by particular members Cash Pooling holds a flexible credit facility in the form of a current account credit facility at the amount of PLN 100m the party of which is the Company. In addition, an instrument ensuring liquidity security of the Company (and this reducing the abovementioned risks) is the B-tranche of the 5-year bond issue scheme of TAURON at the amount of PLN 450m the covering of which is guaranteed by banks. The B-tranche is of a revolving facility character – it can be opened and paid at any time, and the limit is of a revolving character.

In 2010 the Company made use of forward contracts as part of the FX risk management. The transaction was intended to secure the Company against the FX risk arising throughout the execution of commercial activities, and thus limited the risk of price changes arising from the above-mentioned risk.

Financial risk management objectives and methods

The company consciously and responsibly manages the financial risk understood as the FX risk and the interest rate risk. Due to the correlation between the risk taken and the level of attainable revenue, the regulations are applied not to totally eliminate the dangers, but to retain them at the pre-set level, deemed as safe.

The main objective of managing the financial risk is to minimise the sensitivity of cash flows of the Company to the financial risk factors and to minimize the financial costs and collateral costs within the transactions with the use of derivatives. The company has not used collateral accountancy.

3.11. The current and predicted financial position

The financial position of TAURON is good. No events negatively affecting further operations of the Company have been reported.

The Management Board of TAURON predicts the financial position of the Company shall not deteriorate.

3.12. Information on pending proceedings

TAURON does not conduct any proceedings before a court or an authority appropriate for the arbitration proceedings or a public administrative body the individual or aggregate value of which accounts for at least 10% of TAURON's own capital.

4. A STATEMENT ON APPLYING CORPORATE GOVERNANCE

In compliance with § 91 sec. 5 item 4) of the Decree of the Minister of Finance dated 19 February 2009 on *the current and periodical information provided by security issuers and the conditions of deeming the information required by a non-EU member state as equivalent*, the Management Board of TAURON presents the Statement on applying corporate governance principles in 2010.

4.1. Indicating the applied set of corporate governance principles

Since 11 June 2010, i.e. the day of admitting the shares to public trading, the Company has been subject to the corporate governance principles described in the document "Code of Best Practice for WSE Listed Companies" (Corporate Governance Principles) adopted by Resolution No. 12/1170/2007 of the Warsaw Stock Exchange Supervisory Board dated 4 July 2007 and amended by the Resolution No 17/1249/2010 dated 19 May 2010.

The above-mentioned Best Practice for WSE Listed Companies has been adopted for application by the TAURON Management Board. All the recommendations included in the document in question were complied with in the 2010 trading year as of the day of admitting the Company shares to exchange trading.

The content of the above code of practice is posted on the website of the Warsaw Stock Exchange, at http://corp-gov.gpw.pl.

4.2. Renounced corporate governance principles

The Company complied with all the corporate governance principles arising from "The Code of Best Practice for WSE Listed Companies". In the period following the admission of the Company shares to public trading no cases of TAURON infringing on the corporate governance principles has been reported.

4.3. The description of the main qualities of the internal control and risk management systems with regard to the process of drafting financial reports and consolidated financial reports

Pursuant to the guidelines of Best Practice for WSE Listed Companies the Company drafts financial reports by means of documents (procedures) in force, performed auditing activities, IT systems, an internal audit, the supervision over the internal control and the responsibility for assignment execution. In assessing the internal control and risk management system the role of the independent chartered auditor is of much significance.

Of the basic documents and procedures regulating the process of drafting financial reports in force in the Company and the TAURON Group one needs to mention the Accountancy Policy of the TAURON Polska Energia S.A. Capital Group, accountancy policies of the companies subject to consolidation, the Organizational Regulations, the Regulations of the Management Board of TAURON Polska Energia S.A. with the registered seat in Katowice (hereinafter referred to as the Regulations of the Company Management Board), the Regulations of the Supervisory Board of TAURON Polska Energia S.A. with the registered seat in Katowice (hereinafter referred to as the Regulations of the Company Supervisory Board), the Regulations of the Internal Audit in TAURON Polska Energia S.A., the Principles of Ownership Supervision of the TAURON Group, the Stock-taking Instructions of TAURON Polska Energia S.A and other internal procedures. The Accountancy Policy of the TAURON Polska Energia S.A. Capital Group is compliant with IFRS and forms the directives for the companies subject to consolidation in the process of drafting reporting packages for the consolidated report. The supervision over drafting financial reports is held by Vice-President of the Management Board, Chief Financial Officer, while the responsibility for drafting reporting packages for the consolidated financial report of the TAURON Group is held by the Management Boards of the companies subject to consolidation.

The Company holds accounting books being the basis for the preparation of the financial report in the computer financial and accounting system of the ERP class. drafting a financial report is conducted by using specialist IT tools. There are IT and organization solutions in the Company securing the control of access to the financial and accountancy system and providing due security and archivisation of accountancy books. Irrespective of the control mechanism built in the IT environment, controlling activities are performed by the Management Board verifying financial reports and an interim overview of the financial reports, dividing the duties among the employees, creating plans and verifying their execution, an overview of legal changes, approval of source documents by the employees and their authorisation by the subordinates.

In the Company there is an internal audit, deemed as an independent and objective function, the essence of which is to help the Company and the TAURON Group achieve the economic objectives by introducing systemized approach to the risk assessing and perfecting the risk managing process, the control mechanism system and corporate governance. The means and the principles of its execution are stipulated by the Regulations of Internal Audit in TAURON Polska Energia S.A. and the cooperation principles effective in particular companies of the TAURON Group. When performing the internal audit function the Company follows the Code of Ethics and International Standards. The auditing tasks conducted pursuant to the Long-term Audit Plan and the Annual Audit Plan. These plans are based on the documented risk assessment conducted at least once a year with the Company Management Board participating.

The Supervisory Board conducts the evaluation of a unit and consolidated financial report and appoints the Audit Committee being an advisory and opinion making body operating collectively within the structure of the Supervisory Board. The duties of the Audit Committee include mostly monitoring the process of financial reporting and the reliability of the information presented by the Company and the efficiency of the internal control, internal audit and risk management systems, existing in the Company, as well as the independency and objectivity of the authority appropriate for assessing financial reports.

In 2010, the Company appointed one entity authorised to assess and overview financial reports of significant companies of the TAURON Group and the consolidated financial report. As part of auditing works, a reputable auditor performs an independent assessment of the reliability and appropriateness of unit and consolidated financial reports and confirmation of the efficiency of the internal control and risk management systems.

4.4. Shareholders holding considerable share blocks

The following table presents the shareholders holding, as at 31 December 2010 and as at the day of drafting this report, according to the knowledge of the Company Management Board, directly or indirectly considerable blocks of the Company shares.

Table no. 22. Shareholders holding directly or indirectly considerable share blocks

Shareholders	No. of held shares	% share in the share capital	No. of held votes	% share in the total no. of votes
State Treasure*	735,361,897	41.96%	735,361,897	41.96%
KGHM Polska Miedź S.A.**	81,822,499	5.15%	81,822,499	5.15%

** Pursuant to the shareholder's notification dated 28 Feb 2011.*

*** Pursuant to the shareholder's notification dated 2 Jul 2010.*

4.5. Holders of securities providing special controlling authorisation

The Company has not issued any securities that would provide special controlling authorization with regard to the Company.

4.6. Limitations with regard to exercising voting rights

Limitations with regard to exercising voting rights have been included in § 10 of the Company Articles of Association and moved to the Regulations of the General Meeting of TAURON Polska Energia S.A. The Company Articles of Association and the Regulations of the General Meeting are available at the Company website – http://tauron-pe.pl/.

The above-mentioned limitations with regard to exercising voting rights have been formulated in the following way:

1. The voting right of shareholders holding over 10% of the total number of votes in the Company are limited so that no one can exercise more than 10% of the total number of votes at the General Meeting.
2. The limitations of the voting right referred to in item 1 above do not refer to the State treasure and entities affiliated with the State Treasure in the period when the State Treasure together with entities affiliated with the State Treasure holds the number of Company shares authorizing to exercise at least 25% of the aggregate number of votes in the Company.
3. The votes held by shareholders, between which there is a relation of dominance or affiliation in the meaning of § 10 of the Articles of Association (Shareholder Block) are accumulated; in case the accumulated number of votes exceeds 10% of the total votes in the Company, it is subject to reduction. The rules of accumulation and reduction have been stipulated in item 6 and 7 below.
4. A Shareholder in the meaning of § 10 of the Articles of Association is any person, including a dominant or affiliated entity, entitled directly or indirectly to a voting right on the General Meeting pursuant to any legal title; it also refers to a person who does not hold any shares of the Company, in particular a user or pledge, a person authorized by means of a safekeeping receipt within the meaning of the provisions of the Act of 29 July 2005 on *financial instrument trading*, as well as a person authorized to participate in the General Meeting despite having traded the held shares following the day of determining the right to participate in the General Meeting.
5. For the sake of § 10 of the Articles of Association the dominant entity and an affiliated entity shall be deemed as the person, who respectively:
   1) holds the status of a dominant entrepreneur, an affiliated entrepreneur or at the same time the status of a dominant and affiliated entrepreneur in the meaning of the provisions of the Act of 16 February 2007 on *competition and consumer protection*, or
   2) holds the status of a dominant entity, a dominant entity of a higher level, an affiliated entity of a lower level, a co-affiliated entity, or who holds at the same time the status of a dominant entity (including a dominant one of a higher level) and an affiliated one (including an affiliated one of a lower level and a co-affiliated one) in the meaning of the Act of 29 September 1994 on *Accountancy*, or

3) exerts a decisive influence (a dominant entity) or who is subject to decisive influence (an affiliated entity) in the meaning of the Act of 22 September 2006 on *transparency of financial relationships between public authorities and public enterprises and the financial transparency of certain enterprises*, or
4) is the one the votes of whom resulting from the Company shares held directly or indirectly are subject to being accumulated with the votes of another person or other persons pursuant to the principles established in the Act of 29 July 2005 on *public offering and the conditions of introducing financial instruments to an organized trading system and on public companies with reference to holding, trading or acquiring considerable blocks of the Company shares.*

6. Accumulating votes consists in summing up the number of votes held by particular shareholders included in the Shareholder Block.
7. Reducing votes consists in lowering the total number of votes in the company held at the General Meeting by the shareholders included in the Shareholder Block up to the threshold of 10% of the total number of votes in the Company. The reduction of votes is conducted pursuant to the following rules:
   1) the number of votes of the shareholder who holds the largest number of votes in the Company of all the shareholders included in the Shareholder Block is subject to a decrease by the number equal to the surplus over 10% of the aggregate number of votes in the Company held together by all the shareholders included in the Shareholder Block,
   2) if, despite the reduction referred to above, the total number of votes held at the General Meeting by the shareholders included in the Shareholder Block exceeds 10% of the aggregate number of votes in the Company, further reduction of votes held by other shareholders included in the Shareholder Block is performed. Further reduction of votes of particular shareholders is performed in the sequence established according to the number of votes held by particular shareholders included in the Shareholder Block (from the greatest to the lowest one). Further reduction is preformed until the aggregate number of votes held by shareholders included in the Shareholder Block does not exceed 10% of the aggregate number of votes in the Company.
   3) in each case a shareholder who has had the exercising of the voting right limited, they retain their right to exercise at least one vote,
   4) limiting the exercise of the voting right refers also to a shareholder absent from the General Meeting.
8. Each shareholder who is going to participate in the General Meeting, directly or through a plenipotentiary, is obliged, without separate summons referred to in item 9 below, to notify the Management Board or the Chairman of the General Meeting of the fact that they hold, directly or indirectly, more that 10% of the aggregate votes in the Company.
9. Irrespective of the provisions of item 8 above, in order to determine the basis of vote accumulation or reduction, a shareholder of the Company, the Management Board, the Supervisory Board and particular members of these authorities can request that a shareholder of the Company should provide the information whether they are a person holding a dominant or an affirmative status with regard to another shareholder in the meaning of § 10 of the Articles of Association. The entitlement referred to in the above sentence covers also the right to request the number of votes held by a shareholder of the Company individually or together with other shareholders of the Company should be revealed.
10. The person who has failed to fulfil, or has wrongly fulfilled the information obligation referred to in item 8 and 9 above, may exercise the voting right solely from one share until the infringed information obligation is remedied; exercising the rest of the voting rights by such a person shall be invalid.

4.7. Limitations concerning the transfer of the ownership of securities

In TAURON there are no limitations concerning the transfer of the ownership of the Company securities.

4.8. The principles of appointing and recalling governing and supervising persons and their entitlements

THE BOARD

The principles of appointing and recalling Management Board Members

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

The Management Board Members or the whole Management Board are appointed and recalled by the Supervisory Board. Each of the Management Board Members can be recalled or suspended in their activities by the Supervisory Board or the General Meeting.

The competences of the Management Board

The Management Board conduct the affairs of the Company and represent the Company in all court and non-court activities. Any affairs not related to conducting the Company affairs, not reserved by the provisions of law or the provisions of the Articles of Association to the General Meeting or the Supervisory Board comprise the competences of the Management Board.

Pursuant to the Company Articles of Association, a resolution of the Management Board is required for all the affairs exceeding the scope of ordinary Company activities, in particular:

1) the regulations of the Management Board,
2) the organisational regulations of the Company establishment,
3) creating and liquidating branches,
4) appointing a proxy,
5) taking out loans and credits,
6) adopting annual material and financial plans and multiyear Company plans and strategies,
7) incurring conditional liabilities in the meaning of the Act of 29 September 1994 on *Accountancy* including granting warranties, guarantees and issuing bills of exchange by the Company, at the amount not exceeding the PLN equivalent of EUR 5,000,000,
8) granting donations, cancelling interest or re leasing from debt,
9) acquiring a property, perpetual usufruct or shares in a property or perpetual usufruct at the amount not exceeding the PLN equivalent of EUR 5,000,000,
10) acquiring fixed assets except for a property, perpetual usufruct or shares in a property or perpetual usufruct at the amount equal to or exceeding the PLN equivalent of EUR 10,000, but not exceeding the PLN equivalent of 5,000,000,
11) managing elements of fixed assets, including a property, perpetual usufruct or shares in a property or perpetual usufruct at the amount equal to or exceeding the PLN equivalent of EUR 10,000, but not exceeding the PLN equivalent of 5,000,000,
12) stipulating the exercising of the voting right at the General Meeting or the Shareholders' Meetings of the companies where the Company holds shares or stock, in matters belonging to the competence of General Meetings or the Shareholders' Meetings of these companies with the exception of establishing the mode of exercising the right at the General Meeting or the Shareholders' Meetings of the companies where the Company holds over 50% of shares or stock, in the issues of:
    a) trading or leasing the establishment of a company or its organised part and establishing a limited property right on them if the value exceeds the PLN equivalent of 5,000,000,
    b) dissolving and liquidating a company.
13) principles of conducting sponsoring activities,
14) adopting an annual plan of sponsoring activities,
15) matters with the investigation of which the Management Board turns to the Supervisory Board or the General Meeting.

THE SUPERVISORY BOARD

The principles of appointing and recalling Supervisory Board members

The Supervisory Board consists of five to nine persons appointed for a common term which lasts for three years, except for the first term which lasts one year. Pursuant to the Company Articles of Association Supervisory Board Members are appointed and recalled by the General Meeting, subject to the following:

1) during the period in which the State Treasure, along with affiliated entities of the State Treasure in the meaning of § 10 sec. 5 of the Company Articles of Association, holds the number of Company shares allowing to exercise at least 25% of the total number of votes in the Company, the State Treasure, represented by the minister in charge of State Treasure affairs, is authorized to appoint and recall Supervisory Board Members in the number of half of the maximum composition of the Supervisory Board stipulated in the Company Articles of Association (in case of the number not being a whole number it is subject to being rounded down, e.g. 4.5 is subject to being rounded to 4 increased by 1) with the stipulation that the State Treasure:
    a) is obliged to vote at the General Meeting with regard to establishing the number of Supervisory Board members corresponding to the maximum number of Supervisory Board Members determined in the Company Articles of Association in case of such a motion being submitted to the Management Board by a shareholder or shareholders holding a number of shares authorizing them to exercise at least 5% of the aggregate number of votes in the Company,
    b) is exempted from the voting right at the General Meeting with regard to issue of appointing and recalling the other Supervisory Board members, including the independent Supervisory Board members; this does not refer to the case when the Supervisory Board cannot act due to the composition being smaller than the one required by the Articles of Association and the shareholders present at the General Meeting, other that the State Treasure, do not complement the composition of the Supervisory Board in line with the division of posts in the Supervisory Board established in this item.
2) during the period in which the State Treasure, along with affiliated entities of the State Treasure in the meaning of § 10 sec. 5 of the Company Articles of Association, holds the number of Company shares allowing to exercise less than 25% of the total number of

votes in the Company, the State Treasure, represented by the minister in charge of State Treasure affairs, is authorized to appoint and recall one Supervisory Board Member.

3) appointing and recalling Supervisory Board members by the State Treasure in the mode stipulated in items 1) and 2) above takes place by means of a statement made to the Company.

At least two Supervisory Board members should meet the criteria of independence (independent Supervisory Board members). The term of "an independent Supervisory Board member" means an independent Supervisory Board member in the meaning of the Commission Recommendations dated 15 February 2005 concerning the role of non-executive officers or being members of the Supervisory Board of stock exchange companies and the commission of the (Supervisory) board (2005/162/WE) taking into consideration the Good Practice of WSE Listed Companies.

Independent Supervisory Board members, make, prior to their appointment to the Supervisory Board, a written statement on meeting the independence prerequisites. In case of there being a situation making them fail to meet the independence prerequisites, the Supervisory Board members are obliged to immediately inform the Company of this fact. The Company notified shareholders of a current number of independent Supervisory Board members.

The competences of the Supervisory Board

The Supervisory Board maintains constant supervision over the Company's activities in all the areas of the operations. The competences of the Supervisory Board include:

1) assessment of the Management Board's report on the Company's operations and the financial report for the preceding trading year with regard to their compliance with the books, documents and the actual state. It also refers to the consolidated financial report of the Capital Group as long as it has been drafted,
2) assessment of the Management Board's motions on dividing the profit or covering the loss,
3) submitting a written report to the General Meeting on the result of the activities referred to in item 1 and 2,
4) making Supervisory Board reports on the supervision of the execution of investments by the Management Board, including the purchase of fixed assets, in particular making opinions on the appropriateness and effectiveness of spending the monetary resources included in this,
5) making an opinion of the Supervisory Board along with the report on the results of the assessment of the Company's annual financial report concerning the issue of the economic sense of the capital involvement of the Company made in a given trading year in other entities of the commercial law,
6) appointing a chartered auditor to examine the Company's financial report and the consolidated financial report of the Capital Group,
7) stipulating the scope and the deadlines for the Management Board to submit annual material and financial plans and strategic multiyear plans,
8) making opinions on the Company's and the Capital Group's multiyear plans and strategies,
9) making opinions and approving the principles of conducting sponsoring operations,
10) making opinions on the annual plan of holding sponsoring operations and quarterly reports on its execution,
11) making regulations establishing the mode of the Supervisory Board operations in details,
12) adopting a consolidated text of the Company Articles of Association prepared by the Company Management Board,
13) approving the Regulations of the Company Management Board,
14) approving the Operating Regulations of the Company Establishment.

The competences of the Supervisory Board also include granting consent to the Management Board of the Company for

1) acquiring a property, perpetual usufruct or shares in a property or perpetual usufruct at the amount exceeding the PLN equivalent of EUR 5,000,000;
2) acquiring elements of fixed assets, except for property, perpetual usufruct or shares in a property or perpetual usufruct, bonds issued by the Capital Group companies at the amount exceeding the PLN equivalent of 5,000,000;
3) managing elements of fixed assets, including a property, perpetual usufruct or shares in a property or perpetual usufruct at the amount exceeding the PLN equivalent of 5,000,000;
4) incurring conditional liabilities, including granting warranties and assets pledges as collaterals by the Company at the amount exceeding the PLN equivalent of 5,000,000;
5) issuing bills of exchange at the amount exceeding the PLN equivalent of 5,000,000;
6) making an advance payment towards an expected dividend,

7) taking over or acquiring shares or stock in other companies at the amount exceeding the PLN equivalent of 5,000,000 except for the situations when taking over or acquiring shares or stock in these companies occurs in exchange for the receivables of the Company as part of the agreement or bankruptcy proceedings;
8) trading shares or stock at the amount exceeding the PLN equivalent of 5,000,000, with the stipulation of terms and conditions and the mode of their trading, except:
   a) trading shares being in trading on the regulated market;
   b) trading shares and stock which the Company holds at the level not exceeding 10% of the share in the share capital of particular companies.

Moreover, the competences of the Supervisory Board include in particular:

1) appointing and recalling Management Board members,
2) establishing the rules concerning remuneration and the level of Management Board members' remuneration,
3) suspending Management Board members in their activities, for significant reasons,
4) delegating Supervisory Board Members to temporarily perform the activities of Management Board members who cannot perform their activities and establishing their remuneration with the stipulation that the aggregate remuneration collected by the person delegated as the Supervisory Board member and for the delegation to temporarily perform the activities of a Management Board member cannot exceed the remuneration stipulated for the Management Board member in the place of whom the Supervisory Board member has been delegated,
5) conducting the recruitment process for the position of a Management Board member,
6) conducting a contest the aim of which is to select a person with whom the agreement on serving in the Management Board of the Company shall be concluded and concluding the agreement on serving in the Management Board of the Company
7) giving consent to creating Company branches abroad,
8) giving consent to Management Board members to hold positions in the authorities of other companies,
9) establishing the means of exercising voting rights at the General Meeting or at the General Meeting of Shareholders of the companies where the Company holds over 50% of shares or stock, with regard to the following issues:
   a) trading and leasing the company establishment or its organised part and creating a limited property right on it if their amount exceeds the PLN equivalent of 5,000,000,
   b) dissolving and liquidating the company.

4.9. The description of the amendment process of the Company Articles of Association

Amending the Company Articles of Association takes place by means of a resolution of the General Meeting, and a decision of an appropriate court to register the amendment into the Register of Entrepreneurs. The Consolidated text of the Company Articles of Association including the resolutions made by the General Meeting is adopted by the Supervisory Board by means of a resolution.

4.10. The description of activities of the General Meeting, its principle entitlements and the description of shareholders' rights and means of their exercising

Rules regarding the operations of the TAURON General Meeting and its principle entitlements have been included in the Company Articles of Association and the Regulations of the General Meeting of TAURON Polska Energia S.A. which is available on the Company website http://tauron-pe.pl/.

The description of activities

The General Meeting is summoned by announcing it on the Company website and in the mode determined for delivering current information by public companies. In case the General Meeting is summoned by an entity or authority other the Management Board pursuant to the provisions of the Act of 15 September 2000 – *the Commercial Companies Code*, and summoning the General Meeting requires cooperation on the part of the Management Board, the Management Board is obliged to perform all the activities determined by law in order to summon, organise and hold the General Meeting. General Meetings are held in the headquarters of the Company, or in Warsaw.

The General Meeting is opened by Chairman of the Supervisory Board, and in case of their absence the following persons are authorized to open it in the following order: Vice Chairman of the Supervisory Board, President of the Management Board, a person appointed by the Management Board or a shareholder who has registered their shares at the General meeting allowing them to exercise the highest number of votes. Then, the Chairman of the General Meeting is elected from among the persons authorized to participate in the General Meeting.

The General Meetings makes resolution irrespective of the number of shares represented at it unless the provisions of the Act of 15 September 2000 – *the Commercial Companies Code* do not state otherwise. The General Meeting may announce a break in the proceedings by the majority of two thirds of votes. Total brakes cannot last longer than thirty days.

Competences of the General Meeting

The following matters require a resolution of the General Meeting:

1) examining and approving the financial report for the preceding trading year and the Management Board's report on the Company operations,
2) granting exoneration of management to members of Company authorities for the fulfilment of their duties,
3) dividing the profit or covering the loss,
4) appointing and recalling Supervisory Board members,
5) suspending Supervisory Board members in their activities,
6) establishing the remuneration for Supervisory Board members, under the condition that Supervisory Board members are entitled to monthly remuneration at the amount stipulated by the General Meeting, taking into considerations the binding provisions of law in force,
7) trading and leasing the Company establishment or its organised part and creating a limited property right,
8) the Company concluding a credit, loan, guarantee or other similar agreement with the Management Board member, a Supervisory Board member, a proxy, a liquidator or to the favour of any of the above-mentioned persons. Concluding a credit, loan, guarantee or other similar agreement with the Management Board member, a Supervisory Board member, a proxy, a liquidator or to the favour of any of the above-mentioned persons by a subsidiary,
9) increasing or decreasing the Company share capital,
10) issue of convertible bonds or convertible bonds with a preference right and registered or open-faced securities allowing their holder to a subscription order or to take up shares,
11) acquiring own shares in case it is required by the provisions of the Act of 15 September 2000 – *the Commercial Companies Code,*
12) a squeeze-out pursuant to art. 418 of Act of 15 September 2000 – *the Commercial Companies Code*,
13) creating, using and liquidating reserve capital,
14) using supplementary capital,
15) decisions taken with regard to claims for redressing the damage done at the company incorporation or conducting management or supervision,
16) merging, transforming or dividing the Company,
17) share redemption,
18) amending the Articles of the Association and changing the Company's object of operations,
19) dissolving or liquidating the Company.

Pursuant to the provisions of the Act of 15 September 2000 – *the Commercial Companies Code* the issue and buyback of shares are subject to the competences of the General Meeting.

The description of shareholder's rights and rules with regard to exercising them

A Shareholder or Shareholders representing at least one twentieth of the share capital may demand that an Extraordinary General Meeting should be summoned. Such a request should include its brief justification. It can be submitted to the Management Board in writing or in an electronic form to the Company email address indicated by the Company on its website in the "Investor Relations" folder. The Company reserves the right to take appropriate action aimed at identifying the Shareholder or Shareholders making the request.

A Shareholder or Shareholders representing at least half of the share capital or at least half of the aggregate number of votes in the Company can summon an Extraordinary General Meeting. A Shareholder or Shareholders appoint the Chairman of such a General Meeting.

A Shareholder or Shareholders representing at least one twentieth of the share capital may demand that particular issues be placed on the agenda of the following General Meeting. Such a request, along with its justification or a draft of the resolution with regard to the suggested agenda point, should be submitted to the Management Board no later than 21 days prior to the set date of the General Meeting. The request can be submitted in an electronic form to the Company email address or in writing to the Company address.

A Shareholder or Shareholders representing at least one twentieth of the share capital may put forward prior to the date of the General Meeting resolution drafts regarding issued introduced to the agenda of the General Meeting or issues which are to be introduced to the agenda. Such a notification can be submitted in an electronic form to the Company email address or in writing to the Company address.

A Shareholder may familiarise themselves with the list of Shareholders in the Management Board's headquarters throughout the three working days directly prior to the date of the General Meeting. A Shareholder may demand that a list of shareholders be sent to them free of charge by email, having provided the email address to which it should be sent. The request may be submitted by email to the Company email address.

The right to participate in the General Meeting is held only by persons being Shareholders sixteen days prior to the date of the General Meeting (the registration day of participation in the General Meeting). In order to participate in the proceedings of the General Meeting the Shareholders should submit a request to have a registered certificate on the right to participate in the General Meeting issued to the investment company holding their security account. The request needs to be submitted no earlier than after the announcement summoning the General Meeting and no later than on the first working day following the registration day of participation in the General Meeting.

A Shareholder may participate in the General Meeting and exercise the vote in person or through a plenipotentiary. Co-holders of shares may participate in the General Meeting and exercise the vote only through a common representative (a plenipotentiary). The plenipotentiary may represent more than one Shareholder and vote differently from the shares of each Shareholder.

Shareholders elect the Chairman of the General Meeting. The Chairman is elected from among the persons authorized to participate in the General Meeting. Each participant of the General Meeting has the right to put forward one candidate for the position of the Chairman. The persons who have been put forward as the candidates are placed on the candidate list as long as they give consent to their candidacy. The Chairman is elected in confidential voting, by absolute majority of votes. In case when only one candidate for the Chairman has been put forward, the election can be performed by acclamation.

Each Shareholder may put forward no more than three candidates for a member of the Returning Committee elected by the General Meeting, and vote for three candidates at most.

During the proceedings of the General Meeting, a Shareholder has the right, until the discussion on a given agenda point is closed, to put forward suggestions changing the content of the resolution draft to be passed by the General Meeting as part of a given agenda point or by submitting their own draft of such a resolution. A suggestion of amendments or a new resolution draft should be submitted along with their justification. A suggestion of amendments or a new resolution draft can be submitted in writing to the Chairman or orally to the minutes of the proceedings.

A Shareholder who has voted against a resolution, and who wants, after its passing by the General Meeting, to file an observation, should, immediately after passing the resolution (after announcing the voting result), file the observation and request it should be minuted prior to moving on to the next agenda item. In case of filing an observation later on, which cannot happen later than by the time the proceedings of the General Meeting are closed, a Shareholder should indicate what resolution passed by the General Meeting the observation is filed against. A shareholder filing their observation against a resolution of the General Meeting may submit a brief justification of the observation to be minuted.

4.11. The list of persons of the governing and supervising authorities and their committees, changes and the description of activities

THE MANAGEMENT BOARD

The current, second term of the Management Board commenced its course on 8 March 2008. Following the Company Articles of Association, this is a common term and it lasts for three years. The period covered by the Report was the third years of the Management Board operations within the second term which elapses on 8 March 2011.

The list of persons in the Management Board as at 31 December 2010 and as at the day of drafting the Report:

1. Dariusz Lubera – President of the Management Board,
2. Joanna Schmid – Vice President of the Management Board,
3. Dariusz Stolarczyk – Vice President of the Management Board,
4. Krzysztof Zamasz – Vice President of the Management Board,
5. Krzysztof Zawadzki – Vice President of the Management Board.

Changes in the composition of the Management Board

The following changes affected the composition of the Company Management Board during the term covered by this Report:

1) Stanisław Tokarski – Vice President of the Management Board – Chief Strategy & Business Development Officer appointed to the Company Management Board on 8 March 2008 made a resignation from the held position as of 31 August 2010.
2) Joanna Schmid was appointed Vice President of the Management Board – Chief Strategy & Business Development Officer as of 1 October 2010.

Given the end of the term of the Company Management Board, on 24 February 2011 the Company Supervisory Board passed the resolutions on appointing members of the Management Board of the third term as a result of the completed recruitment process. Detailed information on the above matter has been placed in item 3.8. hereof.

The description of activities

The Management Board of TAURON operates pursuant to the Act of 15 September 2000 – *the Commercial Companies Code* and other provisions of law, provisions of the Company Articles of Association and provisions of the Regulations of the Company Management Board. When performing the obligations, members of the Management Board follow the principles arising from "Best Practice for WSE Listed Companies".

In order to make representations on behalf of the Company the cooperation of two Management Board members or of one Management Board member along with a proxy is required. If the Management Board consists of one person, one Management Board member along with a proxy is authorized to make representations on behalf of the Company.

The meetings of the Management Board are summoned by President of the Management Board or Vice President of the Management Board appointed by them. The meetings of the Management Board are also summoned at the request of the majority of Vice Presidents of the Management Board as well as Chairman of the Supervisory Board. The meetings take place in the headquarters of the Company on a date set by the entity summoning the meeting. In justified cases the meetings of the Management Board can take place outside the headquarters of the Company. The Management Board meetings are chaired by President of the Management Board or the Vice President of the Management Board appointed by them.

The Management Board votes in open voting. The result of the voting is placed in the proceedings minutes. The Management Board orders a secret voting in personal issues and at the request of any of the Management Board members.

The resolutions of the Management Board are passed at an absolute majority of vote with 3/5 of the Management Board composition present. In case of an equal number of votes the vote of President of the Management Board prevails.

The Management Board may pass resolutions in writing or by means of distance direct communication devices. Voting in the above-mentioned modes is ordered by President of the Management Board or Vice President of the Management Board appointed by them by setting a deadline for the votes to be made by the Management Board members. Minuting a dissenting opinion is permitted. It is placed in the minutes along with the justification. The decisions of the Management Board on current issues, not requiring passing of a resolution, are registered solely in the minutes.

THE SUPERVISORY BOARD

The current, second term of the Supervisory Board commenced its course on 11 December 2007. Following the Company Articles of Association, this is a common term and it lasts for three years. The period covered by the Report was the third years of the Supervisory Board operations within the second term which elapsed on 11 December 2010.

The list of persons in the Management Board as at 31 December 2010 and as at the day of drafting the Report:

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

Changes in the composition of the Supervisory Board

Wit old Murkowski and Tadeusz Skrzypek appointed to the Company Supervisory Board on 31 January 2008 were recalled as of 13 September 2010 by the shareholder – the State Treasure within the personal entitlement arising from the Company Articles of Association.

Leszek Koziorowski, Jacek Kuciński and Jacek Szyke were appointed to the Company Supervisory Board by the General Meeting. Leszek Koziorowski i Jacek Szyke meet the independence criteria in the meaning of the Commission Recommendations dated 15 February 2005 concerning the role of non-executive officers or being members of the Supervisory Board of stock exchange companies and the commission of the (Supervisory) board (2005/162/WE) taking into consideration the Good Practice of WSE Listed Companies.

The description of activities

Detailed rules regarding the operations of the Supervisory Board have been included in the provisions of the Company Articles of Association, the provisions of the Regulations of the Company Supervisory Board and the Act of 15 September 2000 – *the Commercial Companies Code.*

The main form of supervision executed by the Supervisory Board over the Company operations is the meetings of the Supervisory Board. The Supervisory Board fulfils its obligations in a collective manner. The meetings of the Supervisory Board are summoned by Chairman of the Supervisory Board or Vice Chairwoman of the Supervisory Board presenting a detailed agenda of the meeting.

a) pursuant to the arrangements adopted by the Supervisory Board,
b) on their own initiative,
c) at the written request of each of the Supervisory Board members,
d) at the written request of the Management board.

The meetings of the Supervisory Board take place in the headquarters of the Company. In justified cases the meetings of the Management Board can take place outside the headquarters of the Company.

In order to summon a meeting a written invitation to all Supervisory Board members is required at least 7 days prior to the date of the Supervisory Board meeting. Due to significant reasons Chairman of the Supervisory Board can shorten the term to 2 days determining the way the invitation is delivered. Notifications on the Supervisory Board meeting are delivered by fax or mail and confirmed by phone. In the notification on the Supervisory Board meeting the Chairman of the Supervisory Board establishes the date of the meeting, the place of the proceedings, and a detailed agenda of the proceedings. The Supervisory Board holds the meetings as the need may arise, not less frequently that every two months. The Supervisory Board can hold the meeting without convening it in a formal way if all the Supervisory Board members are present and no one raises any objections to the fact of holding the meeting or the agenda

The change of the suggested agenda can occur if all the Supervisory Board members are present at the meeting and no one raises any objections to the agenda. An issue not accounted for in the agenda should be included in the agenda of the following meeting.

It is an obligation of a Supervisory Board member to participate in the meeting of the Supervisory Board. A Supervisory Board member provides the cause of their absence in writing. A resolution of the Supervisory Board is required to warrant the absence of a Supervisory Board member. Management Board members can attend Supervisory Board meetings unless the Supervisory Board raises objections. The participation of Management Board members in Supervisory Board meetings is obligatory if they have been requested by Chairman of the Supervisory Board. The meetings can be attended by other persons if they are requested to do so in the above-mentioned mode.

The Supervisory Board can seek advice from legal counsellors rendering permanent legal assistance for the Company, and, in justified cases, appoint and invite appropriate experts to the meetings of the Supervisory Board in order to consult their opinion and take an appropriate decision. In the above mentioned cases, the Supervisory Board passes the resolution on assigning work to a selected expert (an auditing or consulting company), committing the Company Management Board to conclude proper agreements.

Meetings of the Supervisory Board are chaired by Chairman of the Supervisory Board, and in case of their absence – by Vice Chairman. Due to significant reasons, with the consent of a majority of Supervisory Board members present at the meeting, the person chairing the meeting is obliged to put the motion of breaking the meeting to vote and to set the date of resuming the proceedings of the Supervisory Board. The Supervisory Board makes decisions in the form of resolutions. The resolutions of the Supervisory Board are passed mostly at meetings.

The Supervisory Board passes resolutions if there are at least half of its members present at the meeting, and all its members have been invited in a proper mode stipulated in the Regulations. Subject to the mandatory provisions of law, including the Act of 15 September 2000 *The Commercial Companies Code*, the provisions of the Company Articles of Association, the Supervisory Board passes resolutions with an absolute majority vote of those present at the meeting, with the absolute majority meaning more votes "for" than "against" and "withheld" ones. Resolutions cannot be passed with regard to issued not included in the agenda unless all the Supervisory Board members are present and no one raises objections. This does not refer to resolutions on warranting the absence of a Supervisory Board member at the meeting. The Supervisory Board votes in open voting. A secret voting is ordered:

1) at the request of any of the Supervisory Board members,
2) in personal issues.

Following the Company Articles of Association, the Supervisory Board may pass resolutions in writing or by means of distance direct communication devices. Passing a resolution in this mode requires justification and prior presentation of the resolution draft to all the members of the Supervisory Board. Passing resolutions in this mode does not refer to electing President, Vice President and Secretary of the Supervisory Board, appointing or suspending a Management Board member in their duties, as well as recalling these persons and all the other issued settling of which requires secret voting. When voting over a resolution passed in the above mode, a member of the Supervisory Board indicates how they have voted, i.e. "for", "against" or "withdrawn". In case of a Supervisory Board member failing to make a statement by the deadline set by the President, the resolution is not passed. The resolution with an indication that it has been passed in writing or by means of distance direct communication devices should be signed by Chairman of the Supervisory Board. The resolutions passed in this mode are presented at the following meeting of the Supervisory Board along with the voting result.

Supervisory Board Members participate in the proceedings and exercise their rights and duties in person, and they are obliged to show due diligence when performing their obligations. Supervisory Board Members are obliged to keep secret all the information related to the Company operations which they have become acquainted with due to holding this position or in other circumstances. The Supervisory Board fulfils its obligations in a collective manner.

Due to significant reasons the Supervisory Board may delegate particular members to independently conduct particular supervising activities for a definite period of time. The Supervisory Board may delegate its members, for a period no longer than three months, to temporarily perform the activities of the Management Board members who have been recalled, have made their resignation or cannot perform their duties for other reasons. The above-mentioned delegation requires the consent of the Supervisory Board member who is to be delegated.

The Supervisory Board may appoint permanent or temporary workgroups and committees from among its members to perform particular activities. The Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. (hereinafter referred to as the Audit Committee) and the Appointment and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A. (hereinafter referred to as the Appointment and Remuneration Committee) are the permanent committees of the Supervisory Board. The composition, tasks and rules of operations of the above-mentioned committees have been stipulated by their Regulations enacted by the Supervisory Board.

THE AUDIT COMMITTEE

The Audit Committee was appointed on 13 May 2010 by the Supervisory Board from among its members, in the following composition:

1. Michał Michalewski – Chairman of the Audit Committee,
2. Marek Ściążko – a Member of the Audit Committee,
3. Witold Kurowski – a Member of the Audit Committee.

The list of persons appointed to the Audit Committee as at 31 December 2010 and as at the day of drafting the report:

1. Michał Michalewski – Chairman of the Audit Committee,
2. Marek Ściążko – a Member of the Audit Committee,
3. Jacek Szyke – a Member of the Audit Committee.

Changes in the personal composition

Given the fact that Witold Kurowski, holding the position of a Member of the Audit Committee, was recalled from the Supervisory Board, the Supervisory Board appointed Jacek Szyke to the Audit Committee as of 28 September 2010.

The description of activities

A detailed description of the Audit Committee's activities has been included in the Regulations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.

The Audit Committee is an advisory and opinion-making authority of the collective character within the structure of the Supervisory Board. It serves an ancillary and advisory role with regard to the Supervisory Board. The duties of the Audit Committee are executed by presenting the Supervisory Board with motions, recommendations, opinions and reports regarding the scope of the tasks hereof, in the form of resolutions made by the Audit Committee. The Audit Committee is independent from the Company Management Board. The Management Board cannot give the Audit Committee valid orders regarding the execution of its tasks.

The Audit Committee consists of three to five members. The works of the Audit Committee are led by the Chairman. The meetings of the Audit Committee are summoned by the Chairman of Audit Committee on their own initiative or at the request of a member of the Audit Committee or the Supervisory Board President.

The meetings of the Audit Committee are held as the need may be, no less frequently than on a quarterly basis. The Chairman of the Audit Committee may invite Supervisory Board members not being members of the Audit Committee, Company Management Board members, Company employees and other persons working or cooperating with the Company, including the chartered auditor, to participate in the meetings. The Chairman of the Audit Committee or the person indicated by them submits motions, recommendations and reports to the Supervisory Board. A report on the Audit Committee's activities should be submitted to the Supervisory Board at least on a half year basis.

The Audit Committee makes resolutions if at least half of its members are present at a meeting and all its members have been properly invited. The resolutions of the Audit Committee are adopted with an absolute majority of votes present at the meeting, with the absolute majority meaning more votes "for" than "against" and "withheld" ones. The Audit may make resolutions in the written form or by means of distance communication devices.

The Company Management Board is informed of the recommendations and evaluations submitted by the Audit Committee to the Supervisory Board. Every year the Audit Committee publicises, through the mediation of the Company, information on the composition of the Audit Committee, the number of held meetings and participation in the meetings throughout the year as well as major activities. In particular, the Audit Committee confirms its positive evaluation of the independence of the financial auditing process and presents a short description of the steps taken in order to form such a conclusion.

The duties of the Audit Committee include:

1) monitoring the process of financial reporting;
2) monitoring the reliability of the financial information presented by the Company;
3) monitoring the efficiency of the internal control, internal audit and risk management systems existing in the Company;
4) monitoring the execution of financial auditing activities;
5) monitoring the independence and objectivity of the chartered auditor and the entity authorized to examine financial reports, also in case of their rendering services other than financial auditing;
6) providing the Supervisory Board with a recommendation concerning an entity authorized to examine financial reports to conduct the activities of financial auditing.

The Company Management Board offers the Audit Committee an opportunity to use the services of external advisors within the scope of matters necessary to fulfil the obligations of the Audit Committee. The Company provides an induction scheme introducing all new members of the Audit Committee to their obligations and subsequent trainings. All the members of the Audit Committee should, in particular, receive full information regarding the specificity of the Company's accountancy, finances and operating activities. The Auditing Committee can request that the Management Board should submit information with regard to accountancy, finances, financial auditing, internal audit and risk management.

THE APPOINTMENT AND REMUNERATION COMMITTEE

The Appointment and Remuneration Committee was appointed on 27 August 2010 by the Supervisory Board from among its members. The Appointment and Remuneration Committee included three members.

The list of persons appointed to the Appointment and Remuneration Committee as at 31 December 2010 and as at the day of drafting this report:

1. Antoni Tajduś – Chairman of the Appointment and Remuneration Committee,
2. Agnieszka Trzaskalska – a Member of the Appointment and Remuneration Committee,
3. Włodzimierz Luty – a Member of the Appointment and Remuneration Committee.

The description of activities

A detailed description of the Appointment and Remuneration Committee's activities is included in the Regulations of the Appointment and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A.

The Appointment and Remuneration Committee is an advisory and opinion-making authority of the collective character within the structure of the Supervisory Board. It serves an ancillary and advisory role with regard to the Supervisory Board. The duties of the Appointment and Remuneration Committee are executed by presenting the Supervisory Board with motions, recommendations, opinions and reports regarding the scope of the tasks hereof, in the form of resolutions made by the Appointment and Remuneration Committee. The Appointment and Remuneration Committee is independent from the Company Management Board. The Management Board cannot give the Appointment and Remuneration Committee valid orders regarding the execution of its tasks.

The Appointment and Remuneration Committee consists of three to five members, including at least one independent member of the Supervisory Board. The works of the Appointment and Remuneration Committee are led by the Chairman.

The meetings of the Appointment and Remuneration Committee are summoned by the Chairman of Appointment and Remuneration Committee on their own initiative or at the request of a member of the Appointment and Remuneration Committee or the Supervisory Board President. The meetings of the Appointment and Remuneration Committee are held as the need may be. The Chairman of the Appointment and Remuneration Committee may invite Supervisory Board members not being members of the Appointment and Remuneration Committee, Company Management Board members, Company employees and other persons working or cooperating with the Company, including the chartered auditor, to participate in the meetings. The Chairman of the Appointment and Remuneration Committee or the person indicated by them submits motions, recommendations and reports to the Supervisory Board.

The Appointment and Remuneration Committee makes resolutions if there is at least half of its members are present at a meeting and all its members have been properly invited. The resolutions of the Appointment and Remuneration Committee are adopted with an absolute majority of votes present at the meeting, with the absolute majority meaning more votes "for" than "against" and "withheld" ones. The Appointment and Remuneration Committee may make resolutions in the written form or by means of distance communication devices.

The Company Management Board is informed of the recommendations and evaluations submitted by the Appointment and Remuneration Committee to the Supervisory Board. Every year the Appointment and Remuneration Committee publicises, through the mediation of the Company, information on the composition of the Appointment and Remuneration Committee, the number of held meetings and participation in the meetings throughout the year and major activities. The Appointment and Remuneration Committee submits a report on its activities in a given trading year.

The duties of the Nomination and Remuneration Committee include:

1) providing the Supervisory Board with the recommendation of a recruitment procedure for the Company Management Board positions,
2) evaluating candidates for Company Management Board and providing the Supervisory Board with an opinion in this scope,
3) providing the Supervisory Board with a recommendation of the form and content of the agreements concluded with the Company Management Board members,
4) providing the Supervisory Board with a recommendation of the remuneration and bonus system for Company Management Board members,
5) providing the Supervisory Board with a recommendation of the necessity to suspend a Company Management Board members for significant reasons,
6) providing the Supervisory Board with a recommendation of the necessity to delegate a Supervisory Board Member to temporarily perform the activities of the Company Management Board members who cannot perform their duties along with suggested remuneration.

The Company Management Board provides the Appointment and Remuneration Committee with the opportunity to use the services of external advisors within the scope of matters necessary to fulfil the obligations of the Committee.

THE SIGNATURES OF THE MEMBERS OF THE MANAGEMENT BOARD OF TAURON POLSKA ENERGIA S.A.:

Katowice, 1 March 2011

Dariusz Lubera	– President of the Management Board	....
Joanna Schmid	– Vice-President of the Management Board	....
Dariusz Stolarczyk	– Vice-President of the Management Board	....
Krzysztof Zamasz	– Vice-President of the Management Board	....
Krzysztof Zawadzki	– Vice-President of the Management Board	....