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

KATOWICE, 15 MARCH 2011

Ladies and Gentlemen,

I have the pleasure of presenting to you the Annual Report of TAURON Polska Energia Capital Group 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 listed company. To our 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 power 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 over 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.

In 2010, we continued realisation of the activities provided for in the TAURON Group's corporate strategy. One of the strategic priorities of the Group is the development of new generation capacities and modernisation of the existing ones. As part of the investment programme, we are executing projects involving construction of power units fuelled with hard coal, natural gas and renewable sources of energy. At Jaworzno III Power Plant, there will be constructed a new 910 MW coal-fired unit. The planned commissioning date is the year 2016. Commenced have also been the works related to the execution of a 400 MW gas and steam unit at Stalowa Wola power plant. The completion of the project has been planned to take place in the second half of 2014. A new heating unit is being executed at Bielsko-Biała Combined Heat and Power Plant. In August, construction of a 50 MWe/182 MWt unit started there. The unit planned commissioning date is mid-2013. Moreover, the Group is executing investment projects involving construction and reconstruction of biomass-fuelled boilers (Tychy Combined Heat and Power Plant, Jaworzno III Power Plant) III) and numerous modernisation-related tasks which will make it possible to extend the life of the existing generation assets in light of the applicable EU regulations. We have also begun development of wind power capacities in Wicko (40 MW) and Marszewo (100 MW).

The year 2010 also brought about numerous organisation- and capital-related changes within the TAURON Group. As part of reorganisation of the Group's structure, in June TAURON Polska Energia merged with ENION Zarządzanie Aktywami and Energomix Servis. In the fourth quarter of 2010, the Company repurchased from the State Treasury minority stakes in Polski Koncern Energetyczny, Enion, EnergiaPro and ESW. As a result of the transaction, the State Treasury acquired, in the course of private subscription, 163,110,632 shares of TAURON Polska Energia, while the share of the holding company in the capital of the aforementioned subsidiaries increased to nearly 100%. During the subject period, we also continued the project of acquisition of the Bolesław Śmiały mine and of the purchase of stock of Południowy Koncern Węglowy owned by Kompania Węglowa.

In 2010, we launched the process of consolidation of the generation assets of Południowy Koncern Energetyczny, Stalowa Wola Power Plant and Tychy Combined Heat and Power Plant. Eventually, generation assets based on hard coal will be concentrated with one Group entity. Activities within the Distribution Area are going in the same direction – two currently operating distribution companies will merge into a single entity. In turn, the Supply Area has been reorganised – the activity related to the supply of electricity has been concentrated within TAURON Sprzedaż while the activity related to customer service has been concentrated within TAURON Obsługa Klienta.

In 2010, we recorded increased volumes with respect to operating activity within the key business areas of the Group. Last year, power plants as well as combined heat and power plants owned by the Group generated 21.3 TWh of electricity net, which means an increase by 14% as compared to 2009. Economic recovery as well as actions aimed at the acquisition of new customers facilitated the increase of the volumes of distribution and supply of electricity. In 2010, distribution of electricity was approx. 3% higher than in 2009 and amounted to 37.5 TWh, including 32.9 TWh supplied to end customers, i.e. 6.5% more than in 2009. During the subject period, the Group supplied 34.3 TWh of electricity to retail customers, which means an increase by 12.8% as compared to 2009.

Increased operating indicators were reflected by the improved financial results of the Group as compared to 2009. In 2010, TAURON Group reported total income from sales at the level of PLN 15,428.9 million, which means an increase by approximately 12.7% as compared to 2009. The main factors which affected the increase of revenues include an increased volume of supply of electricity and increased revenues from distribution and supply of heat. The result of the operating activity amounted to PLN 1,399.3 million (an increase by 5.9%), whereas the net income amounted to PLN 991.4 million (an increase by 4.6%). The Group's operating profit margin reached the level of 9.1% while the net profit margin was 6.4%.

In 2010, we implemented a model of central funding of the TAURON Group which results in, among other things, reduction of the costs of external funding and increased possibilities of fund acquisition, and thus a better opinion on the financial condition of the Company from rating agencies. In December 2010, the Company issued bonds of the total value of approx. PLN 850 million which was allocated to the reorganisation of a part of the debt of subsidiaries. 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. At the beginning of the year, we implemented a programme of operating costs reduction which provides for a reduction of the costs by PLN 1 billion within three years.

On behalf of the Management Board of TAURON Polska Energia, I wish to thank our shareholders, customers and all the employees for their involvement in the development of the Group's market position. I believe that owing to the realisation of the strategy TAURON Group will systematically increase its value and will soon join the leading power companies in Central and Eastern Europe.

Dariusz Lubera
President of the Management Board

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

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
Selected consolidated financial information of TAURON Polska Energia S.A. Capital Group				
Income on sales	15 428 879	13 694 622	3 852 981	3 155 007
Operating profit	1 399 259	1 320 783	349 430	304 286
Profit before taxation	1 257 314	1 226 069	313 983	282 465
Net profit	991 383	948 163	247 573	218 441
Net profit for shareholders of the parent company	858 656	774 426	214 428	178 415
Net profit for non-controlling interest	132 727	173 737	33 145	40 026
Other comprehensive income	630	19 906	157	4 586
Total comprehensive income	992 013	968 069	247 731	223 027
Total comprehensive income for shareholders of the parent company	859 151	791 425	214 552	182 331
Total comprehensive income for non-controlling interest	132 862	176 644	33 179	40 696
Earnings per share (in PLN/EUR) (basic and diluted)	0,54	0,50	0,13	0,11
Weighted average number of shares (in items) (basic and diluted)	1 600 730 480	1 554 042 544	1 600 730 480	1 554 042 544
Net cash flows from operations	2 520 345	1 963 199	629 394	452 287
Net cash flows from investments	(1 508 476)	(1 354 024)	(376 705)	(311 944)
Net cash flows from financial activity	(512 864)	(543 464)	(128 075)	(125 205)
Net change of cash and cash equivalents	499 005	65 711	124 614	15 138
	As of 31.12.2010	**As of 31.12.2009**	**As of 31.12.2010**	**As of 31.12.2009**
Fixed assets	18 959 101	18 475 838	4 787 289	4 497 307
Current assets	4 466 786	3 673 704	1 127 891	894 237
Fixed assets qualified for sale	4 397	5 951	1 110	1 449
Total assets	23 430 284	22 155 493	5 916 290	5 392 993
Primary capital	15 772 945	13 986 284	3 982 765	3 404 480
Equity for shareholders of the parent company	14 704 825	11 858 566	3 713 058	2 886 560
Equity for non-controlling interest	507 246	2 375 100	128 083	578 137
Total equity	15 212 071	14 233 666	3 841 141	3 464 697
Long-term liabilities	4 070 063	4 027 449	1 027 716	980 344
Short-term liabilities	4 148 150	3 894 378	1 047 433	947 952
Total liabilities	8 218 213	7 921 827	2 075 149	1 928 296

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).

INDEPENDENT AUDITORS' OPINION

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

1. We have audited the attached consolidated financial statements of TAURON Polska Energia S.A. Group ('the Group'), for which the holding company is TAURON Polska Energia S.A. ('the Company') located in Katowice at Lwowska Street 23, for the year ended 31 December 2010, containing the consolidated statement on financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated 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 consolidated financial statements').
2. The truth and fairness[1] of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation 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 consolidated 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 consolidated 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 and whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Group.
3. We conducted our audit of the attached consolidated 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 consolidated 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 consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated 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: '*rzetelne i jasne*'

4. The consolidated financial statements for the year ended 31 December 2009 were subject to our audit and we issued an opinion including an emphasis of matter on these consolidated financial statements, dated 30 March 2010. The emphasis of matter concerned the decision of the Energy Regulatory Office *(Urząd Regulacji Energetyki)* on the reimbursement of the received advance in relation to termination of the long-term electricity and power purchase agreements. The actual status of this issue is presented in point 6 of this opinion.

5. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group'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;
   - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

6. Without qualifying our opinion, we draw attention to the fact that as it was described in more details in note 34 of the explanatory notes to the attached consolidated financial statements, a subsidiary of the Company, Południowy Koncern Energetyczny S.A. ('PKE'), is entitled to receive a compensation to cover the stranded costs incurred by the producers in relation to termination of long-term electricity and power purchase agreements that is based on the act dated 29 June 2007 (Journal of Law from 2007, no. 130, item 905, 'PPA Act'). Based on accounting policy on compensations resulting from the provisions of the PPA Act as well as its own estimates and assumptions, the Group recognized revenue from the compensations amounting to 438 million zlotys in the year ended 31 December 2010, 484 million zlotys in the year ended 31 December 2009 and 192 million zlotys in the year ended 31 December 2008. As described in mentioned above note, on 31 July 2009 the President of the Energy Regulatory Office *(Urząd Regulacji Energetyki)* issued a decision ordering to reimburse part of received advance for the year 2008 in the amount of 160 million zlotys ('the Decision'). The Management of PKE did not agree with the Decision and lodged an appeal against it to the Court of Competition and Customer Protection *(Sąd Ochrony Konkurencji i Konsumentów)* in Warsaw ('the Court'). On 26 May 2010 the Court passed a judgment confirming the Company's position in this respect. The President of the Energy Regulatory Office lodged an appeal against the above judgment, which has not been considered by the appropriate court yet. The Company's Management is convinced that the appeal of the President of the Energy Regulatory Office will be ineffective and the proceedings will result positively for the Group. As at the date of this opinion the appeal proceedings are underway and their final outcome may have significant impact on the comprehensive income as well as the past and future financial position of the Group.

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

7. 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 consolidated 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

CAPITAL GROUP

TAURON POLSKA ENERGIA S.A.

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

I. GENERAL NOTES

1. Background

The holding company of the Capital Group (hereinafter 'the Group' or 'the Capital Group') is TAURON Polska Energia S.A. ('the holding company', 'the Company').
The holding 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.

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L 243 dated 11 September 2002, page 1, Polish special edition chapter 13, title 29, page 609) and based on the article 55.5 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act') prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU.

The holding company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000271562 on 8 January 2007.

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

The principal activities of the holding company are as follows:

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

The operations of the Group's subsidiaries, jointly controlled entities and associates include the following activities:

- hard coal mining,
- generation of electricity and heat energy using conventional sources,
- generation of electricity using renewable sources,
- distribution of electricity,
- sale of energy and other energy market products,
- rendering other services related to the items mentioned above.

As at 31 December 2010 the holding company's issued share capital amounted to 15,772,945 thousand zlotys. Equity as at that date amounted to 15,212,071 thousand zlotys.

(in thousand zlotys)

In accordance with the information included in Note 31 of the other explanatory notes ("additional notes") to the accompanying consolidated financial statements as at 31 December 2010 the ownership structure of the holding 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%

According to information obtained from the holding company, the following changes took place in the structure of the holding 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 the 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. Following 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, as a result the number of shares was reduced from 14,304,948,858 to 1,589,438,762. In an effect 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.

(in thousand zlotys)

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 holding 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 holding's company Management Board composition during the reporting period:

- on 31 August 2010 Mr. Stanisław Tokarski resigned from the position of Vice President,
- on 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. Group Structure

As at the 31 December 2010 TAURON Polska Energia S.A. Capital Group consisted of the following subsidiaries (direct or indirect):

Entity name	Consolidation method	Type of opinion about the financial statements for the year ended 31 December 2010 prepared in accordance with Accounting Act/IFRS	Name of authorised entity that audited financial statements
Południowy Koncern Energetyczny S.A.	Purchase accounting	unqualified with an emphasis of matter	Ernst & Young Audit sp. z o.o.
ENION S.A.	Purchase accounting	unqualified	Ernst & Young Audit sp. z o.o.
EnergiaPro S.A.	Purchase accounting	unqualified	Ernst & Young Audit sp. z o.o.
Elektrownia „Stalowa Wola" S.A.	Purchase accounting	qualified	Ernst & Young Audit sp. z o.o.
TAURON Sprzedaż sp. z o.o.	Purchase accounting	unqualified	Ernst & Young Audit sp. z o.o.
TAURON Obsługa Klienta sp. z o.o.	Purchase accounting	unqualified	Ernst & Young Audit sp. z o.o.
TAURON Ekonergia sp. z o.o.	Purchase accounting	unqualified	Ernst & Young Audit sp. z o.o.
Elektrociepłownia Tychy S.A.	Purchase accounting	unqualified	Ernst & Young Audit sp. z o.o.
Kopalnia Wapienia „Czatkowice" sp. z o.o.	Purchase accounting	unqualified	Ernst & Young Audit sp. z o.o.
Południowy Koncern Węglowy S.A.	Purchase accounting	unqualified	Ernst & Young Audit sp. z o.o.
Polska Energia- Pierwsza Kompania Handlowa sp. z o.o.	Purchase accounting	unqualified	Ernst & Young Audit sp. z o.o.
Przedsiębiorstwo Energetyki Cieplnej Katowice S.A.	Purchase accounting	unqualified	Ernst & Young Audit sp. z o.o.
Elektrociepłownia EC Nowa sp. z o.o.	Purchase accounting	unqualified	Ernst & Young Audit sp. z o.o.
Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A.	Purchase accounting	qualified	Ernst & Young Audit sp. z o.o.
TAURON Czech Energy s.r.o.	Purchase accounting	no requirement to audit financial statements	no requirement to audit financial statements
BELS INVESTMENT sp. z o.o.	Purchase accounting	no requirement to audit financial statements	no requirement to audit financial statements
MEGAWAT MARSZEWO sp. z o.o.	Purchase accounting	no requirement to audit financial statements	no requirement to audit financial statements

The financial statements of the subsidiaries listed above, except ENION S.A. and TAURON Czech Energy s.r.o, as well as the standalone financial statements of the holding company for the year ended 31 December 2010, were prepared in accordance with the Accounting Act. Consolidated financial statements of the Capital Group prepared in accordance with IFRS were based on the reporting packages of the listed above subsidiaries of the holding company. The reporting packages were prepared based on audited standalone financial statements that include the adjustments introduced to adapt the reporting packages to IFRS.

As at 31 December 2010 shares in Elektrociepłownia Stalowa Wola S.A. were accounted for in the consolidated financial statements using equity method.

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Note 30 of the additional notes to the audited consolidated financial statements of the Group for the year ended 31 December 2010.

3. Consolidated Financial Statements

3.1 Auditors' opinion and audit of consolidated 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 holding company's Supervisory Board on 29 October 2010 to audit the Group's financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the consolidated 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 holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2010.

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

Based on our audit, we issued an unqualified auditors' opinion with an emphasis of matter 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 consolidated financial statements of TAURON Polska Energia S.A. Group ('the Group'), for which the holding company is TAURON Polska Energia S.A. ('the Company') located in Katowice at Lwowska Street 23, for the year ended 31 December 2010, containing the consolidated statement on financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated 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 consolidated financial statements').

2. The truth and fairness[1] of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation 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 consolidated 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 consolidated 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 and whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Group.

3. We conducted our audit of the attached consolidated 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 consolidated 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 consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. The consolidated financial statements for the year ended 31 December 2009 were subject to our audit and we issued an opinion including an emphasis of matter on these consolidated financial statements, dated 30 March 2010. The emphasis of matter concerned the decision of the Energy Regulatory Office *(Urząd Regulacji Energetyki)* on the reimbursement of the received advance in relation to termination of the long-term electricity and power purchase agreements. The actual status of this issue is presented in point 6 of this opinion.

5. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group'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;
   - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

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

6. Without qualifying our opinion, we draw attention to the fact that as it was described in more details in note 34 of the explanatory notes to the attached consolidated financial statements, a subsidiary of the Company, Południowy Koncern Energetyczny S.A. ('PKE'), is entitled to receive a compensation to cover the stranded costs incurred by the producers in relation to termination of long-term electricity and power purchase agreements that is based on the act dated 29 June 2007 (Journal of Law from 2007, no. 130, item 905, 'PPA Act'). Based on accounting policy on compensations resulting from the provisions of the PPA Act as well as its own estimates and assumptions, the Group recognized revenue from the compensations amounting to 438 million zlotys in the year ended 31 December 2010, 484 million zlotys in the year ended 31 December 2009 and 192 million zlotys in the year ended 31 December 2008. As described in mentioned above note, on 31 July 2009 the President of the Energy Regulatory Office *(Urząd Regulacji Energetyki)* issued a decision ordering to reimburse part of received advance for the year 2008 in the amount of 160 million zlotys ('the Decision'). The Management of PKE did not agree with the Decision and lodged an appeal against it to the Court of Competition and Customer Protection *(Sąd Ochrony Konkurencji i Konsumentów)* in Warsaw ('the Court'). On 26 May 2010 the Court passed a judgment confirming the Company's position in this respect. The President of the Energy Regulatory Office lodged an appeal against the above judgment, which has not been considered by the appropriate court yet. The Company's Management is convinced that the appeal of the President of the Energy Regulatory Office will be ineffective and the proceedings will result positively for the Group. As at the date of this opinion the appeal proceedings are underway and their final outcome may have significant impact on the comprehensive income as well as the past and future financial position of the Group.
7. 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 consolidated 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 consolidated financial statements during the period from 29 November 2010 to 1 March 2011. We were present at the holding company's head office from 29 November to 3 December 2010 and from 31 January to 4 February 2011.

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness[4] of the consolidated financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 1 March 2011, from the Management Board of the holding company confirming that:

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

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

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group 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 acting on behalf of authorized entity issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2009 with an emphasis of matter concerned the decision of the Energy Regulatory Office *(Urząd Regulacji Energetyki)* on the reimbursement of the received advance in relation to termination of the long-term electricity and power purchase agreements. The actual status of this issue is presented in point 6 of the opinion. The consolidated financial statements of the Group for the year ended 31 December 2009 were approved by the Shareholders at General Shareholders' Meeting on 7 June 2010.

The consolidated financial statements of the Group for the financial year ended 31 December 2009, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 14 June 2010 with the National Court Register.

The consolidated balance sheet as at 31 December 2009, the consolidated profit and loss account, the statement of changes in consolidated equity and the consolidated cash flow statement for the year ended 31 December 2009, together with the auditors' opinion and a copy of the resolution approving the financial statements were published in Monitor Polski B No. 1616 on 7 September 2010.

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

(in thousand zlotys)

4. Analytical Review

4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the financial situation of the Group for the years 2008 – 2010. The ratios were calculated on the basis of financial data included in the financial statements for the years ended 31 December 2010 and 31 December 2009.

	2010	2009[1] (restated data)	2008
Total assets	23,430,284	22,155,493	20,823,133
Shareholders' equity	15,212,071	14,233,666	13,345,443
Net profit	991,383	948,163	182,281
Return on assets (%)	4.23%	4.28%	0.88%
Net profit x 100 / Total assets			
Return on equity (%)	6.52%	6.66%	1.37%
Net profit x 100 / Shareholders' equity			
Profit margin (%)	6.43%	6.92%	1.46%
Net profit x 100 / Sales of finished goods, goods for resale and raw materials			
Liquidity I	1.08	0.94	0.84
Current assets / Short-term creditors			
Liquidity III	0.36	0.27	0.28
Cash and cash equivalents / Short-term creditors			
Debtors days	36 days	31 days	36 days
Trade debtors x 365 / Sales of finished goods, goods for resale and raw materials			

(in thousand zlotys)

	2010	2009[1] (restated data)	2008
Creditors days	26 days	31 days	26 days
Trade creditors x 365 / Costs of finished goods, goods for resale and raw materials sold			
Inventory days	11 days	17 days	13 days
Inventory x 365 / Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	82.30%	82.42%	83.77%
(Equity + long-term provisions and liabilities) x 100 / Total liabilities, provisions and equity			
Debt ratio (%)	35.08%	35.76%	35.91%
(Total liabilities and provisions) x 100 / Total assets			
Rate of inflation:			
yearly average	2.60%	3.50%	4.20%
December to December	3.10%	3.50%	3.30%

[1] Ratios for the year ended 31 December 2009 were calculated basing on the financial data presented in the consolidated financial statements after adjustments and changes in presentation of the financial data, implemented by the Company in year 2010, what was described in Note 9 of additional notes to the audited consolidated financial statements.

4.2 Comments

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

- Return on assets ratio was at level of 4.23% in year 2010 and was lower in comparison with the year 2009, when reached the level of 4.28%. This ratio amounted to 0.88% in year 2008.
- Return on equity ratio was at level of 6.52% in year 2010 and was lower in comparison with the year 2009, when reached the level of 6.66%. This ratio amounted to 1.37% in year 2008.
- Profit margin ratio amounted to 6.43% in year 2010 and was lower in comparison with the year 2009, when reached the level of 6.92%. This ratio amounted to 1.46% in year 2008.

- Liquidity I ratio increased to the level of 1.08 as at 31 December 2010, compared with the level of 0.94 as at 31 December 2009. As at 31 December 2008 this ratio amounted to 0.84.
- Liquidity III ratio increased to the level of 0.36 as at f 31 December 2010, compared with the level of 0.27 as at 31 December 2009. As at 31 December 2008 this ratio amounted to 0.28.
- Debtors days in year 2010 reach the of 36 days compared with 31 days in year 2009. In year 2008, this ratio amounted to 36 days.
- Creditors days decreased in year 2010 to the level of 26 days compared with the level of 31 days in year 2009. In year 2008, this ratio amounted to 26 days.
- Inventory days ratio decreased in year 2010 to the level of 11 days, compared with the level of 17 days in year 2009. In year 2008, this ratio amounted to 13 days.
- In the analyzed period, the Group held a very high level of the stability of financing and a moderate debt ratio.

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the holding 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 5 of the additional notes to the Group's audited consolidated financial statements for the year ended 31 December 2010, the Management Board of the holding company has stated that the financial statements of the Group entities included in the consolidated financial statements were prepared on the assumption that these entities 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. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in note 11 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2010.

3. Structure of assets, liabilities and equity

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2010.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and amortisation

The method of determining goodwill on consolidation, the method on determining impairment of goodwill, the impairment charged in the financial year and up to the balance sheet date were presented in note 19 of the additional notes and explanations to the consolidated financial statements.

3.2 Shareholders' funds including non-controlling interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to 507,246 thousand zlotys as at 31 December 2010. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 31 of the notes and explanations to the consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2010 and include the financial data for the period from 1 January 2010 to 31 December 2010.

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subordinated entity

During the financial year the Group did not sell any shares in subordinated entities.

6. Items which have an impact on the group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2010.

The auditor's opinion includes the emphasis of matter concerning the uncertainty of questioning by the President of Energy Regulatory Office the compensation amounts, that the Group is entitled to receive due to premature termination of long-term electricity and power purchase agreements – paragraph I.3.1 of this report.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting that would have resulted in the modifications in the auditors' opinion.

8. Additional Notes

The additional notes to the consolidated 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.

9. Directors' Report

We have read the 'Directors' Report on the Group's activities 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 consolidated 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).

10. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board of the holding company confirming that no laws, regulations or provisions of the Group entities' 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 condensed consolidated 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. Capital Group
for the year of 2010

I, the undersigned, represent that, to my best knowledge, the condensed consolidated financial report of TAURON Polska Energia S.A. Capital Group, 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. Capital Group 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
(condensed consolidated 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 condensed consolidated financial reports of TAURON Polska Energia S.A. Capital Group, 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 consolidated 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

The TAURON Polska Energia S.A. Capital Group

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

TABLE OF CONTENTS:

(in PLN thousands)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2010	Year ended 31 December 2009 (*adjusted figures*)
Continuing operations			
Sale of goods for resale, finished goods and materials without elimination of excise		11 108 492	9 855 179
Excise	35	(418 178)	(412 755)
Sale of goods for resale, finished goods and materials		10 690 314	9 442 424
Rendering of services		4 698 111	4 227 538
Other income		40 454	24 660
Sales revenue		**15 428 879**	**13 694 622**
Cost of sales	13.5	(13 089 128)	(11 521 540)
Gross profit		**2 339 751**	**2 173 082**
Other operating income	13.1	105 186	112 106
Selling and distribution expenses	13.5	(231 252)	(188 182)
Administrative expenses	13.5	(670 308)	(621 537)
Other operating expenses	13.2	(144 118)	(154 686)
Operating profit		**1 399 259**	**1 320 783**
Finance income	13.3	93 864	113 456
Finance costs	13.4	(235 573)	(208 170)
Share in profit/(loss) of associate and joint venture recognised using the equity method	2	(236)	–
Profit before tax		**1 257 314**	**1 226 069**
Income tax expense	14.1	(265 931)	(277 906)
Net profit from continuing operations		**991 383**	**948 163**
Net profit for the year		**991 383**	**948 163**
Other comprehensive income:			
Change in the value of hedging instruments		1 112	24 576
Foreign exchange differences from translation of foreign entities		(271)	–
Income tax relating to other comprehensive income items	14.1	(211)	(4 670)
Other comprehensive income for the year, net of tax		630	19 906
Total comprehensive income for the year		**992 013**	**968 069**
Net profit for the year:			
Attributable to equity holders of the parent		858 656	774 426
Attributable to non-controlling interests	31.5	132 727	173 737
Total comprehensive income:			
Attributable to equity holders of the parent		859 151	791 425
Attributable to non-controlling interests	31.5	132 862	176 644
Earnings per share (in PLN):			
– basic, for profit for the period attributable to equity holders of the parent	28	0.54	0.50
– basic, for profit for the period from continuing operations attributable to equity holders of the parent	28	0.54	0.50
– diluted, for profit for the period attributable to equity holders of the parent	28	0.54	0.50
– diluted, for profit for the period from continuing operations attributable to equity holders of the parent	28	0.54	0.50

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

(in PLN thousands)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2010	As at 31 December 2009 (*adjusted figures*)
ASSETS			
Non-current assets			
Property, plant and equipment	**16**	17 524 936	17 260 573
Intangible assets	**19**	970 530	824 751
Investments in associates and joint ventures recognised using the equity method	**2**	764	–
Other long-term financial assets	**23.1**	177 452	179 746
Other long-term non-financial assets	**23.2**	123 613	58 547
Deferred tax asset	**14.3**	161 806	152 221
		18 959 101	**18 475 838**
Current assets			
Inventories	**20**	408 560	536 201
Corporate income tax receivable		74 749	52 926
Trade and other receivables	**21, 37**	2 273 145	1 874 996
Other current financial assets	**23.1**	28 193	18 753
Other current non-financial assets	**23.3**	208 158	158 725
Cash and cash equivalents	**22**	1 473 981	1 032 103
		4 466 786	**3 673 704**
Non-current assets classified as held for sale	**17**	**4 397**	**5 951**
TOTAL ASSETS		**23 430 284**	**22 155 493**

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

(in PLN thousands)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Note	As at 31 December 2010	As at 31 December 2009 (*comparative figures*)
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	**31.1**	15 772 945	13 986 284
Reserve capital	**31.3**	475 088	64 050
Revaluation reserve on valuation of hedging instruments		–	(766)
Foreign exchange differences from translation of foreign entities		(271)	–
Retained earnings/Accumulated losses	**31.4**	(1 542 937)	(2 191 002)
		14 704 825	**11 858 566**
Non-controlling interests		**507 246**	**2 375 100**
Total equity		**15 212 071**	**14 233 666**
Non-current liabilities			
Interest-bearing loans and borrowings	**37.3**	1 076 178	1 179 406
Finance lease and hire purchase commitments	**18.2**	67 810	88 291
Long-term provisions and employee benefits	**27, 32**	1 059 028	978 807
Long-term accruals and government grants	**25**	644 522	624 567
Trade payables and other financial long-term liabilities	**37.1**	6 910	5 683
Deferred tax liability	**14.3**	1 215 615	1 150 695
		4 070 063	**4 027 449**
Current liabilities			
Trade and other payables	**37.1**	1 629 723	1 490 726
Current portion of interest-bearing loans and borrowings	**37.3**	325 027	596 315
Current portion of finance lease and hire purchase commitments	**18.2**	23 452	35 377
Other current liabilities	**24.2**	752 819	556 669
Accruals and government grants	**25**	189 712	210 267
Income tax payable		68 672	67 034
Short-term provisions and employee benefits	**27, 32**	1 158 745	937 990
		4 148 150	**3 894 378**
Total liabilities		**8 218 213**	**7 921 827**
TOTAL EQUITY AND LIABILITIES		**23 430 284**	**22 155 493**

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

(in PLN thousands)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable to the equity holders of the parent								Non-controlling interests	Total equity
		Issued capital	Capital of subsidiaries for the increase in TAURON's share capital	Treasury shares	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Capital resulting from share-based payments	Retained earnings/ Accumulated losses	Total		
As at 1 January 2010		**13 986 284**	–	–	**64 050**	**(766)**	–	–	**(2 191 002)**	**11 858 566**	**2 375 100**	**14 233 666**
Profit for the period		–	–	–	–	–	–	–	858 656	**858 656**	132 727	**991 383**
Other comprehensive income		–	–	–	–	766	(271)	–	–	**495**	135	**630**
Total comprehensive income for the period		–	–	–	–	**766**	**(271)**	–	**858 656**	**859 151**	**132 862**	**992 013**
Appropriation of prior year profits	**31.3**	–	–	–	176 159	–	–	–	(176 159)	–	–	–
Issue of merger shares and accounting for the acquisition of non-controlling interests	**30. 31.1**	318 665	–	–	–	–	–	–	(145 651)	**173 014**	(169 364)	**3 650**
Acquisition of non-controlling interests for cash and share capital issued	**30, 31.1**	1 467 996	–	–	234 879	–	–	–	110 204	**1 813 079**	(1 813 788)	**(709)**
Payment from profit to the State Treasury	**29**	–	–	–	–	–	–	–	32	**32**	–	**32**
Dividends	**29**	–	–	–	–	–	–	–	–	–	(6 027)	**(6 027)**
Share-based payments to employees – accrual		–	–	–	–	–	–	–	–	–	–	–
Redemption of treasury shares		–	–	–	–	–	–	–	–	–	–	–
Mandatory squeeze-out	**30, 31.5**	–	–	–	–	–	–	–	983	**983**	(11 537)	**(10 554)**
As at 31 December 2010		**15 772 945**	–	–	**475 088**	–	**(271)**	–	**(1 542 937)**	**14 704 825**	**507 246**	**15 212 071**

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

(in PLN thousands)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

		Equity attributable to the equity holders of the parent										
	Note	Issued capital	Capital of subsidiaries for the increase in TAURON's share capital	Treasury shares	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Capital resulting from share-based payments	Retained earnings/ Accumulated losses	Total	Non-controlling interests	Total equity
As at 1 January 2009		**13 698 646**	**287 883**	**(245)**	**59 601**	**(17 765)**	–	**21 411**	**(2 923 621)**	**11 125 910**	**2 219 533**	**13 345 443**
Profit for the period		–	–	–	–	–	–	–	774 426	**774 426**	173 737	**948 163**
Other comprehensive income		–	–	–	–	16 999	–	–	–	**16 999**	2 907	**19 906**
Total comprehensive income for the year		–	–	–	–	**16 999**	–	–	**774 426**	**791 425**	**176 644**	**968 069**
Appropriation of prior year profits	**31.3**	–	–	–	4 449	–	–	–	(4 449)	–	–	–
Issue of shares		287 883	(287 883)	–	–	–	–	–	–	–	–	–
Payment from profit to the State Treasury	**29**	–	–	–	–	–	–	–	(8 376)	**(8 376)**	–	**(8 376)**
Dividends	**29**	–	–	–	–	–	–	–	(51 167)	**(51 167)**	(21 214)	**(72 381)**
Share-based payments to employees – accrual		–	–	–	–	–	–	774	–	**774**	137	**911**
Share-based payments to employees – settlement		–	–	–	–	–	–	(22 185)	22 185	–	–	–
Redemption of treasury shares		(245)	–	245	–	–	–	–	–	–	–	–
As at 31 December 2009 (*adjusted figures*)		**13 986 284**	–	–	**64 050**	**(766)**	–	–	**(2 191 002)**	**11 858 566**	**2 375 100**	**14 233 666**

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

(in PLN thousands)

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31 December 2010	Year ended 31 December 2009 (*adjusted figures*)
Cash flows from operating activities			
Profit/(loss) before taxation		**1 257 314**	**1 226 069**
Adjustments for:			
Share in profit/(loss) of associate and joint venture recognised using the equity method		236	–
Depreciation and amortization		1 358 778	1 321 028
(Gain)/loss on foreign exchange differences		43	2 963
Interest and dividens, net		132 331	94 116
(Gain)/loss on investing activities		13 153	(54 215)
(Increase)/decrease in receivables		(395 393)	(603 601)
(Increase)/decrease in inventories		117 372	(193 124)
Increase/(decrease) in payables excluding loans and borrowings		215 558	334 007
Change in other non-current and current assets		(111 089)	(296 073)
Change in deferred income, government grants and accruals		(31 098)	8 864
Change in provisions		201 130	233 714
Income tax paid		(238 400)	(111 648)
Share-based payments expense		–	911
Other		410	188
Net cash from operating activities		**2 520 345**	**1 963 199**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		11 731	15 879
Purchase of property, plant and equipment and intangible assets		(1 518 088)	(1 440 255)
Proceeds from sale of financial assets		56 189	91 287
Purchase of financial assets		(70 570)	(34 777)
Acquisition of subsidiaries, after deducting cash acquired		23	–
Dividends received		4 349	5 256
Interest received		1 377	1 594
Repayment of loans granted		1 475	4 000
Loans granted		(1 400)	(1 295)
Other		6 438	4 287
Net cash used in investing activities		**(1 508 476)**	**(1 354 024)**

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

(in PLN thousands)

CONSOLIDATED CASH FLOW STATEMENT (continued)

	Note	Year ended 31 December 2010	Year ended 31 December 2009 (*adjusted figures*)
Cash flows from financing activities			
Payment of finance lease liabilities		(35 842)	(37 272)
Proceeds from loans		167 115	208 398
Repayment of loans		(744 020)	(415 385)
Issue of debt securities		848 200	44 000
Redemption of debt securities		(608 692)	(166 308)
Dividends paid to equity holders of the parent		–	(51 167)
Dividends paid to non-controlling interests		(5 573)	(7 074)
Other disbursments to owners		–	(8 376)
Interest paid		(115 820)	(109 333)
Acquisition of non-controlling interests		(9 863)	–
Other		(8 369)	(947)
Net cash used in financing activities		**(512 864)**	**(543 464)**
Net increase/(decrease) in cash and cash equivalents		**499 005**	**65 711**
Net foreign exchange difference		(134)	220
Cash and cash equivalents at the beginning of the period		**972 655**	**906 944**
Cash and cash equivalents at the end of the period, of which:	**22**	**1 471 660**	**972 655**
restricted cash		165 862	18 635

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY NOTES

1. General Information

The TAURON Polska Energia S.A. Capital Group ("the Group", "the Capital Group", "the TAURON Group") is composed of TAURON Polska Energia S.A. ("parent", "Company", "Parent Company") and its subsidiaries. TAURON Polska Energia S.A. operates as a joint-stock company incorporated on the basis of the notarial deed dated 6 December 2006. Until 16 November 2007 the Company operated under the name Energetyka Południe S.A. The consolidated financial statements of the Group cover the year ended 31 December 2010 and contain comparative data for the year ended 31 December 2009.

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

The parent was granted a statistical number REGON 240524697.

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

The Group's principal business activities include:

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

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

(in PLN thousands)

2. Composition of the Group

As at 31 December 2010, the TAURON Polska Energia S.A. Capital Group was composed of the following direct or indirect subsidiaries that have been included in consolidation. The details of restructuring changes in the Group and the principles of consolidation are included in Note 30.

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 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.	720 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 consolidated 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 divided 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. The principal activity of TAURON Obsługa Klienta according to the Polish Classification of Activities is the provision of services (customer service).

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

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

(in PLN thousands)

Share usufruct agreements

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.

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 100% interests in the share capital and 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 it 68.01% of votes at the company's General Shareholders' Meeting.

Joint venture

On the initiative of TAURON Polska Energia S.A. and PGNiG S.A., a new company was set up under the name Elektrociepłownia Stalowa Wola S.A. On 24 February 2010, the newly created company, with a share capital of PLN 2,000 thousand, was entered in the court register kept by the District Court in Rzeszów. Elektrownia Stalowa Wola S.A. and PGNiG Energia S.A. have 50% stakes in the share capital and in the governing body of Elektrociepłownia Stalowa Wola S.A. (the indirect share of TAURON Polska Energia S.A. amounts to 49.87%). Elektrociepłownia Stalowa Wola S.A. is a special purpose company which is intended to carry out an investment involving construction of a gas and steam unit in Stalowa Wola, fired with natural gas and with a gross electric power of 400 MWe and net thermal power of 240 MWt. The project is to be completed in 2015. The partners intend to carry out the project sharing the rights and obligations on an equal basis. The joint venture Elektrociepłownia Stalowa Wola S.A. has been accounted for using the equity method in the consolidated financial statements.

The equity-accounted investment in the joint venture as at 31 December 2010 is presented in the table below:

Non-current assets	1 563
Current assets	1 080
Non-current liabilities (-)	(57)
Current liabilities (-)	(1 060)
Share in net assets	764
Goodwill	–
Invetment in joint venture	764
Share in sales revenue of joint venture	5
Share in profit/(loss) of joint venture	(236)

3. Composition of the parent's Board of Directors

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

- Dariusz Lubera – President,
- Bogusław Oleksy – Vice President,
- Dariusz Stolarczyk – Vice President,
- Stanisław Tokarski – 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 on 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:

- Vice President of the Board Stanisław Tokarski resigned on 27 August 2010 from 31 August 2010
- Joanna Schmid – Vice President of the Board – appointed as of 28 September 2010, starting from 01 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 consolidated financial statements there were no changes in the parent's 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 42.

4. Authorization of the financial statements

These consolidated financial statements were authorized for issue by the Board of Directors on 1 March 2011.

5. Going concern

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

6. Basis of preparation of consolidated financial statements

6.1. Statement of compliance

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

At the date of authorization of these consolidated financial statements, considering the pending process of IFRS endorsement in the EU and the nature of the Group's activities, there is no difference between the IFRSs applied by the Group 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").

The Group entities, except for parent company, ENION S.A. and TAURON Czech Energy s.r.o., keep their books of account in accordance with the accounting policies specified in the Accounting Act dated 29 September 1994 ("the Accounting Act") with subsequent amendments and the regulations issued based on that Act ("Polish Accounting Standards", "PAS"). The consolidated financial statements include a number of adjustments not included in the books of account of the Group entities, which were made in order to bring these consolidated financial statements to conformity with IFRS. The parent and ENION S.A. prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") starting from the financial statements for the periods beginning on 1 January 2010. TAURON Czech Energy s.r.o. prepares financial statements in accordance with the accounting standards accepted in the Czech Republic.

6.2. Functional currency and presentation currency

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

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

7. Significant judgments and estimates

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

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

Impairment of assets

The Group conducted tests for impairment of non-current assets which belong to those cash-generating units for which indications of impairment had been identified. This required an estimation of the value in use of those cash-generating units. Additionally, the Group performed impairment tests of the cash-generating units including the intangible assets that are subject to annual testing for impairment. Estimating the value in use amount requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. The details of the adopted assumptions and significant details of the tests and analyses performed are included in Notes 16 and 19.

Depreciation and amortization rates

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

Estimation of revenue from sale of electricity

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

Compensations for termination of long-term contracts

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

Valuation of provisions for employee benefits

Provisions for employee benefits (provision for retirement, disability and similar benefits, coal allowances, provision for transfers to the Social Fund for present and future pensioners, provision for special electricity rates and charges granted to employees) were determined using actuarial valuations. In addition, provisions were recognized for benefits paid under the early retirement scheme, compensation payment scheme and pre-retirement benefit scheme. The details of the above-mentioned provisions and the adopted assumptions are presented in Note 27.

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

This provision is recognized with respect to the mining enterprises being part of the Group based on the estimate of the anticipated decommissioning costs related to the dismantling and removal of facilities and the restoration of land to its original condition. The amount of the provision is estimated based on studies prepared on the basis of deposit exploitation projections (for mining facilities) and technological and economic analyses. In addition, provisions for the dismantling and removal of fixed assets are recognized when such obligations arise or are undertaken by the Group.

Deferred tax assets

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

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.

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 Group applies professional judgment in selecting appropriate methods and assumptions. The methods used for measuring the fair value of financial instruments are presented in Note 37.

Allowances for doubtful debts

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

Valuation of obligations under compulsory buy-out of shares by subsidiaries

In the TAURON Group, the process of compulsory buy-out of shares from minority shareholders by the following subsidiaries: Południowy Koncern Energetyczny S.A., ENION S.A, EnergiaPro S.A., Elektrownia Stalowa Wola S.A, Przedsiębiorstwo Energetyki Cieplnej Katowice S.A. and Elektrociepłownia Tychy S.A. is pending, based on Article 418^1 of the Code of Commercial Companies. As at 31 December 2010, the potential unrecognized financial liability to the shareholders eligible for the compulsory buy-out of shares, which would result in the decrease of equity, is immaterial for the consolidated financial statements.

8. Changes in estimates

In the period covered by these consolidated financial statements, the following significant changes were made to estimates which affect the values reported in the consolidated financial statements:

- change in the assumptions underlying actuarial estimates – the impact of the changes in estimates on the amount of the provisions is presented in Note 27,
- estimates concerning provision for decommissioning liabilities related to mines,
- estimates of the useful lives of property, plant and equipment and intangible assets,
- estimates relating to assumptions used in impairment tests.

9. Changes in accounting policies

The accounting policies applied to these consolidated financial statements are consistent with those applied to the annual consolidated financial statements of the Group for the year ended 31 December 2009, except for the application of the following amendments to standards and new interpretations applicable to annual periods beginning 1 January 2010:

- In prior years, the Group recognized connection fees obtained and assets received free of charge under deferred income in the statement of financial position. These amounts were subsequently recognized as income in proportion to the depreciation of the related assets. In accordance with IFRIC 18 *Transfers of Assets from Customers*, the Group recognizes connection fees obtained and assets received free of charge as income on the date of receipt. As this interpretation refers to the method of recognizing connection fees and assets received from customers beginning from 1 July 2009, the Group made an appropriate restatement of the statement of financial position and statement of comprehensive income as at 31 December 2009. The impact of the restatements resulting from the application of IFRIC 18 on the consolidated financial statements for the year ended 31 December 2009 is presented below.

(in PLN thousands)

	Reatained earnings/ (accumulated losses)	Non-controlling interests	Non-current deferred income and government grants	Current deferred income and government grants	Deferred tax assets	Deferred tax liability
Balance as at 31 December 2009	(2 233 034)	2 367 683	682 790	213 093	156 897	1 143 771
Change resulting from the application of IFRIC 18	42 032	7 417	(58 223)	(2 826)	(4 676)	6 924
Comparative balance as at 31 December 2009	**(2 191 002)**	**2 375 100**	**624 567**	**210 267**	**152 221**	**1 150 695**

The impact of the restatements on earnings per share is presented in the table below:

Earnings per share (in PLN) (after reverse split of shares)	Year ended 31 December 2009
Basic earnings per share before the change of accounting policies	0.47
Basic earnings per share after the change of accounting policies	0.50
Diluted earnings per share before the change of accounting policies	0.47
Diluted earnings per share after the change of accounting policies	0.50

- IFRS 2 *Share-based Payments: Group Cash-settled Share-based Payment Transactions* – applicable as of 1 January 2010. The amendment is intended to clarify the method of accounting for group cash-settled share-based payment transactions. It replaces IFRIC 8 and IFRIC 11. The implementation of this amendment had no impact on the financial position or results reported by the Group.
- IFRS 3 *Business Combinations* (revised) and IAS 27 *Consolidated and Separate Financial Statements* (revised) – applicable as of 1 July 2009. The revised IFRS 3 makes significant amendments to the method of recognition of business combinations taking place after that date. These amendments concern measurement of non-controlling interests, recognition of acquisition-related costs, initial recognition and subsequent measurement of contingent consideration and accounting for step acquisitions. The amendments affect the amount of goodwill recognized, the results for the period in which acquisition took place and the results reported in subsequent periods.

  In accordance with the revised IAS 27, changes in ownership interests of a subsidiary (that do not result in loss of control) should be accounted for as transactions with owners. As a result, such transactions will not lead to the recognition of goodwill or the recognition of profit or loss. In addition, the standard changes the method of allocation of losses incurred by subsidiaries and accounting for the loss of control over subsidiaries. The amendments to IFRS 3 and IAS 27 will have an impact on the future transactions of acquisition or loss of control over subsidiaries as well as transactions with non-controlling owners. The revised IFRS 3 and the revised IAS 27 are applied prospectively. The revised standards are applied by the Group to accounting for transactions included in their scope as of 1 January 2010.
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* – applicable as of 1 July 2009. The amendments concern designation of a one-sided risk within the hedged item as well as designation, in specific circumstances, of inflation as a hedged risk or portion. The amendment had no impact on the financial position or results reported by the Group.
- IFRIC 17 *Distribution of Non-cash Assets to Owners* – applicable as of 1 January 2009. This interpretation provides guidance on accounting for transactions whereby an entity distributes non-cash assets to owners in the form of distribution of reserve capital/retained earnings or dividends. This interpretation had no impact on the financial position or results reported by the Group.
- *Improvements to IFRSs* (issued in May 2008) – in May 2008, IASB issued the first set of improvements to the standards issued by the Board. The amendments that were applied by the Group as of 1 January 2010 include the following:
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:* the amendment clarifies that if a subsidiary meets the criteria for classification as held for sale, all of its assets and liabilities are classified as held for sale, even if after the sale transaction the parent retains non-controlling interests in the subsidiary. The amendment should be applied prospectively and has no impact on the financial position or results reported by the Group.
- *Improvements to IFRSs* (issued in April 2009) – in April 2009, IASB issued the second set of improvements to the standards issued by the Board, mainly to eliminate any imprecise or unclear statements. Different transitional provisions apply to the individual standards. The application of the following amendments resulted in changes to the accounting policies, however had no impact on the financial position or results reported by the Group.

- IFRS 8 *Operating Segments*: It has been clarified that segment assets and liabilities should only be disclosed if such assets and liabilities are included in the measures used by the chief operating decision maker. As the Group's chief operating decision maker reviews segment assets and liabilities, the Group continues to disclose the required information in Note 12.
- IAS 7 *Statement of Cash Flows*: It has been clearly stated that only expenditures which result in a recognized asset in the statement of financial position can be classified as investing activities. This amendment has an impact on the method of presentation of contingent consideration relating to business combination.
- IAS 36 *Impairment of Assets*: It clarifies that the largest cash-generating unit to which goodwill arising on acquisition should be allocated for the purpose of impairment testing is an operating segment as defined by IFRS 8 i.e. before the aggregation of segments for reporting purposes. This amendment had no impact on the financial statements of the Group as annual impairment tests are conducted before aggregation.
- IAS 39 *Financial Instruments: Recognition and Measurement*: It has been clarified that prepayment options, the exercise price of which compensates the lender for loss of interest for the remaining term of the host contract, should be considered closely related to the host contract.
- IAS 39 *Financial Instruments: Recognition and Measurement*: It has been clarified that the scope exemption only applies to forward purchase or sale contracts between an acquirer and a vendor that will result in a business combination at a future acquisition date rather than in derivatives which require an action of any of the parties. This amendment had no impact on the financial position or results reported by the Group.
- The remaining amendments to the standards listed below, which resulted from the annual improvements process, had no impact on the accounting policies, financial position or results of the Group:
  - IFRS 2 *Share-based Payment*
  - IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
  - IAS 1 *Presentation of Financial Statements*
  - IAS 17 *Leases*
  - IAS 38 *Intangible Assets*
  - IAS 39 *Financial Instruments: Recognition and Measurement*
  - IFRIC 9 *Reassessment of Embedded Derivatives*
  - IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
- IFRIC 12 *Service Concession Arrangements*. This interpretation has been endorsed for application by the EU and entities are required to apply it no later than as of the beginning of the first annual period beginning after March 2009. This interpretation provides guidance on accounting for service concession arrangements between public and private sector entities by concession holders. The Group has completed its consideration of the necessity to apply this interpretation and concluded that its operations do not fall within the scope of IFRIC 12. Therefore, this interpretation had no impact on the financial position or results of the Group.

The Group did not decide to early apply any standard, interpretation or amendment that had already been issued but was not yet effective.

10. Amendments to existing standards and new regulations

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 or are not applicable to these financial statements:

- Amendment to IAS 32 *Financial Instruments: Presentation: Classification of Rights Issues* – applicable to annual periods beginning on or after 1 February 2010,
- IAS 24 *Related Party Disclosures* (amended in November 2009) – applicable to annual periods beginning on or after 1 January 2011 – not endorsed by the EU as at the date of authorization of these financial statements,
- Phase 1 of IFRS 9 *Financial Instruments: Classification and Measurement* – applicable to 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 Group's financial assets. The Group will assess the impact in correspondence with the other phases when they are issued, in order to provide a consistent view,
- Amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of a Minimum Funding Requirement* – applicable to 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 IFRSs*: *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* – applicable to 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 EU till the date of approval 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 until 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 Board does not expect the introduction of these standards and interpretations to have a significant impact on the accounting policies applied by the Company.

11. Summary of significant accounting policies

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

11.1. Basis of consolidation

These consolidated financial statements comprise financial information of TAURON Polska Energia S.A. and of its subsidiaries prepared by each subsidiary for the years ended 31 December 2010 and 31 December 2009. The financial statements of the subsidiaries, after giving consideration to the adjustments made to achieve conformity with IFRS, are prepared for the same reporting period as those of the parent, using consistent accounting policies applied to similar business transactions and events.

All significant intercompany balances and transactions, including unrealized gains arising from intra-group transactions, have been eliminated in full. Unrealized losses are eliminated unless they indicate impairment.

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

11.2. Interest in a joint venture

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

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

11.3. 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 at the historical foreign 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 at the historical foreign 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.

(in PLN thousands)

The following exchange rates were used for valuation purposes:

Currency	31 December 2010	31 December 2009
USD	2.9641	2.8503
EUR	3.9603	4.1082
CZK	0.1580	0.1554

11.4. Property, plant and equipment

Property, plant and equipment are fixed assets which:

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

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

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

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

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

Other spare parts and servicing equipment are presented under inventories and are recognized in profit or loss when used, except for the costs of replacement of spare parts as part of an overhaul of a given item of property, plant and equipment. The adopted materiality level is reviewed at least at the end of each financial year.

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

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

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

Type of assets	Average remaining depreciation period in years
Buildings, premises and civil engineering constructions	18 years
Plant and machinery	12 years
Motor vehicles	7 years
Other fixed assets	8 years

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

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

An item of property, plant and equipment is derecognized 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. Capitalization of such expenses is discussed in detail in Note 16.

11.5. Intangible assets

Intangible assets of the Group 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,
  - acquired greenhouse gas allowances (discussed in detail in Note 26),
  - certificates of electricity from renewable sources and cogeneration certificates acquired in exchange for consideration.
- development expenses,
- goodwill – excluding goodwill generated internally,
- 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 measured on initial recognition at acquisition cost or cost of production in case of development expenses. 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 Group to be either finite or indefinite. If they are finite, the Group 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 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.

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

Certificates of electricity generated using renewable sources as well as certificates of electricity generated using cogeneration or sources fuelled with natural gas which are acquired by trading companies and are designated for internal purposes are recognized at cost under intangible assets.

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 Group are not capitalized and are recognized in the profit or loss for the period in which the related expenditures were incurred. Intangible assets arising from development are recognized if and only if the enterprise can demonstrate the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- the intention to complete the intangible asset and use it or sell it,
- the ability to use or sell the intangible asset,
- how the intangible asset will generate probable future economic benefits,

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset,
- the ability to reliably measure the expenditure attributable to the intangible asset during its development.

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:

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

11.6. Goodwill

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

- the aggregate of:
  - consideration transferred,
  - the amount of any non-controlling interest in the acquiree and
  - in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree,
- over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill is not amortized.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units that is expected to benefit from the combination. Each unit, or set of units, to which the goodwill has been allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and
- is not greater than a single business segment, in accordance with IFRS 8 *Operating Segments*.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit to which the goodwill has been allocated. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Where goodwill represents part of a cash-generating unit and part of the operations within that unit is disposed of, the goodwill associated with the operations disposed of is included in the carrying amount of the operations when determining gain or loss on disposal of the operation. Goodwill disposed of in such circumstances is measured on the basis of the relative value of the operations disposed of and the value of the portion of the cash-generating unit retained.

11.7. Impairment of non-financial long-term assets

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

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

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

11.8. 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.

11.9. Financial assets

Financial assets are classified into one of the following categories:

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

Financial assets held to maturity

Financial assets held to maturity are financial assets with fixed or determinable payments and fixed maturities, which the Group 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 document 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.

11.10. Impairment of financial assets

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

Assets carried at amortized cost

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

The Group 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.

11.11. Embedded derivatives

An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

The Group performs an analysis of the contracts being entered into and already in force with a view to identifying embedded derivatives.

Embedded derivatives are bifurcated from host contracts and treated as derivative financial instruments if all of the following conditions are met:

- the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative,
- the hybrid instrument is not recorded at fair value with gains and losses taken to profit or loss.

Embedded derivatives are recognized in a similar manner to that of separate instruments which have not been designated as hedging instruments.

Where the host contract is not a financial instrument, an embedded foreign currency derivative does not need to be bifurcated and separately measured if it is closely related to the economic characteristics and risks of the host contract. This covers circumstances where the currency of the host contract is:

- the functional currency of any of the parties to the contract,
- the currency in which the price of the related good or service that is acquired or delivered is routinely denominated in international commerce,
- the common currency of purchase or sale of non-financial items on the market of a given transaction.

Bifurcated embedded derivatives are recognized in the statement of financial position at fair value, with any changes in fair value recognized in profit or loss.

The Group assesses embedded derivatives as to whether or not they are required to be separated from host contracts upon initial recognition. In the case of embedded derivatives acquired as part of business combination, the Group makes an assessment of embedded derivatives at the acquisition date, which is the date of their initial recognition by the Group.

11.12. Derivative financial instruments and hedges

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

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

The Group applies hedge accounting for part of the exposure being hedged. For the purpose of hedge accounting, derivatives are classified as:

- fair value hedges, when hedging the exposure to changes in the fair value of a recognized asset or liability, or
- cash flow hedges, when hedging the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction.

Hedges of the foreign currency risk in an unrecognized firm commitment are accounted for as cash flow hedges.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Hedges are expected to be highly effective in offsetting the exposure to changes in the fair value or cash flows attributable to the hedged risk. Hedge effectiveness is assessed on a quarterly basis to check if the hedge is highly effective throughout all financial reporting periods for which it was designated.

11.13. Fair value hedges

A fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. In the case of a fair value hedge, any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item, the hedging instrument is re-measured to fair value and the gains and losses on the hedging instrument and hedged item are recognized in profit or loss.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying amount is amortized through profit or loss over the remaining term to maturity.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The changes in the fair value of the hedging instrument are also recognized in profit or loss.

The Group discontinues hedge accounting prospectively if the hedging instrument expires, or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting, or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument to which the effective interest rate method is applied is amortized to profit or loss. Amortization may begin as soon as an adjustment is made, however no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

11.14. Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction and that could affect profit or loss. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other comprehensive income and the ineffective portion is recognized in profit or loss.

If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses that were recognized directly in other comprehensive income are reclassified into the statement of comprehensive income in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

If a hedge of a forecasted transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecasted transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then gains and losses that were recognized directly in other comprehensive income are removed and included in the initial cost or other carrying amount of the asset or liability.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument that had been initially recognized in other comprehensive income is continued to be recognized in other comprehensive income until the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in other comprehensive income is taken to profit or loss for the period.

11.15. Other non-financial assets

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

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

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

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

11.16. Inventories

Inventories include assets:

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

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

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

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

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

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

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

11.17. 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.

11.18. Cash and cash equivalents

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

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

11.19. Issued capital

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

11.20. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group 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 Group has recognized the following provisions:

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

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

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

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

  With respect to post-employment benefits, actuarial gains and losses are recognized in accordance with the provisions of IAS 19 i.e. 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.

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

- *provision for decommissioning liabilities related to mines*

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

- *provision for mining loss adjustment expenses*

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

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

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

- *provision for obligation to surrender energy certificates*

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

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

  The provision is charged to operating expenses.

- *provision for gas emission obligations*

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

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

  – in the portion covered by the allowances held at the balance sheet date – at the cost of allowances held i.e. if purchased, at carrying amount and if received, at zero value;

  – in the portion not covered by the allowances held at the balance sheet date – at the lower of the market value of the allowances required to fulfill the obligation at the balance sheet date and the potential penalty.

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

11.21. Share-based payment transactions

A share-based payment is a transfer of the entity's equity instruments or their equivalents made by the entity or its shareholders to third parties (including employees) in return for goods or services provided to the entity by such parties unless the transfer is made for other purpose than payment of consideration for the goods and services provided to the entity.

The Group recognizes the goods or services received or acquired as part of an equity-settled share-based payment transaction and the corresponding increase in equity at the date of receipt of those goods or services. The goods or services received or acquired as part of a share-based payment transaction that do not qualify for recognition as an asset are expensed by the entity.

The Group measures the value of the goods or services received and the corresponding increase in equity at the fair value of the goods or services received unless their fair value cannot be measured reliably. Where the Group is unable to measure the fair value of the goods or services received reliably, then it determines the value of the goods or services received and the corresponding increase in equity indirectly by reference to the fair value of the equity instruments granted.

The cost of share-based payments to employees is recognized over the period from the grant date to the vesting date. The cost is measured by reference to the fair value at the date at which equity instruments are granted. Due to the fact that typically it is not possible to directly estimate the fair value of the employee services received, the entity is required to measure the fair value of the equity instruments granted. Market based performance features should be included in the grant-date fair value measurement. Non-market based performance features are not taken into account in the measurement of the fair value at the grant date. The initial cost is measured based on the estimated number of shares that will eventually vest, taking into account the probability of occurrence of other than market conditions. This cost is subsequently adjusted over the vesting period if the actual results differ from those expected.

Share-based payments resulting from the employees' right to acquire shares free of charge under the Act of 30 August 1996 on commercialization and privatization of state enterprises are recognized in accordance with the above policy over the period from the date of commercialization and incorporation of a given subsidiary to the date of allocation of shares.

11.22. 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.

11.23. Loans and borrowings

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.

11.24. Trade and other financial 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.

11.25. 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.

11.26. Social Fund

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

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

11.27. Gas emission allowances

Gas emission allowances received under the National Allocation Plan are presented at nominal value equal to zero. Additional allowances purchased on the market and designated for the Group's internal purposes are measured at cost less impairment losses with an account taken of their residual value and are presented under other intangible assets. Emission allowances acquired for trading purposes are presented under inventories.

A provision for obligations arising from gas emission is only recognized when the actual emission shows a deficit of emission allowances within the entire trading period.

Purchased Certified Emission Reductions (CERs), in the number allowed by law for cancellation during a given trading period, are cancelled in the first turn. Provision for liabilities is recognized with respect to CERs purchased for cancellation in a given trading period.

11.28. Leases

Group as lessee

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

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

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

11.29. 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 Group entities in accordance with the provisions of the Corporate Income Tax Act, any corrections of tax settlements for prior years as well as a movement in the balance of the deferred tax asset and deferred tax liability that is not settled against equity.

Deferred income tax

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 amount 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.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

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

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.

11.30. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group 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 by the Group as well as other services relating to principal activities of the Group, determined on the basis of the net price, net of rebates and discounts granted by the Group and net of excise.

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

Revenue from the rendering of services

Revenue from uncompleted long-term services in the period from the date of entering into the contract to the balance sheet date, after deduction of revenues recognized in profit or loss in previous reporting periods, is recognized in proportion to the stage of completion of such services if it can be reliably estimated. Depending on the type of transaction, the stage of completion can be measured using the following methods:

- surveys of work performed,
- determining the proportion of the contract work completed at a given date in relation to total work to be performed under the contract or
- percentage of costs incurred to date in relation to the total estimated costs necessary to complete the contract. Costs incurred to date include only those expenses that relate to the services completed until that date. Total estimated costs of the transaction include only expenses relating to services already completed or services to be completed.

When the outcome of the contract cannot be estimated reliably, then the revenue derived from the contract is recognized only to the extent of costs incurred that the entity expects to recover.

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

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

Government grants

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

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

11.31. 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.

11.32. 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.

11.33. Finance income and finance costs

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

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

The Group entities offset foreign exchange gains and losses if they arise from similar transactions. If the exchange differences are significant and do not arise from similar transactions, then the entity 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.

11.34. 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.

11.35. Statement of cash flows

Statement of cash flows is prepared using the indirect method.

12. Segment information

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

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

The Group's reporting format during the period from 1 January 2010 to 31 December 2010 and in the comparable period was based on the following operating segments:

- Mining Segment, which includes hard coal mining. The entity which operates in the Mining Segment of the TAURON Group is Południowy Koncern Węglowy S.A.,
- Generation Segment, which includes generation of electricity using conventional sources, including combined heat and power units, as well as generation of electricity using joint combustion of biomass and other energy acquired thermally. The following entities operate in the Generation Segment of the TAURON Group: Południowy Koncern Energetyczny S.A., Elektrownia Stalowa Wola S.A., Elektrociepłownia Tychy S.A. and Elektrociepłownia EC Nowa Sp. z o.o.,
- Renewable Sources of Energy Segment, which includes generation of electricity using renewable sources, excluding generation of electricity using joint combustion of biomass and other energy acquired thermally, which, due to the specific nature of such generation,

has been included in the Generation Segment. Entities which operated in the Renewable Sources of Energy Segment of the TAURON Group were TAURON Ekoenergia Sp. z o.o. and TAURON Sprzedaż Sp. z o.o. These entities operated in the field of generation of electricity using renewable sources until 30 September 2010 i.e. the date on which an organized part of the enterprise related to the generation of electricity using renewable sources – hydroelectric plants was separated from TAURON Sprzedaż Sp. z o.o. and taken over by TAURON Ekoenergia Sp. z o.o. In addition, BELS INVESTMENT Sp. z o.o. and MEGAWAT MARSZEWO Sp. z o.o., which were acquired in 2010, are also included in the Renewable Sources of Energy Segment,

- Segment of Sale of Energy and Other Energy Market Products, which includes wholesale trading in electricity, trading in emission allowances and energy certificates and sale of electricity to domestic final users or entities which further resell electricity. Entities which operate in that Segment of the TAURON Group are TAURON Polska Energia S.A., Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., TAURON Sprzedaż Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o. and TAURON Czech Energy s.r.o.
- Distribution Segment, including operations of ENION S.A. and EnergiaPro S.A.

Apart from the main operating segments listed above, the TAURON Group also conducts operations in other areas, including heat generation, distribution and sales (Przedsiębiorstwo Energetyki Cieplnej Katowice S.A., Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A.), quarrying of stone (including limestone) for the power industry, metallurgy, construction and highway engineering industry as well as in the area of production of sorbents for use in wet desulfurization installations and fluidized bed combustors (Kopalnia Wapienia Czatkowice Sp. z o.o.).

As of 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, with customer service as its principal activity. ENION Energia Sp. z o.o. changed its name to TAURON Sprzedaż Sp. z o.o. based in Cracow, whose principal activity is sale of electricity.

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

Revenue from transactions between segments is eliminated on consolidation.

Segment assets do not include deferred tax, income tax receivables or financial assets.

Segment liabilities do not include deferred tax, income tax liabilities or financial liabilities.

Capital expenditure relates to purchases of property, plant and equipment, intangible assts and investment property.

The Group additionally presents its operations by geographical areas, which do not, however, represent operating segments of the Group.

(in PLN thousands)

12.1. Operating segments

The following tables present revenue and profit information and certain asset and liability information regarding the Group's operating segments for the years ended 31 December 2010 and 31 December 2009.

Year ended 31 December 2010	Coal mining	Generation of electricity and heat using conventional sources	Generation of electricity using renewable sources	Electricity distribution	Sales of electricity and other energy market products	Other	Unallocated items	Total	Eliminations	Total operations
Revenue										
Sales to external customers	471 336	1 864 139	38 857	1 167 288	11 317 542	569 717	–	**15 428 879**	–	**15 428 879**
Inter-segment sales	610 062	3 999 069	128 345	3 341 745	776 300	28 246	–	**8 883 767**	(8 883 767)	–
Segment revenue	**1 081 398**	**5 863 208**	**167 202**	**4 509 033**	**12 093 842**	**597 963**	–	**24 312 646**	**(8 883 767)**	**15 428 879**
Result										
Profit/(loss) of the segment	**5 908**	**656 169**	**89 407**	**509 281**	**88 145**	**35 445**	**14 904**	**1 399 259**	–	**1 399 259**
Unallocated expenses	–	–	–	–	–	–	–	–	–	–
Profit/(loss) from continuing operations before tax and net finance income (costs)	**5 908**	**656 169**	**89 407**	**509 281**	**88 145**	**35 445**	**14 904**	**1 399 259**	–	**1 399 259**
Share in profit/(loss) of associate and joint venture recognised using the equity method	–	(236)	–	–	–	–	–	**(236)**	–	**(236)**
Net finance income (costs)	–	–	–	–	–	–	(141 709)	**(141 709)**	–	**(141 709)**
Profit/(loss) before income tax	**5 908**	**655 933**	**89 407**	**509 281**	**88 145**	**35 445**	**(126 805)**	**1 257 314**	–	**1 257 314**
Income tax expense	–	–	–	–	–	–	(265 931)	**(265 931)**	–	**(265 931)**
Net profit/(loss) for the period	**5 908**	**655 933**	**89 407**	**509 281**	**88 145**	**35 445**	**(392 736)**	**991 383**	–	**991 383**
Assets and liabilities										
Segment assets	1 200 022	9 749 717	727 065	7 720 068	2 755 409	841 196	–	**22 993 477**	–	**22 993 477**
Investments in associates and joint ventures recognised using the equity method	–	764	–	–	–	–	–	**764**	–	**764**
Unallocated assets	–	–	–	–	–	–	436 043	**436 043**	–	**436 043**
Total assets	**1 200 022**	**9 750 481**	**727 065**	**7 720 068**	**2 755 409**	**841 196**	**436 043**	**23 430 284**	–	**23 430 284**
Segment liabilities	496 260	1 394 426	24 411	1 908 521	1 399 603	121 255	–	**5 344 476**	–	**5 344 476**
Unallocated liabilities	–	–	–	–	–	–	2 873 737	**2 873 737**	–	**2 873 737**
Total liabilities	**496 260**	**1 394 426**	**24 411**	**1 908 521**	**1 399 603**	**121 255**	**2 873 737**	**8 218 213**	–	**8 218 213**
Other segment information										
Capital expenditure*	144 419	384 188	146 857	867 124	22 116	38 394	–	**1 603 098**	–	**1 603 098**
Depreciation/amortization	(104 706)	(541 778)	(25 538)	(628 523)	(8 095)	(50 587)	–	**(1 359 227)**	–	**(1 359 227)**
Impairment of non-financial assets	(37)	(14 494)	51	5 882	(205)	142	–	**(8 661)**	–	**(8 661)**

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

(in PLN thousands)

Year ended 31 December 2009 (*adjusted figures*)	Coal mining	Generation of electricity and heat using conventional sources	Generation of electricity using renewable sources	Electricity distribution	Sales of energy and other energy market products	Other	Unallocated items	Total	Eliminations	Total operations
Revenue										
Sales to external customers	485 940	1 232 884	42 173	859 483	10 578 633	495 509	–	**13 694 622**	–	**13 694 622**
Inter-segment sales	681 149	4 105 603	81 159	3 286 551	943 222	22 899	–	**9 120 583**	(9 120 583)	–
Segment revenue	**1 167 089**	**5 338 487**	**123 332**	**4 146 034**	**11 521 855**	**518 408**	–	**22 815 205**	**(9 120 583)**	**13 694 622**
Result										
Profit/(loss) of the segment	**147 031**	**677 144**	**55 141**	**155 621**	**301 837**	**6 579**	**(22 570)**	**1 320 783**	–	**1 320 783**
Unallocated expenses	–	–	–	–	–	–	–	–	–	–
Profit/(loss) from continuing operations before tax and net finance income (costs)	**147 031**	**677 144**	**55 141**	**155 621**	**301 837**	**6 579**	**(22 570)**	**1 320 783**	–	**1 320 783**
Net finance income (costs)	–	–	–	–	–	–	(94 714)	**(94 714)**	–	**(94 714)**
Profit/(loss) before income tax	**147 031**	**677 144**	**55 141**	**155 621**	**301 837**	**6 579**	**(117 284)**	**1 226 069**	–	**1 226 069**
Income tax expense	–	–	–	–	–	–	(277 906)	**(277 906)**	–	**(277 906)**
Net profit/(loss) for the year	**147 031**	**677 144**	**55 141**	**155 621**	**301 837**	**6 579**	**(395 190)**	**948 163**	–	**948 163**
Assets and liabilities										
Segment assets	1 042 195	9 578 454	567 080	7 766 790	1 958 249	847 236	–	**21 760 004**	–	**21 760 004**
Unallocated assets	–	–	–	–	–	–	395 489	**395 489**	–	**395 489**
Total assets	**1 042 195**	**9 578 454**	**567 080**	**7 766 790**	**1 958 249**	**847 236**	**395 489**	**22 155 493**	–	**22 155 493**
Segment liabilities	445 667	1 137 399	16 899	1 688 241	1 286 757	109 812	–	**4 684 775**	–	**4 684 775**
Unallocated liabilities	–	–	–	–	–	–	3 237 052	**3 237 052**	–	**3 237 052**
Total liabilities	**445 667**	**1 137 399**	**16 899**	**1 688 241**	**1 286 757**	**109 812**	**3 237 052**	**7 921 827**	–	**7 921 827**
Other segment information										
Capital expenditure*	130 357	519 927	24 387	745 957	14 585	44 019	–	**1 479 232**	–	**1 479 232**
Depreciation/amortization	(106 006)	(503 580)	(21 260)	(630 837)	(4 273)	(55 262)	–	**(1 321 218)**	–	**(1 321 218)**
Impairment of non-financial assets	(165)	(692)	(51)	3 887	(66)	(2 002)	–	**911**	–	**911**

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

(in PLN thousands)

12.2. Geographical areas

The majority of the Group's operations are conducted on the territory of Poland. Sales to overseas clients during the years ended 31 December 2010 and 31 December 2009 amounted to PLN 228 867 thousand and PLN 233 696 thousand, respectively.

13. Revenues and expenses

13.1. Other operating income

	Year ended 31 December 2010	Year ended 31 December 2009
Subsidies/grants	9 350	7 791
Reversal of impairment losses recognised for other assets	1 782	3
Reversal of provisions	1 018	14 317
Compesations, penalties and fines received as well as awarded enforcement and court proceedings costs	51 291	43 222
Tax refunds (other than CIT)	21	307
Refunded court proceedings costs	2 221	1 343
Statute-barred/forgiven liabilities	168	350
Surplus inventories	3 302	15
Reduced estimates of provisions for existing pensioners	2 920	2 059
Compensations due from insurers	2 017	2 093
Equivalent of depreciation charges on fixed assets received free of charge	5 299	6 203
Sale/recovery of scrap metal	1 127	898
Revenue from sales of greenhouse gas emission allowances	–	21 271
Income from perpetual usufruct received free of charge	9 837	3 186
Other	14 833	9 048
Total other operating income	**105 186**	**112 106**

13.2. Other operating expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Loss on disposal of property, plant and equipment and intangible assets	(12 841)	(22 006)
Donations	(6 962)	(5 866)
Recognition of impairment losses against other assets	(363)	(1 306)
Recognition of provisions	(24 561)	(29 221)
Increase in provisions for existing pensioners	(18 229)	(15 161)
Increase in provisions for compensation claims for using real estate under power generation facilities without contracts	(1 032)	(1 258)
Penalties, fines, compensations, court and enforcement costs, and legal representation fees	(2 529)	(2 054)
Costs of contentious proceedings	(3 948)	(3 218)
Social activity costs	(7 189)	(7 604)
Costs of electrical and other damages to non-current assets	(46 206)	(36 296)
Adjustment to real estate tax for previous years	(72)	(953)
Delegated employees	(3 973)	(3 196)
Electricity equivalents paid under special rates and charges to former employees	(4 662)	(4 435)
Membership fees	(1 362)	(1 022)
Write-off for abandoned investments and production as well as liquidated materials	(1 404)	(11 235)
Other	(8 785)	(9 855)
Total other operating expenses	**(144 118)**	**(154 686)**

(in PLN thousands)

13.3. Finance income

	Year ended 31 December 2010	Year ended 31 December 2009
Income from financial instruments, of which:	**92 855**	**112 194**
Interest income	76 718	61 346
Dividends	4 804	19 295
Reversal of write-downs for financial assets	8 994	3 375
Revaluation of financial assets	759	14 692
Foreign exchange gains	1 580	873
Income from disposal of investments	–	12 613
Other finance income, of which:	**1 009**	**1 262**
Reversal of interest write-downs	295	720
Interest on amounts due from the state budget	16	67
Other	698	475
Total finance income	**93 864**	**113 456**

13.4. Finance costs

	Year ended 31 December 2010	Year ended 31 December 2009
Financial instrument costs, of which:	**(163 245)**	**(136 573)**
Interest costs	(114 406)	(114 678)
Recognition of impairment losses	(9 615)	(5 929)
Revaluation of financial assets	(5 964)	(35)
Foreign exchange losses	(2 410)	(8 990)
Commission relating to borrowings and debt securities	(30 751)	(6 941)
Loss on disposal of investments	(99)	–
Other finance costs, of which:	**(72 328)**	**(71 597)**
Interest on employee benefits	(66 619)	(63 494)
Interest on amounts due to the state budget	(472)	(1 332)
Other finance costs	(5 237)	(6 771)
Total	**(235 573)**	**(208 170)**

13.5. 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	(1 359 227)	(1 321 218)
Impairment of property, plant and equipment and intangible assets	(7 697)	1 513
Materials and energy	(2 660 228)	(2 442 034)
Maitenance and repair services	(226 124)	(180 940)
Distribution services	(1 291 731)	(1 539 595)
Other external services	(653 355)	(373 487)
Taxes and charges	(544 181)	(487 969)
Employee benefits expense	(2 592 938)	(2 331 089)
Inventory write-downs	(1 526)	(689)
Allowance for doubtful debts	(13 049)	(29 420)
Other	(116 692)	(99 257)
Total costs by type	**(9 466 748)**	**(8 804 185)**
Change in inventories, prepayments, accruals and deferred income	(13 143)	179 189
Cost of goods produced for internal purposes	298 544	270 924
Selling and distribution expenses	231 252	188 182
Administrative expenses	670 308	621 537
Cost of goods for resale and materials sold	(4 809 341)	(3 977 187)
Cost of sales	**(13 089 128)**	**(11 521 540)**

(in PLN thousands)

13.6. Depreciation/amortization expense, impairment losses and operating lease expenses recognized in the statement of comprehensive income

	Year ended 31 December 2010	Year ended 31 December 2009
Items included in cost of sales:	**(1 320 807)**	**(1 283 892)**
Depreciation of property, plant and equipment	(1 292 934)	(1 262 406)
Impairment of property, plant and equipment	(7 450)	1 382
Amortization of intangible assets	(20 403)	(22 868)
Impairment of intangible assets	(20)	–
Items included in selling and distribution expenses:	**(4 950)**	**(3 545)**
Depreciation of property, plant and equipment	(3 758)	(2 808)
Amortization of intangible assets	(1 192)	(737)
Items included in administrative expenses:	**(36 163)**	**(30 268)**
Depreciation of property, plant and equipment	(25 010)	(20 355)
Impairment of property, plant and equipment	(255)	(240)
Amortization of intangible assets	(10 898)	(9 673)
Items included in cost of goods produced for internal purposes:	**(5 032)**	**(2 371)**
Depreciation of property, plant and equipment	(4 052)	(2 229)
Amortization of intangible assets	(980)	(142)
Items included in other operating expenses and income:	**590**	**371**
Impairment of property, plant and equipment	590	439
Impairment of intangible assets	–	(68)
Total	**(1 366 362)**	**(1 319 705)**

13.7. Employee benefits expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Wages and salaries	(1 853 839)	(1 792 786)
Social security costs	(340 820)	(323 181)
Jubilee bonuses	(61 558)	(11 450)
Social Fund	(74 858)	(71 397)
Post-employment benefits expenses, of which:	(89 898)	(68 515)
Provision for retirement, disability and similar benefits	(10 566)	(8 287)
Coal allowances and special electricity rates and charges	(12 942)	(10 230)
Social Fund	(2 528)	(1 396)
Contributions to employee retirment plans	(63 862)	(48 570)
Other provisions for post-employment benefits	–	(32)
Voluntary termination benefits	(86 217)	–
Other employee benefits expenses	(85 748)	(63 760)
Employee benefits expenses, of which:	**(2 592 938)**	**(2 331 089)**
Items included in cost of sales	(1 805 466)	(1 727 475)
Items included in selling and distribution expenses	(119 768)	(114 315)
Movement in stocks of finished goods	(174 444)	(76 860)
Items included in administrative expenses	(392 310)	(354 970)
Items included in cost of goods produced for internal purposes	(100 950)	(57 469)

In 2010, a voluntary redundancy scheme was launched in the following companies: ENION S.A., EnergiaPro S.A., Południowy Koncern Energetyczny S.A. and Elektrownia Stalowa Wola S.A., which has been described in detail in Note 27.

(in PLN thousands)

14. Income tax

14.1. Tax expense

Major components of income tax expense for the years ended 31 December 2010 and 31 December 2009 are as follows:

	Year ended 31 December 2010	Year ended 31 December 2009 (*adjusted figures*)
Current income tax	**(210 807)**	**(158 661)**
Current income tax expense	(209 188)	(184 401)
Adjustments to current income tax from previous years	(1 619)	25 740
Deferred tax	**(55 124)**	**(119 245)**
Income tax expense in profit/(loss)	**(265 931)**	**(277 906)**
Income tax expense relating to other comprehensive income	**(211)**	**(4 670)**

14.2. Reconciliation of the effective income tax rate

A reconciliation of income tax expense applicable to accounting profit before tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 31 December 2010 and 31 December 2009 is as follows:

	Year ended 31 December 2010	Year ended 31 December 2009 (*adjusted figures*)
Profit/(loss) before tax from continued operations	**1 257 314**	**1 226 069**
Profit/(loss) before taxation	**1 257 314**	**1 226 069**
Tax at Poland's statutory tax rate of 19%	**(238 890)**	**(232 954)**
Adjustments to income tax from previous years	(1 619)	25 740
Tax non-deductible costs, of which:	(25 111)	(52 713)
Recognition of non-deductible provisions and write-downs/allowances	(3 082)	(7 322)
National Disabled Persons Rehabilitation Fund (PFRON)	(3 652)	(3 642)
Other	(18 377)	(41 749)
Income not included in taxable profit, of which:	6 566	12 152
Dividends	878	3 606
Reversal of non-deductible provisions and write-downs/allowances	790	3 972
Other	4 898	4 574
Changes in deferred tax estimates	(7 194)	(9 690)
Other	317	(20 441)
Tax at the effective rate of 21.2% (2009 – 22.7%)	**(265 931)**	**(277 906)**
Income tax (expense) in profit/(loss)	(265 931)	(277 906)

(in PLN thousands)

14.3. Deferred income tax

Deferred income tax relates to the following:

	As at 31 December 2010	As at 31 December 2009 (*adjusted figures*)
Deferred tax liability		
– investment tax credits	102	127
– difference between tax base and carrying amount of fixed and intangible assets	1 537 110	1 448 113
– difference between tax base and carrying amount of assets measured at fair value through profit or loss	558	520
– difference between tax base and carrying amount of financial assets available for sale	8 800	8 819
– difference between tax base and carrying amount of financial assets held to maturity	238	115
– difference between tax base and carrying amount of loans and receivables	1 633	1 968
– difference between tax base and carrying amount of financial assets excluded from the scope of IAS 39 (e.g. lease payables)	101	98
– different timing of recognition of sales revenue for tax purposes	69 601	47 755
– recognition of estimated revenue from sale of power distribution services	14 292	21 975
– difference between tax base and carrying amount of property rights arising from energy certificates	14 085	25 550
– compensation for termination of long-term contracts	86 103	61 677
– other	23 792	26 232
Deferred tax liability	**1 756 415**	**1 642 949**
Deferred tax assets		
– difference between tax base and carrying amount of fixed and intangible assets	5 661	7 551
– difference between tax base and carrying amount of inventories	1 877	4 662
– difference between tax base and carrying amount of other non-financial assets	213	981
– power infrastructure received free of charge and received connection fees	88 085	89 406
– provisions	437 423	384 476
– difference between tax base and carrying amount of assets measued at fair value through profit or loss	1 563	308
– difference between tax base and carrying amount of financial assets available for sale	990	647
– difference between tax base and carrying amount of loans and receivables	3 483	4 170
– difference between tax base and carrying amount of financial assets excluded from the scope of IAS 39 (e.g. lease receivables)	2 277	42
– difference between tax base and carrying amount of financial liabilities measured at fair value through profit or loss	–	833
– difference between tax base and carrying amount of financial liabilities measured at amortized cost	935	8 381
– difference between tax base and carrying amount of liabilities under guarantees, factoring and excluded from the scope of IAS 39	27	–
– accrued audit expenses and actuary’s fees	107	165
– different timing of recognition of cost of sales for tax purposes	56 914	43 921
– other accrued expenses	5 597	1 380
– tax losses	47 340	81 079
– different timing of recognition of revenue from sales of greenhouse gas emission allowances for tax purposes	31 920	–
– other	18 194	16 473
Deferred tax assets	**702 606**	**644 475**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**161 806**	**152 221**
Deferred tax liability	**(1 215 615)**	**(1 150 695)**

(in PLN thousands)

Movement in deferred tax liability

	Year ended 31 December 2010	Year ended 31 December 2009
Opening balance as at 1 January	**1 642 949**	**1 510 923**
Increases (relating to)	**590 574**	**514 115**
in corespondence with profit or loss	590 574	513 969
in corespondence with equity	–	146
Decreases (relating to)	**(477 108)**	**(382 089)**
in corespondence with profit or loss	(477 108)	(381 192)
in corespondence with equity	–	(897)
Closing balance as at 31 December	**1 756 415**	**1 642 949**

Movement in deferred tax assets

	Year ended 31 December 2010	Year ended 31 December 2009 (*adjusted figures*)
Opening balance as at 1 January	**644 475**	**636 363**
Increases (*relating to*)	**443 678**	**362 658**
in corespondence with profit or loss	440 793	359 603
in corespondence with equity	2 885	3 055
Decreases (*relating to*)	**(385 547)**	**(354 546)**
in corespondence with profit or loss	(382 451)	(346 071)
in corespondence with equity	(3 096)	(8 475)
Closing balance as at 31 December	**702 606**	**644 475**

Deferred tax related to other comprehensive income

Year ended 31 December 2010

	Value before tax	Tax	Value after tax
Change in the value of hedging instuments	1 112	(211)	**901**
Foreign exchange differences from translation of foreign entities	(271)	–	**(271)**
Total	**841**	**(211)**	**630**

Year ended 31 December 2009

	Value before tax	Tax	Value after tax
Change in the value of hedging instruments	24 576	(4 670)	**19 906**
Foreign exchange differences from translation of foreign entities	–	–	–
Total	**24 576**	**(4 670)**	**19 906**

(in PLN thousands)

15. Social assets, Social Fund liabilities and special funds

The tables below present an analysis of the individual funds:

- Social Fund

	As at 31 December 2010	As at 31 December 2009
Loans granted to employees	28 285	45 123
Cash	21 620	30 005
Other Fund assets and liabilities	(422)	(409)
Social Fund liabilities	(49 627)	(72 165)
Net balance	**2 530**	**2 554**
Transfers made to the Social Fund during the period	75 100	71 397

- Mine Decommissioning Fund

In accordance with the provisions of the Geological and Mining Law and the executive regulations issued based on that Act, the mining companies being part of the Group set up a Mine Decommissioning Fund ("MDF"). The MDF is set up as a certain percentage of the value of depreciation of property plant and equipment recognized for tax purposes or by reference to the exploitation fee, by way of a transfer of cash equivalent to such depreciation charges to a separate bank account. The financial assets of the MDF are presented in the statement of financial position as long-term financial assets, whereas the balance of the MDF is recognized as part of the provision for decommissioning liabilities related to mines. The table below presents the amount of the transfer to the MDF and the balance of the MDF assets.

Financial assets of the Mine Decommissioning Fund

	Year ended 31 December 2010	Year ended 31 December 2009
Assets as at 1 January	**20 029**	**13 045**
Contributions made	149	5 567
Interest	847	1 417
Utilization	–	–
Assets as at 31 December	**21 025**	**20 029**
Transfers made to the MDF in the period	2 893	2 763

Financial liabilities of the Mine Decommissioning Fund

	Year ended 31 December 2010	Year ended 31 December 2009
Mine Decommissioning Fund	23 950	20 095
Surplus of discounted estimated decommissioning costs	–	745
Surplus of Mine Decommissioning Fund over discounted estimated decommiddioning costs	6 866	–
Total decommissioning liability	**23 950**	**20 840**

(in PLN thousands)

16. Property, plant and equipment

Year ended 31 December 2010

	Land	Perpetual usufruct	Buildings, premises and construction	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
COST									
Opening balance	**57 747**	**783 111**	**10 090 384**	**9 247 487**	**213 779**	**221 163**	**20 613 671**	**351 397**	**20 965 068**
Direct purchase	–	–	61	1 325	969	415	**2 770**	1 328 114	**1 330 884**
Transfer of assets under construction	5 386	2 335	554 644	541 314	42 113	39 024	**1 184 816**	(1 184 816)	–
Sale, disposal	(897)	(2 032)	(5 473)	(1 083)	(2 076)	(71)	**(11 632)**	(416)	**(12 048)**
Reclassifications	–	–	14 245	(14 434)	–	189	–	–	–
Donations and free-of-charge transfers	–	(4 159)	(615)	(52)	(14)	–	**(4 840)**	–	**(4 840)**
Liquidation	(248)	(7)	(14 856)	(52 163)	(1 464)	(3 714)	**(72 452)**	(261)	**(72 713)**
Received free of charge	3	9 837	18 981	1 579	–	54	**30 454**	–	**30 454**
Acquisition of subsidiary	–	–	–	–	–	–	–	111 352	**111 352**
Received for use under rental, lease or similar agreements	–	–	–	522	1 410	–	**1 932**	(522)	**1 410**
Contribution in kind	–	(362)	(3 464)	(139)	–	(203)	**(4 168)**	(57)	**(4 225)**
Spare parts allocated to fixed assets	–	–	(54)	7 667	–	1 291	**8 904**	3 969	**12 873**
Overhaul expenses	–	–	1 166	12 781	561	–	**14 508**	86 022	**100 530**
Write-off of discontinued investments	–	–	–	–	–	–	–	(1 710)	**(1 710)**
Transfers to intangible assets	–	–	–	–	–	–	–	(1 576)	**(1 576)**
Items discovered	–	347	1 812	497	–	66	**2 722**	–	**2 722**
Items generated internally	–	–	–	–	–	–	–	32 318	**32 318**
Other movements	4	(22)	(666)	8 213	97	(845)	**6 781**	105	**6 886**
Closing balance	**61 995**	**789 048**	**10 656 165**	**9 753 514**	**255 375**	**257 369**	**21 773 466**	**723 919**	**22 497 385**
ACCUMULATED DEPRECIATION									
Opening balance	**(867)**	**(1 065)**	**(1 755 603)**	**(1 774 164)**	**(64 427)**	**(97 229)**	**(3 693 355)**	**(11 140)**	**(3 704 495)**
Depreciation for the period	–	–	(597 301)	(665 203)	(31 192)	(32 058)	**(1 325 754)**	–	**(1 325 754)**
Increase of impairment	–	(297)	(11 755)	(3 638)	(135)	(302)	**(16 127)**	(333)	**(16 460)**
Decrease of impairrment	493	24	3 180	434	31	51	**4 213**	5 132	**9 345**
Sale, disposal	–	25	583	735	1 242	58	**2 643**	–	**2 643**
Reclassifications	–	–	(1 878)	1 739	–	(133)	**(272)**	272	–
Donations and free-of-charge transfers	–	–	318	47	9	–	**374**	–	**374**
Liquidation	–	–	8 228	48 064	1 429	2 334	**60 055**	244	**60 299**
Received free of charge	–	–	–	–	–	–	–	–	–
Acquisition of subsidiary	–	–	–	–	–	–	–	–	–
Contribution in kind	–	–	225	80	–	160	**465**	–	**465**
Depreciation posted to assets under construction	–	–	–	–	–	–	–	–	–
Transfers to intangible assets	–	–	–	–	–	–	–	–	–
Other movements	–	(28)	533	(70)	(68)	842	**1 209**	(75)	**1 134**
Closing balance	**(374)**	**(1 341)**	**(2 353 470)**	**(2 391 976)**	**(93 111)**	**(126 277)**	**(4 966 549)**	**(5 900)**	**(4 972 449)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**56 880**	**782 046**	**8 334 781**	**7 473 323**	**149 352**	**123 934**	**16 920 316**	**340 257**	**17 260 573**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**61 621**	**787 707**	**8 302 695**	**7 361 538**	**162 264**	**131 092**	**16 806 917**	**718 019**	**17 524 936**

(in PLN thousands)

Year ended 31 December 2009

	Land	Perpetual usufruct	Buildings, premises and construction	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
COST									
Opening balance	**53 688**	**782 073**	**9 041 737**	**7 410 587**	**178 390**	**189 439**	**17 655 914**	**1 886 661**	**19 542 575**
Direct purchase	324	1 438	7 071	1 686	1 368	601	**12 488**	1 301 488	**1 313 976**
Transfer of assets under construction	3 931	2 852	1 027 548	1 849 009	35 587	34 012	**2 952 939**	(2 952 939)	–
Sale, disposal	(135)	(4 941)	(2 169)	(3 907)	(2 608)	(86)	**(13 846)**	(3 638)	**(17 484)**
Reclassifications	(2)	2	(25)	47	(19)	(3)	–	–	–
Donations and free-of-charge transfers	(8)	(505)	(145)	(36)	–	–	**(694)**	–	**(694)**
Liquidation	(7)	(342)	(13 396)	(21 364)	(1 010)	(4 085)	**(40 204)**	–	**(40 204)**
Received free of charge	1	3 186	37 753	1 254	–	20	**42 214**	6 835	**49 049**
Acquisition of subsidiary	–	–	–	–	–	–	–	–	–
Received for use under rental, lease or similar agreements	–	–	–	3 518	2 125	–	**5 643**	(596)	**5 047**
Spare parts allocated to fixed assets	–	–	–	(6 317)	–	1 251	**(5 066)**	(175)	**(5 241)**
Overhaul expenses	–	–	–	12 945	–	–	**12 945**	89 119	**102 064**
Write-off of discontinued investments	–	–	–	–	–	–	–	(555)	**(555)**
Transfers to intangible assets	–	–	–	–	–	–	–	(2 374)	**(2 374)**
Items discovered	–	28	68	106	–	12	**214**	–	**214**
Items generated internally	–	–	–	–	–	–	–	27 994	**27 994**
Other movements	(45)	(680)	(8 058)	(41)	(54)	2	**(8 876)**	(423)	**(9 299)**
Closing balance	**57 747**	**783 111**	**10 090 384**	**9 247 487**	**213 779**	**221 163**	**20 613 671**	**351 397**	**20 965 068**
ACCUMULATED DEPRECIATION									
Opening balance	**(809)**	**(401)**	**(1 149 462)**	**(1 170 948)**	**(37 641)**	**(68 695)**	**(2 427 956)**	**(15 777)**	**(2 443 733)**
Depreciation for the period	–	–	(610 325)	(617 960)	(28 565)	(30 948)	**(1 287 798)**	–	**(1 287 798)**
Increase of impairment	(7)	(275)	(1 319)	(3 694)	(14)	(55)	**(5 364)**	(64)	**(5 428)**
Decrease of impairrment	–	–	114	2 890	–	8	**3 012**	3 997	**7 009**
Sale, disposal	(51)	(393)	(562)	906	2 083	187	**2 170**	(271)	**1 899**
Reclassifications	–	–	(85)	77	(999)	8	**(999)**	999	–
Donations and free-of-charge transfers	–	–	28	26	–	–	**54**	–	**54**
Liquidation	–	–	5 974	14 643	690	2 271	**23 578**	–	**23 578**
Received free of charge	–	–	(243)	(122)	–	–	**(365)**	–	**(365)**
Acquisition of subsidiary	–	–	–	–	–	–	–	–	–
Depreciation posted to assets under construction	–	–	–	–	–	–	–	–	–
Transfers to intangible assets	–	–	–	–	–	–	–	–	–
Other movements	–	4	277	18	19	(5)	**313**	(24)	**289**
Closing balance	**(867)**	**(1 065)**	**(1 755 603)**	**(1 774 164)**	**(64 427)**	**(97 229)**	**(3 693 355)**	**(11 140)**	**(3 704 495)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**52 879**	**781 672**	**7 892 275**	**6 239 639**	**140 749**	**120 744**	**15 227 958**	**1 870 884**	**17 098 842**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**56 880**	**782 046**	**8 334 781**	**7 473 323**	**149 352**	**123 934**	**16 920 316**	**340 257**	**17 260 573**

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

The carrying amount of plant and equipment held under finance lease agreements or hire purchase contracts at 31 December 2010 is PLN 109,143 thousand (2009: PLN 125,473 thousand). Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

The carrying amount of buildings and constructions held under finance lease agreements or hire purchase contracts at 31 December 2010 is PLN 23,598 thousand (2009: PLN 24,931 thousand, 2007: 28,132 thousand). Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

Capitalized borrowing costs amounted to PLN 39,671 thousand in the year ended 31 December 2009. The high amount of capitalized borrowing costs in 2009 results from the capitalized costs of construction by Południowy Koncern Energetyczny S.A. of a 460 MW power unit at the Łagisza Power Plant, which was made available for use in 2009. In 2010, there were no significant fixed assets requiring long-term preparation for use, and thus there was no significant capitalization of interest in the cost of fixed assets.

The TAURON Group performed impairment tests with respect to cash-generating units ("CGUs") which included property, plant and equipment of the subsidiaries. The tests performed as at 31 December 2010 did not reveal any indications of impairment of property, plant and equipment, hence there was no need to recognize any impairment losses on such assets.

17. Non-current assets classified as held for sale

Non-current assets classified as held for sale, amounting to PLN 4,397 thousand as at 31 December 2010, include:

- A property with a value of PLN 1,671 thousand, located in Kossów, commune of Radków in the Świętokrzyskie voivodship, representing a developed plot of 3.1900 hectares. Movables include devices and tractors located on the property. In the past this was the location of Zakład Produkcji Biomasy (Biomass Production Plant) of Elektrociepłownia Tychy S.A. Despite the signed contingent sale agreement for the property and the preliminary sale agreement for movables, under which the parties had committed to sign an agreement transferring the ownership of the property and a final agreement for the sale of movables by 30 April 2010, with a proviso that the buyer submits to enforcement against Elektrociepłownia Tychy S.A. under Article 777 § 1 item 4 of the Code of Civil Procedure, the counterparty did not appear on the successive dates set for the conclusion of the agreement. After consulting lawyers, a decision was taken to withdraw from the agreement and to simultaneously file a claim for damages with the court. In February 2011, the Reacquisition Committee appointed by the Management Board of Elektrociepłownia Tychy S.A. reacquired the property in question. As a result, the Management Board will launch another tender for the sale of the property.
- Megaukład Ciepłownia Zawodzie (The Zawodzie Heating Plant Mega-system) located in Częstochowa, which includes land together with buildings: a boiler room, engine room, distribution room as well as a heat generation installation being the property of ENION S.A., with a value of PLN 2,709 thousand. Based on resolution of the Ordinary General Shareholders' Meeting of ENION S.A. dated 25 June 2009 and resolution of the Extraordinary General Shareholders' Meeting of ENION S.A. dated 3 August 2010, the shareholders agreed for the disposal of a portion of the company's assets representing Megaukład Ciepłownia Zawodzie. The Tender Committee announced a public unlimited written tender for the sale of the ownership right to Megaukład Ciepłownia Zawodzie twice, on 13 January 2010 and 19 August 2010, however no proposals were submitted for any of those dates.
- A recreational plot with cabins with a value of PLN 17 thousand. A sale agreement had been signed, which was temporarily suspended by the Court in order to eliminate formal defects. The sale is expected to take place in 2011.

Non-current assets classified as held for sale, amounting to PLN 5,951 thousand as at 31 December 2009, included the following:

- A property with a value of PLN 1,671 thousand, located in Kossów, commune of Radków in the Świętokrzyskie voivodship, representing a developed plot of 3.1900 hectares. Movables included devices and tractors located on the property. In the past this was the location of Zakład Produkcji Biomasy (Biomass Production Plant) of Elektrociepłownia Tychy S.A. On 30 June 2009, a conditional sale agreement was signed for the property and a preliminary agreement for the sale of movables, which was set to be finalized by 30 April 2010.
- The perpetual usufruct of land and ownership right to properties located in the Śląskie voivodship, with a total value of PLN 4,260 thousand. In January 2010, a request was filed with the Tax Chamber in Katowice for an interpretation regarding the output VAT rate on the sale of the aforementioned properties. For all assets held for sale, agreements were signed with potential buyers.

In 2010, non-current assets classified as held for sale as at 31 December 2009 of a total net amount of PLN 1,878 thousand were sold. Non-current assets classified as held for sale in the previous year of PLN 2,383 thousand were reclassified in 2010 to property, plant and equipment.

(in PLN thousands)

18. Leases

18.1. Operating lease commitments – Group as the lessee

On 30 April 2008, a subsidiary of TAURON Polska Energia S.A., Południowy Koncern Energetyczny S.A., due to the sale of property located in Katowice at ul. Lwowska 23 to PKE Broker Sp. z o.o., concluded a lease agreement for the use of this property. TAURON Polska Energia S.A. is a sub-lessee of a portion of the property. The value of the leased property that is not included under non-current assets is PLN 52,386 thousand. Annual lease charges in the years 2010 and 2009 amounted to PLN 6,052 thousand and PLN 6,049 thousand, respectively.

In addition, the subsidiary Południowy Koncern Węglowy S.A. uses mining plant and equipment under operating lease agreements. The net value of the property, plant and equipment used was PLN 39,345 thousand as at 31 December 2010 and PLN 38,073 thousand as at 31 December 2009. Annual lease charges in the years 2010 2009 amounted to PLN 17,417 thousand and PLN 11,413 thousand, respectively.

18.2. Finance lease and hire purchase commitments

As at 31 December 2010 and 31 December 2009, 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	28 329	23 452	42 026	35 377
Within 1 to 5 years	61 964	52 025	86 948	71 027
More than 5 years	16 502	15 785	18 310	17 264
Minimum lease payments, total	**106 795**	**91 262**	**147 284**	**123 668**
Less amounts representing finance	(15 533)	–	(23 616)	–
Present value of minimum lease payments, of which:	**91 262**	**91 262**	**123 668**	**123 668**
current	23 452	23 452	35 377	35 377
non-current	67 810	67 810	88 291	88 291

(in PLN thousands)

19. Intangible assets

Year ended 31 December 2010

	Development expenses	Goodwill	Software	Other acquired concessions, patents, licenses and similar	Energy certificates	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST									
Opening balance	**4 104**	**169 553**	**187 529**	**3 034**	**481 885**	**52 701**	**3 969**	**7 266**	**910 041**
Direct purchase	–	–	1 502	467	437 112	108 449	–	26 020	**573 550**
Transfer of intangible assets not made available for use	–	–	23 700	12	–	–	281	(23 993)	–
Sale, disposal	–	–	–	–	(45 336)	–	–	–	**(45 336)**
Reclassifications	–	–	16	3	–	–	(19)	–	–
Donations and free-of-charge transfers	–	–	–	–	–	–	–	–	–
Liquidation	–	–	(3 002)	(145)	–	–	(1)	–	**(3 148)**
Energy certificates generated internally	–	–	–	–	304 357	–	–	–	**304 357**
Redemption of energy certificates	–	–	–	–	(654 535)	–	–	–	**(654 535)**
Received free of charge	–	–	–	–	–	–	–	–	–
Contribution in kind	–	–	(44)	–	–	–	–	–	**(44)**
Write-off of discontinued investments	–	–	–	–	–	–	–	–	–
Transfers from assets under construction	–	–	331	–	–	–	200	1 045	**1 576**
Other movements	285	–	14	–	(466)	–	–	24	**(143)**
Closing balance	**4 389**	**169 553**	**210 046**	**3 371**	**523 017**	**161 150**	**4 430**	**10 362**	**1 086 318**
ACCUMULATED AMORTIZATION									
Opening balance	**(2 038)**	–	**(80 615)**	**(878)**	–	–	**(1 309)**	**(450)**	**(85 290)**
Amortization for the period	(875)	–	(31 555)	(513)	–	–	(530)	–	**(33 473)**
Increase of impairment	–	–	2	–	–	(22)	–	–	**(20)**
Decrease of impairment	–	–	–	–	–	–	–	–	–
Sale, disposal	–	–	–	–	–	–	–	–	–
Reclassifications	–	–	(241)	(1)	–	–	242	–	–
Donations and free-of-charge transfers	–	–	–	–	–	–	–	–	–
Liquidation	–	–	2 846	145	–	–	1	–	**2 992**
Received free of charge	–	–	–	–	–	–	–	–	–
Contribution in kind	–	–	16	–	–	–	–	–	**16**
Transfers from assets under construction	–	–	–	–	–	–	–	–	–
Other movements	–	–	(12)	–	–	–	–	–	**(12)**
Closing balance	**(2 913)**	–	**(109 559)**	**(1 247)**	–	**(22)**	**(1 596)**	**(450)**	**(115 787)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**2 066**	**169 553**	**106 914**	**2 156**	**481 885**	**52 701**	**2 660**	**6 816**	**824 751**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**1 476**	**169 553**	**100 487**	**2 124**	**523 017**	**161 128**	**2 834**	**9 911**	**970 530**

(in PLN thousands)

Year ended 31 December 2009

	Development expenses	Goodwill	Software	Other acquired concessions, patents, licenses and similar	Energy certificates	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST									
Opening balance	**3 759**	**169 553**	**158 610**	**1 412**	**244 945**	**2**	**4 276**	**5 274**	**587 831**
Direct purchase	–	–	2 399	1 354	278 315	52 699	–	26 400	**361 167**
Transfer of intangible assets not made available for use	–	–	28 822	281	–	–	233	(29 336)	–
Sale, disposal	–	–	(3)	–	(3 331)	–	3	–	**(3 331)**
Reclassifications	–	–	532	(94)	–	–	(438)	–	–
Donations and free-of-charge transfers	–	–	–	–	–	–	–	–	–
Liquidation	–	–	(3 777)	–	–	–	(27)	–	**(3 804)**
Energy certificates generated internally	–	–	–	–	207 368	–	–	–	**207 368**
Redemption of energy certificates	–	–	–	–	(245 412)	–	–	–	**(245 412)**
Received free of charge	–	–	3	–	–	–	–	–	**3**
Contribution in kind	–	–	–	–	–	–	–	–	–
Write-off of discontinued investments	–	–	–	–	–	–	–	(32)	**(32)**
Transfers from assets under construction	–	–	950	5	–	–	–	1 419	**2 374**
Other movements	345	–	(7)	76	–	–	(78)	3 541	**3 877**
Closing balance	**4 104**	**169 553**	**187 529**	**3 034**	**481 885**	**52 701**	**3 969**	**7 266**	**910 041**
ACCUMULATED AMORTIZATION									
Opening balance	**(1 134)**	–	**(51 345)**	**(410)**	–	–	**(1 187)**	**(450)**	**(54 526)**
Amortization for the period	(904)	–	(31 719)	(443)	–	–	(354)	–	**(33 420)**
Increase of impairment	–	–	(2)	–	–	–	(66)	–	**(68)**
Decrease of impairment	–	–	–	–	–	–	–	–	–
Sale, disposal	–	–	–	–	–	–	–	–	–
Reclassifications	–	–	(261)	13	–	–	248	–	–
Donations and free-of-charge transfers	–	–	–	–	–	–	–	–	–
Liquidation	–	–	2 705	–	–	–	11	–	**2 716**
Received free of charge	–	–	–	–	–	–	–	–	–
Contribution in kind	–	–	–	–	–	–	–	–	–
Transfers from assets under construction	–	–	–	–	–	–	–	–	–
Other movements	–	–	7	(38)	–	–	39	–	**8**
Closing balance	**(2 038)**	–	**(80 615)**	**(878)**	–	–	**(1 309)**	**(450)**	**(85 290)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**2 625**	**169 553**	**107 265**	**1 002**	**244 945**	**2**	**3 089**	**4 824**	**533 305**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**2 066**	**169 553**	**106 914**	**2 156**	**481 885**	**52 701**	**2 660**	**6 816**	**824 751**

(in PLN thousands)

At the balance sheet date, an impairment test was performed for equity of the Companies to which goodwill was allocated. The test was performed based on the present value of the estimated cash flows from their operations. Calculations included cash flows in the period 2011–2020 and residual value. The forecast EBIT in 2011–2020 and amortization for that period provided the basis for the calculation of cash flows. The amount of EBIT results from the authorized and accepted operating plan for 2011 and the company's long-term plan through 2020. The aforementioned operating plans of the entities for which goodwill was recognized include an assumption that an operating profit will be achieved in the individual years. It was also assumed that no significant changes would take place in the company's working capital over the tested period.

The discount rate adopted for calculation reflects the weighted average cost of capital (WACC) amounting to 8.35%, taking into account the risk-free interest rate corresponding to the current yield on 10-year IRSs (at the level of 5.8%) and the premium for the risk of conducting business in the energy sector (5%). The test performed did not reveal any need to recognize impairment of goodwill.

The Company performed impairment testing for intangible assets which were not available for use as at 31 December 2010 and 31 December 2009 and did not identify any impairment of such assets.

20. Inventories

	As at 31 December 2010	As at 31 December 2009
Historical cost		
Raw materials	294 712	424 465
Semi-finished goods and work-in-progress	87 409	87 114
Finished goods	11 195	17 566
Goods for resale	14	1 702
Property rights arising from energy certificates	15 626	9 131
Emission allowances	4 664	–
Total	**413 620**	**539 978**
Write-downs to net realisable value		
Raw materials	(4 578)	(3 612)
Semi-finished goods and work-in-progress	–	–
Finished goods	(277)	(165)
Goods for resale	–	–
Property rights arising from energy certificates	–	–
Emission allowances	(205)	–
Total	**(5 060)**	**(3 777)**
Net realisable value		
Raw materials	290 134	420 853
Semi-finished goods and work-in-progress	87 409	87 114
Finished goods	10 918	17 401
Goods for resale	14	1 702
Property rights arising from energy certificates	15 626	9 131
Emission allowances	4 459	–
Total	**408 560**	**536 201**
Movement in write-downs to net realisable value		
Opening balance	**(3 777)**	**(6 883)**
Recognition	(1 662)	(1 150)
Reversal	177	3 963
Utilization	202	293
Contribution in kind	–	–
Other	–	–
Closing balance	**(5 060)**	**(3 777)**

(in PLN thousands)

21. Trade and other receivables

For terms and conditions relating to related party transactions, refer to Note 36. Doubtful debts allowances and aging analysis of receivables are presented in Note 38.4.5.

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

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

22. Cash and cash equivalents

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

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

	As at 31 December 2010	As at 31 December 2009
Cash at bank and in hand	366 849	174 925
Short-term deposits (up to 3 months)	1 106 180	854 854
Other	952	2 324
Total cash and cash equivalents presented in the statement of financial position, of which:	**1 473 981**	**1 032 103**
– restricted cash	165 862	18 635
Bank overdraft	(2 464)	(59 453)
Foreign exchange and other differences	143	5
Total cash and cash equivalents presented in the statement of cash flows	**1 471 660**	**972 655**

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

The increase in the balance of restricted cash was mainly due to the PLN 145,462 thousand increase of the balance of cash held by the parent in the settlement account used for trading in electricity at the Polish Power Exchange (Towarowa Giełda Energii S.A.).

23. Other assets

23.1. Other financial assets

	As at 31 December 2010	As at 31 December 2009
Other shares in unlisted and listed companies	150 125	146 517
Bonds, T-bills and other debt securities	1 500	6 056
Deposits	35 493	23 887
Other long-term receivables	6 405	8 468
Other	12 122	13 571
Total	**205 645**	**198 499**
non-current	177 452	179 746
current	28 193	18 753

23.2. Other long-term non-financial assets

	As at 31 December 2010	As at 31 December 2009
Prepayments for assets under construction and intangible assets	54 233	3 807
Other prepayments	3 852	3 510
Costs of preparing production in hard coal mines	60 945	49 139
Other	4 583	2 091
Total	**123 613**	**58 547**

(in PLN thousands)

23.3. Other current non-financial assets

	As at 31 December 2010	As at 31 December 2009
Subscription	251	235
Property and tort insurance	29 530	24 033
Membership fees, training	65	68
IT, telecom and postal services	3 324	4 925
Other deferred costs	7 663	4 604
Costs of preparing production in hard coal mines	37 915	31 535
Costs of extraction tunnels	46 216	38 458
Prepayments for deliveries	2 429	2 359
Receivables from input VAT	65 394	18 521
Receivables from excise duty	8 086	8 086
Receivables from payments from profit to the State Treasury	–	1 198
Other tax receivables	2 370	106
Surplus of Social Fund assets over Social Fund liabilities	2 530	2 554
Other current assets	2 385	22 043
Total	**208 158**	**158 725**

24. Other non-financial liabilities

24.1. Other long-term liabilities

As at 31 December 2010 and 31 December 2009, the Group had no other long-term liabilities.

24.2. Other current liabilities

	As at 31 December 2010	As at 31 December 2009
Taxes, customs, social security and other payables, of which:	**526 852**	**376 505**
Excise	73 811	66 982
VAT	223 489	125 666
Social security	150 408	117 086
Personal Income Tax	42 017	34 264
Environmental charges	30 441	25 038
Real Estate Tax	2 558	1 032
Other	4 128	6 437
Other non-financial liabilities, of which:	**225 967**	**180 164**
Payments from customers relating to future periods, of which:	215 031	167 767
prepayments for connection fees	64 584	73 712
amounts overpaid by customers	142 793	90 590
other	7 654	3 465
Other	10 936	12 397
Total	**752 819**	**556 669**

(in PLN thousands)

25. Accruals

25.1. Deferred income and government grants

	As at 31 December 2010	As at 31 December 2009 (*adjusted figures*)
Deferred income		
Donations, fixed assets received free-of-charge	186 784	180 636
Non-government subsidies	14 125	14 650
Perpetual usufruct of land	572	625
Subsidies received for the purchase of fixed assets	45 626	47 524
Connection fees	334 352	355 524
Other	12 245	6 785
Total, of which:	**593 704**	**605 744**
Non-current	540 789	559 267
Current	52 915	46 477
Government grants		
Forgiven loans from environmental funds	10 040	10 874
Other	98 333	57 000
Total, of which:	**108 373**	**67 874**
Non-current	103 733	65 300
Current	4 640	2 574

Deferred income from connection fees and fixed assets received free of charge relates to transactions which took place up to 30 June 2009 i.e. prior to application of IFRIC 18. Beginning from 1 July 2009, the Group recognizes connection fees and fixed assets received free of charge as income.

Government grants presented in these consolidated financial statements mainly include the value of forgiven loans granted by environmental funds. Part of loans from environmental funds is forgiven if the anticipated environmental benefits are achieved.

The increase in the balance of deferred income relating to government grants is mainly due to the government grant of an aggregate amount of PLN 44,546 thousand, obtained by Południowy Koncern Węglowy S.A. under the agreement of 7 September 2007 on the functioning of the hard coal mining sector in 2008–2015 (Journal of Laws No. 192, item 1379) for the financing of the following initial investments:

1. Providing access to the Byczyna section as well as access to mining on the first pilot wall at the Sobieski Mining Enterprise – PLN 25,221 thousand,
2. Construction of the 500 m level at the Janina Mining Enterprise – PLN 19,325 thousand.

25.2. Accrued expenses

	As at 31 December 2010	As at 31 December 2009
Unused holidays	22 301	20 039
Annual bonuses	99 301	128 815
Audit fees	537	1 114
Excise tax accrued	5 249	7 975
Other	4 769	3 273
Total, of which:	**132 157**	**161 216**
Non-current	–	–
Current	132 157	161 216

(in PLN thousands)

26. CO_2 emission allowances

The first National Allocation Plan for CO_2 allowances included years 2005–2007. On 14 November 2008, the Council of Ministers adopted the National Allocation Plan for CO_2 allowances for the years 2008–2012 ("NAP II") under the EU emissions trading system, which allocated the CO_2 emission limits (caps) to the individual installations participating in the emissions trading system. The adopted regulation is based on the draft regulation of 12 February 2008, with account taken of the amendments dated 16 May 2008. In accordance with the decisions of the European Commission, Polish companies covered by the allowances allocation plan will be allowed to emit approximately 1,043 million metric tons of CO_2 within a five-year period, i.e. approximately 209 million metric tons annually.

In accordance with the Group's accounting policy, the Group recognizes a provision for the deficit in emission allowances if the level of actual emission exceeds the emission allowances granted for the entire trading period.

The tables below present the CO_2 emission allowances granted under the National Allocation Plan and acquired on the secondary market, including a break-down into the portion of allowances used for internal purposes and the portion sold in the years ended 31 December 2010 and 31 December 2009.

CO_2 emission allowances in the year ended 31 December 2010

Company	Opening balance of CO_2 allowances	Acquired	CO_2 emission	Sold	Closing balance of CO_2 allowances
TAURON Polska Energia S.A.	–	6 453 000	–	(3 358 000)	**3 095 000**
Południowy Koncern Energetyczny S.A.	53 591 305	3 067 884	(19 807 705)	(850 000)	**36 001 484**
ENION S.A.	1 649	–	–	–	**1 649**
Elektrownia Stalowa Wola S.A.	3 006 559	165 000	(1 221 164)	–	**1 950 395**
Elektrociepłownia Tychy S.A.	989 550	–	(335 302)	–	**654 248**
Elektrociepłownia EC Nowa Sp. z o.o.	7 637 112	1 027 150	(2 683 889)	(130 000)	**5 850 373**
PEC w Dąbrowie Górniczej S.A.	323 643	–	(89 692)	–	**233 951**
Polska Energia PKH Sp. z o.o.	–	–	–	–	–
Total	**65 549 818**	**10 713 034**	**(24 137 752)**	**(4 338 000)**	**47 787 100**

CO_2 emission allowances in the year ended 31 December 2009

Company	Opening balance of CO_2 allowances	Acquired	CO_2 emission	Sold	Closing balance of CO_2 allowances
TAURON Polska Energia S.A.	–	56 970	–	(56 970)	–
Południowy Koncern Energetyczny S.A.	70 199 461	700 000	(17 308 156)	–	**53 591 305**
ENION S.A.	1 649	–	–	–	**1 649**
Elektrownia Stalowa Wola S.A.	4 053 891	160 000	(1 107 982)	(99 350)	**3 006 559**
Elektrociepłownia Tychy S.A.	1 289 268	20 084	(319 802)	–	**989 550**
Elektrociepłownia EC Nowa Sp. z o.o.	10 136 868	250 000	(2 149 756)	(600 000)	**7 637 112**
PEC w Dąbrowie Górniczej S.A.	411 372	–	(87 729)	–	**323 643**
Polska Energia PKH Sp. z o.o.	–	120 000	–	(120 000)	–
Total	**86 092 509**	**1 307 054**	**(20 973 425)**	**(876 320)**	**65 549 818**

27. Employee benefits

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

- retirement, disability and death benefits,
- reduced electricity rates and charges granted to employees,
- transfers to the Social Fund for present and future pensioners,
- coal allowances,
- 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 relates to part of provisions for post-employment benefits. Post-employment benefits relating to present pensioners are not presented under the corridor approach, as is the case with jubilee bonuses.

(in PLN thousands)

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

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Voluntary termination benefits	Provisions, total
Opening balance	**176 385**	**319 772**	**98 009**	**26 642**	**441 186**	**–**	**1 061 994**
Current service costs	8 772	4 470	2 060	606	25 612	–	**41 520**
Actuarial gains and losses	1 771	14 332	4 588	5 573	35 356	–	**61 620**
Benefits paid	(16 545)	(17 480)	(4 753)	(841)	(57 877)	(35 887)	**(133 383)**
Past service costs	–	7 945	–	–	–	–	**7 945**
Contribution in kind	–	–	–	–	–	–	–
Interest expense	12 077	22 534	6 051	1 546	24 411	–	**66 619**
Other movements	549	–	–	–	–	–	**549**
Recognition of provision for VTB	–	–	–	–	–	86 217	**86 217**
Closing balance	**183 009**	**351 573**	**105 955**	**33 526**	**468 688**	**50 330**	**1 193 081**
CURRENT	**38 264**	**20 085**	**4 939**	**1 334**	**54 540**	**50 330**	**169 492**
NON-CURRENT	**144 745**	**331 488**	**101 016**	**32 192**	**414 148**	**–**	**1 023 589**

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

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Provisions, total
Present value of liability at the end of the period	**236 043**	**168 335**	**58 394**	**27 054**	**489 826**
Unrecognized liability, of which:	(53 034)	(64 255)	(10 845)	(7 220)	**(135 354)**
Unrecognized actuarial gains/losses	(53 034)	12 520	(10 845)	(7 220)	**(58 579)**
Unrecognized past service costs	–	(76 775)	–	–	**(76 775)**
Net liability at the end of period	**183 009**	**104 080**	**47 549**	**19 834**	**354 472**
Present value of the liability at the beginning of period	**214 626**	**161 067**	**50 801**	**18 513**	**445 007**
Net cumulative unrecognized actuarial gains/(losses) at the beginning of period	**(38 236)**	**6 204**	**(8 590)**	**(366)**	**(40 988)**
Corridor limits	21 462	16 106	5 081	1 851	**44 500**
Exceeded	(21 374)	3 779	(3 723)	–	**(21 318)**
Actuarial gain (loss) to be recognized	(1 771)	282	(301)	–	**(1 790)**
Actuarial gain (loss) for the period	(16 569)	6 598	(2 556)	(6 854)	**(19 381)**
Unrecognized actuarial gains/(losses) at the end of period	**(53 034)**	**12 520**	**(10 845)**	**(7 220)**	**(58 579)**

(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	Provision for coal allowances	Jubilee bonuses	Voluntary termination benefits	Provisions, total
Opening balance	**163 787**	**286 702**	**91 265**	**27 219**	**457 564**	–	**1 026 537**
Current service costs	8 133	4 642	2 031	527	24 676	–	**40 009**
Actuarial gains and losses	3 079	15 103	3 487	(1 851)	(14 170)	–	**5 648**
Benefits paid	(10 719)	(14 736)	(4 289)	(646)	(51 289)	–	**(81 679)**
Past service costs	–	7 945	–	–	–	–	**7 945**
Contribution in kind	–	–	–	–	–	–	–
Interest expense	12 065	20 116	5 515	1 393	24 405	–	**63 494**
Other movements	40	–	–	–	–	–	**40**
Closing balance	**176 385**	**319 772**	**98 009**	**26 642**	**441 186**	–	**1 061 994**
CURRENT	**29 059**	**19 602**	**4 567**	**934**	**52 426**	–	**106 588**
NON-CURRENT	**147 326**	**300 170**	**93 442**	**25 708**	**388 760**	–	**955 406**

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

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Provisions, total
Present value of liability at the end of the period	**214 626**	**161 067**	**50 801**	**18 513**	**445 007**
Unrecognized liability, of which:	(38 239)	(78 517)	(8 592)	(367)	**(125 715)**
Unrecognized actuarial gains/losses	(38 239)	6 203	(8 592)	(367)	**(40 995)**
Unrecognized past service costs	–	(84 720)	–	–	**(84 720)**
Net liability at the end of period	**176 387**	**82 550**	**42 209**	**18 146**	**319 292**
Present value of the liability at the beginning of period	**221 286**	**144 988**	**54 901**	**25 384**	**446 559**
Net cumulative unrecognized actuarial gains/(losses) at the beginning of period	**(57 497)**	**8 078**	**(10 130)**	**1 835**	**(57 714)**
Corridor limits	22 129	14 659	5 491	2 538	**44 817**
Exceeded	(36 359)	2 954	(4 853)	4 373	**(33 885)**
Actuarial gain (loss) to be recognized	(3 167)	210	(452)	91	**(3 318)**
Actuarial gain (loss) for the period	16 094	(1 664)	1 088	(2 110)	**13 408**
Unrecognized actuarial gains/(losses) at the end of period	**(38 236)**	**6 204**	**(8 590)**	**(366)**	**(40 988)**

In 2010, ENION S.A., EnergiaPro S.A., Południowy Koncern Energetyczny S.A. and Elektrownia Stalowa Wola S.A. operated voluntary redundancy schemes ("VRS").

The employees of ENION S.A. and EnergiaPro S.A. were offered the following two forms of voluntary termination of employment: early retirement scheme and compensation payment scheme. The first scheme was available to employees who had acquired the right to early retirement, bridge retirement or a retirement due to disability by the end of the year. The compensation payment scheme was addressed to the remaining employees who were not eligible for using the early retirement scheme. Both of these schemes have been completed. In ENION S.A., they were used by 280 employees, while in EnergiaPro S.A., employment contracts with 244 employees were terminated in 2010 as a result.

In December 2010, ENION S.A. and EnergiaPro S.A. launched subsequent schemes: an early retirement scheme based on similar terms to the scheme announced in June 2010 and a pre-retirement benefit scheme – a new scheme under which the target group of employees eligible for pre-retirement benefits was expanded. The schemes were launched in both companies in December 2010 and will be completed in December 2011.

In Południowy Koncern Energetyczny S.A., the employment cost reduction package was concluded for a defined period of time ending 31 December 2011. This package is addressed to employees who are due to acquire retirement rights within 5 years or whose length of service is sufficient for retirement i.e. no less than 35 years of service for female workers and 40 for male workers as well as to individuals who acquired the right to early retirement. The employees could apply for the scheme as of 1 July 2010. Since the beginning of the period through the end of 2010, the scheme had been used by 47 individuals, who already received the related payments. As at 31 December 2010, another 250 employees have applied for early retirement.

(in PLN thousands)

As at 31 December 2010, the following provisions were recognized for amounts payable under the schemes:

- PLN 20,704 thousand at ENION S.A.,
- PLN 10,676 thousand at EnergiaPro S.A.,
- PLN 17,830 thousand at Południowy Koncern Energetyczny S.A.,
- PLN 1,120 thousand at Elektrownia Stalowa Wola S.A.

The total amount of benefits paid under the schemes in three companies until 31 December 2010 was PLN 35,887 thousand.

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

	31 December 2010	**31 December 2009**
Discount rate (%)	5.50%	5.75%
Estimated inflation rate (%)	2.50%	2.50%
Employee rotation rate (%)	0.48% – 4.82%	1.08% – 2.62%
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	9.62 – 16.30	9.97 – 14.18

28. Earnings per share

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

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 consolidated financial statements was calculated for the period on the assumption that the nominal value of one share has always been equal to PLN 9 and the weighted average number of shares was nine times smaller. Additionally, earnings per share for the year ended 31 December 2009 was calculated with account taken of the impact of application of IFRIC 18.

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

	Year ended 31 December 2010	**Year ended 31 December 2009 (*adjusted figures*)**
Net profit from continuing operations attributable to equity holders of the parent	858 656	774 426
Profit from discontinued operations attributable to equity holders of the parent	–	–
Net profit	**858 656**	**774 426**
Net profit attributable to ordinary shareholders, used to compute diluted earnings per share	858 656	774 426
Number of ordinary shares used to compute basic earnings per share	1 600 730 480	1 554 042 544
Number of ordinary shares used to compute diluted earnings per share	1 600 730 480	1 554 042 544

The table below presents earnings per share for the years ended 31 December 2010 and 31 December 2009 as presented in the statement of comprehensive income.

Earnings per share (in PLN)	**Year ended 31 December 2010**	**Year ended 31 December 2009 (*adjusted figures*)**
Basic, for profit for the period attributable to equity holders of the parent	0.54	0.50
Basic, for profit for the period from continuing operations attributable to equity holders of the parent	0.54	0.50
Diluted, for profit for the period attributable to equity holders of the parent	0.54	0.50
Diluted, for profit for the period from continuing operations attributable to equity holders of the parent	0.54	0.50

(in PLN thousands)

Earnings per share before the reverse stock split, as presented in the authorized consolidated financial statements for the year ended 31 December 2009, amounted to PLN 0.05. Earnings per share for the year ended 31 December 2009 before the reverse stock split and after taking into account IFRIC 18 amounted to PLN 0.06.

29. Dividends paid and proposed

	Year ended 31 December 2010	Year ended 31 December 2009
Dividends paid in the period		
Dividends paid throughout the year by subsidiaries	5 573	7 074
Final dividends paid by the parent	–	51 167
Payment from profit made by the parent	(32)	8 376
Payment from profit made by subsidiaries	–	–
Total dividends	**5 541**	**66 617**

The Management Board of the parent has proposed to allocate 30% of the consolidated profit of the Group for 2010 attributable to the equity holders of the parent for distribution in the form of dividend.

The restrictions for dividend distribution are described in Note 31.4 of explanatory notes to these consolidated financial statements.

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

	Year ended 31 December 2010	Year ended 31 December 2009
Dividend paid per share (PLN)	–	0,04

In addition to the final dividend, dividends in the form of amounts paid out from profit to the State Treasury were also included in the calculation of the value of dividend per share paid by the parent.

30. Business combinations and acquisitions of non-controlling interests

Issues relating to acquisitions and business combinations are generally regulated in IFRS 3 *Business Combinations*. However, transactions between entities under joint control are excluded from the scope of this standard. The entities contributed to the Company in 2007 were under the control of the State Treasury, which means that, at the moment of contribution, both the Company and the entities contributed were under joint control of the State Treasury. Therefore, in the opinion of the Company, the transaction of contribution of companies meets the definition of a transaction under joint control and is therefore excluded from the scope of IFRS 3.

The situation where a given transaction or business event which should be recognized in the IFRS financial statements is not regulated by the provisions of the individual standards is regulated by the provisions of IAS 8 paragraphs 10–12. These provisions require an entity preparing financial statements in accordance with IFRS to establish its own set of accounting policies, while indicating the following features of such accounting policies: faithful representation of financial position, results of operations and cash flows, reflecting the economic substance of the transaction, neutrality, prudence and completeness in all respects.

From the analyses performed by the Company, it is preferable to apply the pooling of interests method in the accounting for a combination of entities under joint control.

The assumption underlying this method is that the combining entities were controlled by the same shareholder both before and after the transaction and therefore the consolidated financial statements reflect the continuity of joint control and do not reflect any change of the value of net assets to fair value (or recognition of new assets) or valuation of goodwill, since none of the combining entities is in fact acquired. Therefore, the financial statements are prepared as if the combining entities had always been combined.

In the year ended 31 December 2010, the following business combinations took place:

Business combination of TAURON Polska Energia S.A. and the subsidiaries ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o.

On 10 June 2010, the parent, TAURON Polska Energia S.A., was 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 owners 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 business combination as described above represents an acquisition of non-controlling interests in the following companies: TAURON Ekoenergia Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Sprzedaż Sp. z o.o., Elektrociepłownia EC Nowa Sp. z o.o. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. In accordance with IAS 27 *Consolidated and Separate Financial Statements,* changes in the parent's ownership interests that do not result in loss of control over the subsidiary are accounted for as equity transactions. The difference between the nominal value of the issued shares decreased by additional payments in cash and the value of the non-controlling interest at the date of acquisition, amounting to PLN (145,651) thousand, was recognized in the Company's equity, in retained earnings.

Division of the subsidiary TAURON Sprzedaż Sp. z o.o.

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 time, the division of TAURON Sprzedaż Sp. z o.o. The division was effected pursuant to Article 529 § 1 item 4 of the Code of Commercial Companies, i.e. 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 share capital of TAURON Ekoenergia Sp. z o.o. was increased by an amount of PLN 255,806 thousand, from PLN 200,264 thousand to PLN 456,070 thousand, by way of creating 255,806 shares with a nominal value of PLN 1 thousand each, all of which were acquired by TAURON Polska Energia S.A. As a result of the division, the share capital of TAURON Sprzedaż Sp. z o.o. was decreased by an amount of PLN 381,290 thousand, from PLN 663,887 thousand to PLN 282,597 thousand, by way of redemption of 7,625,793 shares with a value of PLN 50 each. As a result of the division, since October 2010 TAURON Ekoenergia Sp. z o.o. has been managing all of the hydroelectric plants owned by the TAURON Group.

The division of TAURON Sprzedaż sp. z o.o. as described herein had no impact on the consolidated financial statements as at 31 December 2010.

Acquisition of additional shares in the subsidiaries from the State Treasury

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 "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.

In addition, on 21 December 2010, TAURON Polska Energia S.A. acquired for cash the remaining shares held by the State Treasury in the above-mentioned companies, i.e.:

- 12,960 shares held by the State Treasury in Południowy Koncern Energetyczny S.A. based in Katowice, for PLN 497 thousand,
- 2,826 shares held by the State Treasury in Elektrownia Stalowa Wola S.A. based in Stalowa Wola, for PLN 67 thousand,
- 409,689 shares held by the State Treasury in ENION S.A. based in Cracow, for PLN 45 thousand,
- 292,337 shares held by the State Treasury in EnergiaPro S.A. based in Wrocław, for PLN 99 thousand.

(in PLN thousands)

The acquisition of shares from a non-controlling owner as described above resulted in the decrease of the non-controlling interest by PLN 1,813,788 thousand and an increase of retained earnings by PLN 110,204 thousand.

Acquisition of shares in the increased share capital of TAURON Ekoenergia Sp. z o.o.

On 23 November 2010, the Extraordinary Shareholders' Meeting of TAURON Ekoenergia Sp. z o.o. gave consent for the increase of the company's share capital from PLN 456,070 thousand to PLN 536,070 thousand, i.e. by an amount of PLN 80,000 thousand. The shares were taken up and fully covered with cash by the sole shareholder – TAURON Polska Energia S.A. On 30 November 2010, as a result of the above-mentioned resolution, TAURON Polska Energia S.A. transferred an amount of PLN 80,000 thousand to the bank account of TAURON Ekoenergia Sp. z o.o.

The acquisition of shares in the increased share capital of TAURON Ekoenergia Sp. z o.o. had no impact on the consolidated financial statements as at 31 December 2010.

Acquisition of shares in BELS INVESTMENT Sp. z o.o. and MEGAWAT MARSZEWO Sp. z o.o.

In 2010, the Group acquired shares in two specific purpose companies which had been set up for the purpose of developing wind farms:

- On 23 April 2010, a 100% stake was acquired in BELS INVESTMENT Sp. z o.o., which commenced the development of a wind park on the territory of Wicko commune, comprising 20 standalone power plants with a total power of 40 MW. The price paid for the shares amounted to PLN 16,756 thousand.
- On 15 December 2010, a 100% stake was acquired in MEGAWAT MARSZEWO Sp. z o.o., which commenced the development of a wind park on the territory of Postomino commune with a total power of 40 MW, for the price of PLN 82,045 thousand.

The acquisition of the above-mentioned companies was accounted for as an acquisition of a group of assets and liabilities. Therefore, as a result of several analyses, a simplified solution was applied which involved an allocation of the excess of the cost of acquisition over the value of the acquired cash and receivables less the acquired liabilities to assets under construction. As a result, an amount of PLN 25,234 thousand was allocated to assets under construction in respect of BELS INVESTMENT Sp. z o.o. and an amount of PLN 86,118 thousand in respect of MEGAWAT MARSZEWO Sp. z o.o.

31. Issued capital and other items of equity

31.1. 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**	

(in PLN thousands)

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

Shareholder	Value of shares	Percentage of share capital	Percentage of total vote
State Treasury (notification from 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	Percentage of share capital	Percentage of total vote
State Treasury	12 306 444	87.99%	87.99%
Other shareholders	1 679 840	12.01%	12.01%
Total	**13 986 284**	**100.00%**	**100.00%**

As a result of the parent's merger with its subsidiaries, ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o., as described in detail in Note 30, the Company issued shares with a total nominal value of PLN 318,665 thousand.

Following the reverse stock split 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 "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, as discussed in detail in Note 30.

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.

31.2. Shareholders rights

State Treasury rights

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

(in PLN thousands)

Employee share plan

Under the Commercialization and Privatization Act of 30 August 1996 (consolidated text: Journal of Laws of 14 October 2002, No. 171, item 1397 as amended), employees and other eligible individuals from the subsidiaries in the TAURON Polska Energia S.A. Group are eligible for shares of the enterprises in which they were employed at the date on which the commercialized state enterprise was deleted from the register.

International Financial Reporting Standard 2 *Share-based payment* applies to transactions under which an enterprise is issuing its financial instruments even in exchange for unidentifiable goods and services; therefore, the granting of employee shares has been presented in these consolidated financial statements in accordance with IFRS 2.

Under the provisions of the Act of 7 September 2007 on the Principles of Acquiring Shares from the State Treasury in the Process of Consolidation of Companies from the Power Industry (Journal of Laws No. 191, item 1367 as amended), and the Act of 19 December 2008 on Amendments to the Commercialization and Privatization Act and the Principles of Acquiring Shares from the State Treasury in the Process of Consolidation of Companies from the Power Industry (Journal of Laws of 2009 No. 13, item 70), in the period from 13 August 2009 the Group has been carrying out the process of conversion of the shares held by the eligible shareholders of PKE S.A., ENION S.A., EnergiaPro S.A. and Elektrownia Stalowa Wola S.A. into the shares of TAURON Polska Energia S.A. as well as the process of a gratuitous disposal of the shares of TAURON Polska Energia S.A. to the eligible individuals in lieu of their rights to shares in the aforementioned companies.

For the purpose of accounting for costs of employee shares it has been adopted that the beginning of the vesting period shall be the date of commercialization of a given subsidiary, and the grant date shall be the date of publication of final lists with the number of shares granted to the employees of the given company. The cost of employee shares in the year 2009 amounted to PLN 911 thousand, including that attributable to non-controlling interests of PLN 137 thousand.

The value of the plan was determined based on valuations of the subsidiaries' shares contributed in kind to TAURON Polska Energia S.A. at the dates of their contribution and based on the fair values of those shares available subsequent to the dates of their contribution. The employee share plan attributable to the equity holders of the parent has been recognized in equity under "Capital resulting from share-based payments". After the completion of the process of granting shares to employees, which took place in 2009, the relevant amount was transferred from "Capital resulting from share-based payments" to retained earnings.

The eligible current and former employees of Południowy Koncern Węglowy S.A. are entitled to receive in the future shares in Kompania Węglowa S.A. if they are granted in accordance with the provisions on commercialization and privatization of state enterprises. This is due to the fact that Kompania Węglowa S.A. is the legal successor of the entities in which those individuals acquired rights to employee shares. As at the date of these consolidated financial statements it is uncertain whether or not the shares of Kompania Węglowa S.A. will be granted in the future to eligible individuals, and both the value of such shares and their anticipated allocation to the specific eligible individuals are unknown, the cost of this share plan could not be reliably estimated or recognized in these consolidated financial statements.

The Group did not operate any employee share plans other than the above-mentioned plan for granting shares under the Commercialization and Privatization Act.

31.3. Reserve capital

Reserve capital results from appropriations of profits generated by the parent in previous financial years, amounting to PLN 240,209 thousand, and the surplus of the issue price of shares class BB (PLN 10.44 each) over their par value (PLN 9 each), amounting to PLN 234,879 thousand. The issue of shares class BB has been described in detail in Note 31.1.

31.4. Retained earnings and restrictions on distribution

Retained earnings also include amounts that are not eligible for distribution i.e. cannot be distributed in the form of dividends by the parent:

	As at 31 December 2010	As at 31 December 2009 (*adjusted figures*)
Retained earnings not distributable by the parent:	**(1 733 447)**	**(2 360 774)**
– retained earnings of subsidiaries, attributable to equity holders of the parent	(1 587 796)	(2 377 029)
– differences between retained earnings in the statutory and IFRS financial statements of the parent	–	1 492
– 8% statutory net profit of the parent allocated to reserve capital under the Commercial Companies Code	–	14 763
– retained earnings from accounting for merger with subsidiaries	(145 651)	–
Retained earnings of the parent eligible for distribution	**190 510**	**169 772**
Total retained earnings in the consolidated financial statements, attributable to equity holders of the parent	**(1 542 937)**	**(2 191 002)**

(in PLN thousands)

In accordance with the provisions of the Code of Commercial Companies, the parent and the subsidiaries having the legal form of a joint-stock company are required to a create reserve capital for possible losses. Transferred to this capital category is at least 8% of net profit for the given financial year reported in the standalone financial statements of the company until such time as the balance of the reserve capital reaches at least one third of the issued share capital of the company. Appropriation of the reserve capital and other reserves depends on the decision of the General Meeting of Shareholders; however, the reserve capital in the amount of one third of the issued share capital may be used solely for the absorption of losses reported in the standalone financial statements of the company ad shall not be used for any other purpose.

Due to the filing, on 28 February 2011, of an application for registration with the National Court Register of a share capital decrease effected by the resolution of the Extraordinary General Shareholders' Meeting of TAURON Polska Energia S.A. dated 10 November 2010 (as described in detail in Note 31.1.), 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 a resolution on the appropriation of the profit of TAURON Polska Energia S.A. for 2010.

As at 31 December 2010, the value of the issued share capital of the parent reported in the statutory financial statements was PLN 15,772,945 thousand, and the value of the reserve capital was PLN 475,088 thousand.

Retained earnings arising from the settlement of capital resulting from share-based payments after the completion of the share option plan as well as retained earnings arising from accounting for business combinations are not available for distribution.

As at 31 December 2010 and as at the date of authorization of these financial statements for issue, there are no other restrictions on distribution of profit in the form of dividends.

31.5. Non-controlling interests

	Year ended 31 December 2010	Year ended 31 December 2009 (*adjusted figures*)
At the beginning of period	**2 375 100**	**2 219 533**
Dividends paid by subsidiaries	(6 027)	(21 214)
Share in the change in value of financial instruments	135	2 907
Share-based payments to employees – accrual	–	137
Acquisition of non-controlling interests by the Group	(1 983 152)	–
Mandatory squeeze-out	(11 537)	–
Share in subsidiaries' net profit or loss	132 727	173 737
At the end of period	**507 246**	**2 375 100**

(in PLN thousands)

32. Provisions

32.1. Movements in provisions

Year ended 31 December 2010

	Provision for counterparty claims, court disputes, onerous contracts	Provision for disputes with employees, restructuring	Provision for restoration of land and dismantling and removal of fixed assets	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provision for use of real estate under power generation facilities without contract and other provisions	Provisions, total
Opening balance	**19 552**	**238**	**22 639**	–	**750 015**	**62 360**	**854 804**
Discount rate adjustment	–	–	961	–	–	–	**961**
Recognition	18 777	374	8 461	101 173	1 071 510	13 939	**1 214 234**
Reversal	(3 948)	–	(256)	–	(10 478)	(2 006)	**(16 688)**
Utilisation	(107)	–	–	–	(1 024 016)	(7 390)	**(1 031 513)**
Other movements	–	–	2 894	–	–	–	**2 894**
Closing balance	**34 274**	**612**	**34 699**	**101 173**	**787 031**	**66 903**	**1 024 692**
CURRENT	**34 274**	**612**	–	**101 173**	**787 031**	**66 163**	**989 253**
NON-CURRENT	–	–	**34 699**	–	–	**740**	**35 439**

Year ended 31 December 2009

	Provision for counterparty claims, court disputes, onerous contracts	Provision for disputes with employees, restructuring	Provision for restoration of land and dismantling and removal of fixed assets	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provision for use of real estate under power generation facilities without contract and other provisions	Provisions, total
Opening balance	**15 603**	**1 504**	**23 550**	–	**620 706**	**47 086**	**708 449**
Discount rate adjustment	–	–	1 137	–	–	–	**1 137**
Recognition	8 530	–	–	–	809 715	28 639	**846 884**
Reversal	(3 759)	(340)	–	–	(10 973)	(20 313)	**(35 385)**
Utilisation	(338)	(926)	–	–	(666 314)	(2 028)	**(669 606)**
Other movements	(484)	–	(2 048)	–	(3 119)	8 976	**3 325**
Closing balance	**19 552**	**238**	**22 639**	–	**750 015**	**62 360**	**854 804**
CURRENT	**19 552**	**238**	–	–	**750 015**	**61 597**	**831 402**
NON-CURRENT	–	–	**22 639**	–	–	**762**	**23 401**

32.2. Details of significant provisions

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

32.2.1.1. Provision for proceedings before the Consumers and Competition Protection Office

Enion S.A. recognized a provision of PLN 15,850 thousand for cash penalties imposed on it by the President of the Consumers and Competition Protection Office for abuse of its dominant position on the electricity distribution market. Enion S.A. appealed against this decision to the Court of Competition and Consumers Protection. As at 31 December 2010, the proceedings relating to this issue are still pending.

32.2.1.2. Provision for claims of ArcelorMittal Poland S.A.

ENION S.A. recognized a provision at the amount of the claim of ArcelorMittal Poland S.A., i.e. PLN 7,200 thousand. This claim results from mutual offsetting settlements between several entities, including the former Zakład Energetyczny Kraków S.A. (whose legal successor is ENION S.A.) and Huta im. Tadeusza Sendzimira S.A. (whose legal successor is ArcelorMittal Poland S.A.).

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

Under the Geological and Mining Law, Południowy Koncern Węglowy S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. recognize provisions for future decommissioning costs of their mining facilities. These provisions are recognized based on the estimate of the anticipated decommissioning costs related to the dismantling and removal of mining and other technological facilities and the restoration of land to its original condition after completion of mining activities. The amounts of the provisions are estimated based on expert studies and technological and economic analyses prepared by in-house staff or external experts. The amounts of the provisions are estimated and reviewed at each balance sheet date on the basis of current cost estimates, assessments of the usage of land and inflation and discount rates. As at 31 December 2010, the provision recognized by Kopalnia Wapienia Czatkowice Sp. z o.o. amounted to PLN 3 233 thousand, and the provision recognized by Południowy Koncern Węglowy S.A., including the Mine Decommissioning Fund, amounted to PLN 23,015 thousand.

Due to the legal obligation to dismantle and remove fixed assets after the period of their usage, Elektrownia Stalowa Wola S.A. recognizes a provision for the estimated future costs necessary to discharge of this obligation. As at 31 December 2010, the provision amounted to PLN 8,461 thousand.

32.2.3. Provision for obligation to surrender energy certificates

Due to the sale of electricity to final users, the Group is required to surrender for cancellation a certain number of certificates of electricity generated using renewable sources, gas-fired plants and cogeneration. As at 31 December 2010, the provision recognized in this respect amounted to PLN 787,031 thousand.

32.2.4. Provision for gas emission related obligations

As a result of the purchase of greenhouse gas emission allowances by Elektrociepłownia EC Nowa Sp. z o.o. and Południowy Koncern Energetyczny S.A., during the year under review those companies recognized a provision for the cost of surrendering those allowances for cancellation. As at 31 December 2010, the provision amounted to PLN 101,173 thousand.

32.2.5. Other provisions

32.2.5.1. Provision for use of land without a contract

The Group companies recognize provisions for all claims reported by the owners of real estate on which distribution systems and heat installations are located. As at 31 December 2010, the provision amounted to PLN 20,428 thousand. The companies do not recognize provisions for unreported potential claims from owners of land with an unregulated status.

32.2.5.2. Provision for real estate tax

Due to pending tax proceedings, Południowy Koncern Węglowy S.A. recognized a provision for the real estate tax on workings and the related structures for the years 2005–2010, including interest for late payments. As at 31 December 2010, the provision amounted to PLN 16,993 thousand.

The remaining amount of provisions includes provisions for reported and acknowledged mining damages and potential penalties and indemnities.

33. Capital commitments

As at 31 December 2010, the TAURON Polska Energia S.A. Group had a commitment to incur expenditures for property, plant and equipment at an amount of PLN 1,096,642 thousand. As it was the case as at 31 December 2009, the largest item is the capital commitment related to the restoration of production capacities at the Bielsko-Biała CHP Plant being part of Południowy Koncern Energetyczny S.A., amounting to PLN 360,700 thousand.

As at 31 December 2009, the TAURON Polska Energia S.A. Group had capital commitments of PLN 892,289 thousand. The largest item was the capital commitment related to the restoration of power capacities at the Bielsko-Biała CHP Plant, amounting to PLN 409,700 thousand.

34. Contingent liabilities

Mining damages

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

Use of real estate without a contract

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

Compensation for stranded costs

As a result of the Act of 29 June 2007 on the Principles for Covering Costs Incurred by Electricity Generators due to Early Termination of Long-term Power Purchase Agreements (Journal of Laws of 2007, No. 130, item 905 – “the PPA Act”) coming into effect, Południowy Koncern Energetyczny S.A. (“PKE”) volunteered to join the program of early termination of long-term power purchase agreements (“PPAs”) by signing an agreement to terminate such contracts. The signing of such an agreement provides a basis for electricity generators to receive funds to cover their expenses that are not covered by the income derived from the sale of generated electricity, reserve capacity and system-related services on a competitive market after early termination of PPAs, resulting from the expenditures incurred by such companies for assets related to electricity generation up to 1 May 2004. Under the PPA Act, the maximum amount of stranded costs and the amounts used in the calculation of annual adjustments to stranded costs were established for each electricity generator. After termination of PPAs, beginning from the 2nd quarter of 2008, PKE receives quarterly cash advances based on the submitted requests. Annual adjustments will be subsequently made to stranded costs throughout the so-called adjustment period, lasting until the expiry of the longest long-term agreement held by the given company. The final adjustment to stranded costs will be made in the year following the year in which the adjustment period of the given company ceases.

In accordance with the accounting policy adopted, in 2008, 2009 and 2010 PKE recognized, based on the developed financial model, compensation revenue amounting to PLN 192,163 thousand, PLN 483,956 thousand and PLN 437,875 PLN, respectively.

Under the decision of the President of the Energy Regulatory Office (URE) dated 31 July 2009, Południowy Koncern Energetyczny S.A. was required to return an amount of PLN 159,508 thousand to Zarządca Rozliczeń S.A. by 30 September 2009. The company appealed against the above decision to the Regional Court in Warsaw – the Court for Competition and Consumers Protection through the President of URE and submitted a motion to suspend its execution. On 24 September 2009, the Court issued a decision to suspend the execution of the decision with regard to amounts exceeding PLN 79,754 thousand. In accordance with the Court’s ruling, the company paid the amount referred to above.

In the judgment of the Regional Court in Warsaw – the Court for Competition and Consumers Protection dated 26 May 2010, the Court modified the challenged decision and acknowledged the company’s right to make a positive adjustment to stranded costs of PLN 79,088 thousand.

On 8 July 2010, the President of URE lodged an appeal against the judgment of the Regional Court in Warsaw – the Court for Competition and Consumers Protection with the Court of Appeal in Warsaw (The 6th Civil Department). At the date of these financial statements, the issue of the annual adjustment to stranded costs for 2008 is still under dispute.

In the decision of 29 July 2010, the President of URE determined the amount of the annual adjustment to be made by Południowy Koncern Energetyczny S.A. to stranded costs for 2009 at PLN 138,202 thousand. On 30 September 2010, this amount was received by Południowy Koncern Energetyczny S.A. into its bank account.

Antimonopoly proceedings

The Competition and Consumers Protection Office is conducting antimonopoly proceedings with respect to the distribution system operators being part of the Group. These proceedings relate to the alleged abuse of the dominant position on the electricity distribution market. In the case of ENION S.A., an appeal has been filed against the decision of the Competition and Consumers Protection Office (see Note 32.2.1), while in the case of EnergiaPro S.A., the proceedings are pending and no decision has been issued as at the date of these consolidated financial statements. The Company’s directors and management of the aforementioned companies believe that their operations in the area of electricity distribution are carried out in conformity with binding regulations and the outcome of the above proceedings will have no significant impact on the Group’s financial position.

(in PLN thousands)

Potential liabilities relating to environmental protection

In accordance with the provisions of integrated permits, Południowy Koncern Energetyczny S.A. has an obligation for rehabilitation of manufacturing waste dumps. No provision has been recognized for this obligation as the land on which the waste dumps are located has no regulated status with regard to its ownership and no specific requirements have been set for the scope of rehabilitation.

URE's proceedings regarding cash penalty

Due to interruptions in electricity supply, in 2010 the President of the Energy Regulatory Office (URE) instituted ex officio proceedings in the matter of imposing cash penalties on ENION S.A. and TAURON Sprzedaż Sp. z o.o. due to the identification of a breach of law in their operations consisting in the application of rates and charges that were inconsistent with the terms relating to bonuses granted for interruptions in electricity supply. In the event of confirming the alleged breaches of law as a result of the above-mentioned proceedings, the President of URE will be entitled to impose cash penalties on the companies, up to 15% of the income generated from their concession-based operations in the previous fiscal year. The companies submitted their explanations and the required documents; however, the case is still pending as at the date of these consolidated financial statements for the year 2010. Management believes that no provision is required for the potential cash penalties, as, at the balance sheet date, no legal obligations were arising for the companies from the proceedings in question nor was it possible to estimate the probability of the penalties being imposed or the amount of the potential future penalty.

Excise

Contingent liabilities resulting from excise are presented in Note 35.

Other contingent liabilities

	As at 31 December 2010
Loans'/credits' repayment guarantee	3 108
Promissory note's repayment guarantee	414
Bank's guarantee liabilities	2 251
Legal action's liabilities	2 400
Other contingent liabilities	2 195
Total contingent liabilities	**10 368**

35. Tax settlements

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

Tax authorities may examine the accounting records within up to five years after the end of the year in which the final tax payments were to be made. Consequently, the Group may be subject to additional tax liabilities, which may arise as a result of additional tax audits. The Group believes that adequate provisions have been recorded for known and quantifiable risks in this regard as at 31 December 2010.

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

Excise

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

On 12 February 2009, the European Court of Justice passed a judgment confirming that Poland had breached the EU law by failing to adjust, until 1 January 2006, its electricity taxation system to the requirements of Article 21 paragraph 5 of the European Council Directive 2003/96/EC of 27 October 2003 on Restructuring the Community Framework for the Taxation of Energy Products and Electricity (amended by the Council Directive 2004/74/EC dated 29 April 2004), as, in the period until 28 February 2009, the tax obligation in respect of excise on electricity in Poland arose at the moment the electricity was issued by the generator instead of at the moment of its supply by the distributor or redistributor.

(in PLN thousands)

In the light of the above, there are significant chances for obtaining a refund of the excise paid in breach of the EU law. The Ministry of Finance is, however, of the opinion that such a refund would result in an unjustified enrichment of electricity-generators and hence it is groundless. For this reason, the process of excise recovery may extend until court decisions.

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

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

Real estate tax

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

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

36. Related party disclosures

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

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.

36.1. Transactions with State Treasury companies

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

Revenues and expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Revenue	1 887 924	1 128 825
Costs*	(4 475 008)	(2 809 416)

* Includes costs recognized in the statement of comprehensive income.

Receivables and payables

	As at 30 December 2010	As at 31 December 2009
Receivables	256 738	114 883
Payables	380 379	297 668

Among the State Treasury companies, the following were the largest clients of the TAURON Polska Energia S.A. Group during the year 2010: Izba Rozliczeniowa Giełd Towarowych S.A., PSE Operator S.A., KGHM Polska Miedź S.A. and Kompania Węglowa S.A. Total sales to these counterparties accounted for almost 77% of revenue from transactions with State Treasury companies. The largest purchase transactions were made by the Group with PSE Operator S.A., Kompania Węglowa S.A. and Izba Rozliczeniowa Giełd Towarowych S.A. Purchases from these counterparties accounted for over 66% of the value of purchases from the State Treasury companies during the year 2010.

Among the State Treasury companies, the following were the largest clients of the TAURON Polska Energia S.A. Group during the year 2009: PGE Polska Grupa Energetyczna S.A., PSE Operator S.A., KGHM Polska Miedź S.A. and Kompania Węglowa S.A. Total sales to these counterparties accounted for almost 90% of revenue from transactions with State Treasury companies. The largest purchase transactions were made by the Group with PSE Operator S.A. and Kompania Węglowa S.A. The related costs accounted for 86% of the costs incurred as a result of purchases from the State Treasury companies during the year 2009.

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

(in PLN thousands)

36.2. Compensation of key management personnel

Up until 28 June 2010, the compensation of the Directors and 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). In accordance with the provisions of this Act, the maximum monthly remuneration cannot exceed six times the amount of the average monthly remuneration in the business sector excluding profit-based bonuses in the fourth quarter of the preceding year, as announced by the President of the Central Statistical Office. The amount of the annual bonus for the Board of Directors must not exceed three times their average monthly remuneration in the year preceding the year in which the bonus was granted.

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

In addition, during the years covered by these consolidated financial statements, members of the executive and supervisory bodies of the Group companies received loans from the Social Fund. The balance of outstanding loans as at 31 December 2010 was PLN 18 thousand.

	Parent		Subsidiaries	
	Year ended 31 December 2010	**Year ended 31 December 2009**	**Year ended 31 December 2010**	**Year ended 31 December 2009**
Board of Directors	**5 967**	**1 622**	**15 318**	**10 724**
Short-term employee benefits (salaries and surcharges)	5 200	1 261	14 282	10 276
Jubilee bonuses	73	40	246	240
Post-employment benefits	41	–	–	–
Employment termination benefits	–	–	31	150
Share-based payments	–	–	–	–
Other	653	321	759	58
Supervisory Board	**329**	**279**	**2 872**	**2 955**
Short-term employee benefits (salaries and surcharges)	329	279	2 691	2 950
Jubilee bonuses	–	–	–	–
Post-employment benefits	–	–	–	–
Employment termination benefits	–	–	–	–
Share-based payments	–	–	–	–
Other	–	–	181	5
Total	**6 296**	**1 901**	**18 190**	**13 679**
Other key management personnel*	**5 745**	**4 205**	**32 826**	**18 647**
Short-term employee benefits (salaries and surcharges)	5 079	3 818	31 549	17 849
Jubilee bonuses	91	115	736	508
Post-employment benefits	–	–	61	140
Employment termination benefits	–	–	–	69
Share-based payments	–	–	–	–
Other	575	272	480	81

(*) The range of individuals included in the subsidiaries' key management personnel was expanded in the period ended 31 December 2010 compared with the year 2009.

(in PLN thousands)

37. Financial instruments

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

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	**7 658**	**7 084**
Shares in unlisted and listed companies (current)	553	485
Investment fund units	6 848	6 599
Derivative instruments	257	–
2 Financial assets available for sale	**156 089**	**153 162**
Shares in unlisted and listed companies (non-current)	148 514	145 095
Shares in unlisted and listed companies (current)	1 058	937
Investment fund units	2 958	2 873
Bonds, T-bills and other debt securities	1 500	1 905
Other financial assets available for sale	2 059	2 352
3 Financial assets held to maturity	–	**4 151**
Bonds, T-bills and other debt securities	–	4 151
4 Loans and receivables	**2 315 043**	**1 907 351**
Trade receivables	1 567 937	1 199 627
Deposits	35 493	23 887
Loans granted	240	315
Other financial receivables	711 373	683 522
5 Financial assets excluded from the scope of IAS 39	**764**	–
Investments in associates and joint ventures recognised using the equity method	764	–
6 Derivative hedging instruments (assets)	–	**1 747**
7 Cash and cash equivalents	**1 473 981**	**1 032 103**

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	**6 917**	–
Derivative instruments	6 917	–
2 Financial liabilities measured at amortized cost	**3 030 921**	**3 261 092**
Preferential loans	243 323	329 369
Arm's length loans	309 411	790 118
Bank overdrafts	2 464	59 453
Issued debentures and other debt securities	846 007	596 781
Trade payables	945 457	966 193
Other financial liabilities	90 057	108 895
Commitments resulting from purchases of fixed and intangible assets	388 467	271 609
Salaries and wages	178 482	117 843
Insurance contracts	27 253	20 831
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**91 262**	**123 668**
Obligations under finance leases and hire purchase contracts	91 262	123 668
4 Derivative hedging instruments (liabilities)	–	**11 038**

The fair value of the financial instruments held by the Group as at 31 December 2010 and 31 December 2009 did not significantly differ from their carrying amounts in the financial statements for the individual years, due to the following reasons:

- the potential discounting effect relating to short-term instruments is not significant;
- the instruments relate to arm's length transactions; and
- where necessary, the carrying amount of shares not traded on an active market was determined taking into account impairment and approximates fair value.

(in PLN thousands)

37.2. 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 at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Hedging instruments	Total
Dividends and shares in profits	3	4 351	–	–	450	–	–	–	–	**4 804**
Interest income/(expense)	36 437	–	570	38 969	–	(16)	(100 703)	(6 880)	(6 065)	**(37 688)**
Currency translation differences	(196)	–	–	(589)	–	–	(521)	476	–	**(830)**
Reversal of impairment losses/ "upwards" revaluation	759	–	–	8 994	–	–	–	–	–	**9 753**
Recognition of impairement losses/ "downwards" revaluation	(192)	(1 802)	(2 932)	(4 881)	–	–	–	–	(5 772)	**(15 579)**
Commission relating to borrowings and debt securities	–	–	–	–	–	–	(30 751)	–	–	**(30 751)**
Gain/(loss) on disposal of investments	(107)	8	–	–	–	–	–	–	–	**(99)**
Net profit (loss)	**36 704**	**2 557**	**(2 362)**	**42 493**	**450**	**(16)**	**(131 975)**	**(6 404)**	**(11 837)**	**(70 390)**

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 at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Hedging instruments	Total
Dividends and shares in profits	250	5 006	–	–	14 039	–	–	–	–	**19 295**
Interest income/(expense)	37 080	–	302	22 810	–	(173)	(94 328)	(8 158)	(10 865)	**(53 332)**
Currency translation differences	(786)	(1 577)	–	(4 532)	–	–	(1 286)	64	–	**(8 117)**
Reversal of impairment losses/ "upwards" revaluation	600	–	–	3 941	–	–	–	–	13 526	**18 067**
Recognition of impairement losses/ "downwards" revaluation	(35)	(2 349)	–	(3 580)	–	–	–	–	–	**(5 964)**
Commission relating to borrowings and debt securities	–	–	–	–	–	–	(6 941)	–	–	**(6 941)**
Gain/(loss) on disposal of investments	4 329	8 284	–	–	–	–	–	–	–	**12 613**
Net profit (loss)	**41 438**	**9 364**	**302**	**18 639**	**14 039**	**(173)**	**(102 555)**	**(8 094)**	**2 661**	**(24 379)**

(in PLN thousands)

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

37.3.1. Financial assets at fair value through profit or loss

Investment fund units represented the main item of financial assets at fair value through profit or loss in 2010. As at 31 December 2010, the Group held investment fund units in OFI Opera amounting to PLN 6,848 thousand.

Investment fund units were also the main item of financial assets at fair value through profit or loss in 2009. As at 31 December 2009, the Group held investment fund units in OFI Opera amounting to PLN 6,599 thousand.

Derivatives (PLN 257 thousand) relate to currency forward contracts, to which no hedge accounting is applied.

37.3.2. Financial assets available for sale

The key items of available-for-sale financial assets in 2010 were shares in unlisted and listed companies classified as non-current.

The key companies whose shares were held by the Group as at 31 December 2010 and were classified as assets available for sale include: Spółka Ciepłowniczo-Energetyczna Jaworzno III Sp. z o.o., shares with a value of PLN 35,694 thousand, Energetyka Cieszyńska Sp. z o.o., shares with a value of PLN 15,028 thousand; Knauf Jaworzno III Sp. z o.o., shares with a value of PLN 19,857 thousand and Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. Tychy, shares totaling PLN 31,608 thousand.

The key items of available-for-sale financial assets in 2009 were also shares in unlisted and listed companies classified as non-current, among which the most significant items were also shares in the above-mentioned companies.

37.3.3. Financial assets held to maturity

As at 31 December 2010, the Group had no financial assets held to maturity.

Financial assets held to maturity as at 31 December 2009 consisted of corporate bonds of Zakład Ekspertyz Gospodarczych Sp. z o.o. amounting to PLN 2,662 thousand and investment notes of ETF Energo Utech S.A. amounting to PLN 1,489 thousand.

37.3.4. Financial assets excluded from the scope of IAS 39

As at 31 December 2010, the Group had a joint venture which was accounted for using the equity method. This is the specific purpose company Elektrociepłownia Stalowa Wola S.A., in which Elektrownia Stalowa Wola S.A. and PGNiG Energia S.A. have 50% stakes in the share capital and governing body. The investment has been described in detail in Note 2 of these consolidated financial statements.

37.3.5. Derivative instruments (assets)

Derivative instruments are described in detail in Note 38.6.

37.3.6. Financial liabilities measured at amortized cost

37.3.6.1. Loans taken out

The tables below present loans taken out as at 31 December 2010 and 31 December 2009.

Loans taken out as at 31 December 2010

Currency	Interest rate	Value of loans as at the balance sheet date		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	534 046	534 046	152 240	158 589	168 500	36 576	18 119	22
	fixed	210	210	210	–	–	–	–	–
Total PLN		**534 256**	**534 256**	**152 450**	**158 589**	**168 500**	**36 576**	**18 119**	**22**
EUR	floating	2 461	9 748	609	1 828	2 437	2 437	2 437	–
	fixed	–	–	–	–	–	–	–	–
Total EUR		**2 461**	**9 748**	**609**	**1 828**	**2 437**	**2 437**	**2 437**	**–**
USD	floating	3 641	10 793	–	10 793	–	–	–	–
	fixed	–	–	–	–	–	–	–	–
Total USD		**3 641**	**10 793**	**–**	**10 793**	**–**	**–**	**–**	**–**
Total			**554 797**	**153 059**	**171 210**	**170 937**	**39 013**	**20 556**	**22**
Interest increasing carrying amount			401						
Total loans			**555 198**						

(in PLN thousands)

Loans taken out as at 31 December 2009

Currency	Interest rate	Value of loans as at the balance sheet date		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	888 394	888 394	111 921	289 785	275 852	170 644	40 144	48
	fixed	1 658	1 658	–	1 598	60	–	–	–
Total PLN		**890 052**	**890 052**	**111 921**	**291 383**	**275 912**	**170 644**	**40 144**	**48**
EUR	floating	5 887	24 187	883	2 649	3 532	3 532	7 064	6 527
	fixed	–	–	–	–	–	–	–	–
Total EUR		**5 887**	**24 187**	**883**	**2 649**	**3 532**	**3 532**	**7 064**	**6 527**
USD	floating	92 633	264 031	24 374	83 316	108 131	48 210	–	–
	fixed	–	–	–	–	–	–	–	–
Total USD		**92 633**	**264 031**	**24 374**	**83 316**	**108 131**	**48 210**	–	–
Total			**1 178 270**	**137 178**	**377 348**	**387 575**	**222 386**	**47 208**	**6 575**
Interest increasing carrying amount			670						
Total loans			**1 178 940**						

The table below demonstrates movements in the balance of loans without interest increasing their carrying amount for the years ended 31 December 2010 and 31 December 2009.

	Year ended 31 December 2010	Year ended 31 December 2009
Opening balance	**1 178 270**	**1 357 231**
Movement in bank overdrafts	**(56 989)**	**16 470**
Movement in loans (excluding bank overdrafts):	**(566 484)**	**(195 431)**
Taken out	167 115	208 398
Repaid	(744 020)	(415 385)
Change in valuation	10 421	11 556
Closing balance	**554 797**	**1 178 270**

Significant items of loans as at 31 December 2010 and 31 December 2009 are the investment loans taken out by Południowy Koncern Energetyczny S.A. for investment projects including:

- Construction of a power unit at the Łagisza Power Plant, which was financed using a preferential loan granted by the National Fund for Environmental Protection and Water Management and an investment loan granted by Bank Ochrony Środowiska S.A. These liabilities are denominated in Polish currency and have floating interest rates. Their carrying amounts as at 31 December 2010 and 31 December 2009 are presented in the table below.

Lender	As at 31 December 2010	As at 31 December 2009	Final repayment deadline
National Fund for Environmental Protection and Water Management	176 000	247 940	20 December 2012
Bank Ochrony Środowiska S.A.	60 000	74 838	31 December 2013
Total	**236 000**	**322 778**	

The investment in question was made available for use in 2009. It was additionally financed by the debentures issued by Południowy Koncern Energetyczny S.A., as described in detail in Note 37.3.6.2.

- Reconstruction of units I, II at the Siersza Power Plant. As at 31 December 2009, this investment project was financed from loans granted by Bank Polska Kasa Opieki S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. The liability under the loan granted by Bank Polska Kasa Opieki S.A. was paid in full on 30 December 2010, while the loan granted by Powszechna Kasa Oszczędności Bank Polski S.A. was repaid on 3 January 2011. The funds used for the repayment of those liabilities were obtained from the issue of intercompany debentures acquired by TAURON Polska Energia S.A. The loans were taken out in US dollars and were repaid in Polish zloty. They had floating interest rates. Their carrying amounts as at 31 December 2010 and 31 December 2009 are presented in the table below.

(in PLN thousands)

Lender	As at 31 December 2010	As at 31 December 2009	Final repayment deadline
Bank Polska Kasa Opieki S.A.	–	169 479	31 December 2012
Powszechna Kasa Oszczędności Bank Polski S.A.	48 395	74 207	31 December 2012
Total	**48 395**	**243 686**	

- Modernization of the power unit and construction of desulfurization installations for the power units at the Łaziska Power Plant, which as at 31 December 2009 were financed from loans granted by Bank Polska Kasa Opieki S.A., in Polish currency and with floating interest rates. On 30 December 2010, Południowy Koncern Energetyczny S.A. repaid the outstanding liability before maturity using the funds obtained from the issue of intercompany debentures. The carrying amounts as at 31 December 2010 and 31 December 2009 are presented in the table below.

Lender	As at 31 December 2010	As at 31 December 2009	Final repayment deadline
Bank Polska Kasa Opieki S.A.	–	53 635	30 November 2010
Bank Polska Kasa Opieki S.A.	–	52 878	31 October 2011
Bank Polska Kasa Opieki S.A.	–	9 105	31 October 2010
Total	**–**	**115 618**	

In addition to the repayment of the loans listed above, the funds obtained from the issue of intercompany debentures were used by Południowy Koncern Energetyczny S.A. to early repay the loans taken out from DnB Nord Polska S.A. – PLN 10,240 thousand and ING Bank Śląski S.A. – PLN 24,316 thousand, both of which were repaid on 30 December 2010, and the loan granted by Bank Polska Kasa Opieki S.A. amounting to PLN 30,000 thousand, which was repaid on 3 January 2011.

37.3.6.2. Debentures issued

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.

As a result of the implementation of a central financing model in the TAURON Group, the parent transferred the funds obtained from the issue of debentures to its three subsidiaries: Południowy Koncern Energetyczny S.A., ENION S.A. and Południowy Koncern Węglowy S.A. by way of the issue of intercompany debentures.

As at 31 December 2009, the balance of the Group's debenture liabilities included debentures issued by Południowy Koncern Energetyczny S.A. in connection with the investment project of restoration of production capacities named "Construction of a supercritical 460 MW power unit at the Łagisza Power Plant". As at 31 December 2009, the balance of debt under issued debentures measured at amortized cost amounted to PLN 596,781 thousand (including accrued interest of PLN 126 thousand), while the nominal value of issued debentures amounted to PLN 608,692 thousand.

On 30 December 2010, in accordance with the repayment schedule, Południowy Koncern Energetyczny S.A. redeemed debentures amounting to PLN 41,308 thousand and paid the accrued interest of PLN 18,462 thousand.

(in PLN thousands)

Subsequently, on 30 December 2010, Południowy Koncern Energetyczny S.A. used the amount of PLN 782,940 thousand obtained from the issue of intercompany debentures to early redeem the entire outstanding balance of debentures issued to external parties, amounting to PLN 526,076 thousand, and to pay the commission on early redemption of PLN 15,952 thousand.

As a result, as at 31 December 2010, the debentures issued by TAURON Polska Energia S.A. are the only debenture liability of the Group.

The "Agency Agreement" and "Dealer Agreement" of 24 September 2009, concluded between TAURON Polska Energia S.A. and ING Bank Śląski S.A. with its registered office in Katowice, which were underlying the program of issue of TAURON Polska Energia S.A.'s debentures for an amount of PLN 125,000 thousand, were terminated on 31 December 2010.

Carrying amount of debentures issued as at 31 December 2010

Company	Interest rate	Currrency	As at balance sheet date		of which maturing within					
			Interest accrued	Principal at amortised cost	Less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	Over 5 years
TAURON Polska Energia S.A.	floating	PLN	357	845 650	–	–	–	–	845 650	–
Total debentures			**357**	**845 650**	–	–	–	–	**845 650**	–

Carrying amount of debentures issued as at 31 December 2009

Company	Interest rate	Currrency	As at balance sheet date		of which maturing within					
			Interest accrued	Principal at amortised cost	Less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	Over 5 years
Południowy Koncern Energetyczny S.A.	floating	PLN	126	596 655	–	80 993	81 314	81 314	162 629	190 405
Total debentures			**126**	**596 655**	–	**80 993**	**81 314**	**81 314**	**162 629**	**190 405**

37.3.7. Hedging instruments (liabilities)

Derivative instruments are described in detail in Note 38.6.

37.3.8. Assets pledged as security

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

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

Carrying amount of assets pledged as security for liabilities

	As at 31 December 2010	As at 31 December 2009
Real estate	3 313 463	3 467 430
Plant and equipment	275 467	295 987
Motor vehicles	4 241	6 668
Assets under construction	224	745
Trade receivables	–	17 751
Cash	63 772	84 574
Other financial and non-financial receivables	16 850	15 616
Total assets pledged as security for liabilities	**3 674 017**	**3 888 771**

As a result of the redemption of debentures and repayment of loans by Południowy Koncern Energetyczny S.A., as discussed in detail in Note 37.3.6., the company initiated the procedure of deleting mortgages and registered pledges entered in the registers for part of the assets pledged as security as listed in the table above. This included an amount of PLN 2,280,281 thousand in respect of real estate, PLN 26,721 thousand in respect of plant and equipment and PLN 15,001 thousand in respect of other financial and non-financial receivables.

(in PLN thousands)

Description of other forms of security

In addition to the collaterals listed above, the Group also uses other forms of security such as assignment of receivables, assignment of rights under insurance policies, authorization to bank accounts, blank promissory notes, declarations of submission to enforcement.

As at 31 December 2010, key collateral items relate to the loans taken out by Południowy Koncern Energetyczny S.A.: assignment of receivables amounting to PLN 254,395 thousand, assignment of rights under insurance policies – PLN 673,700 thousand, authorization to bank accounts – PLN 314,395 thousand and blank promissory notes for PLN 276,000 thousand.

In addition, under the debentures issue program, the parent signed a declaration of submission to enforcement for an amount up to PLN 1,560,000 thousand.

In order to secure funds for future decommissioning costs, the mining companies that are part of the Group have recognized a Mine Decommissioning Fund. Details are presented in Note 15.

38. Financial risk management objectives and policies

The Group companies manage financial risk mindfully and responsibly, based on the developed and adopted financial risk management policies. A comprehensive risk management framework that is consistent with business processes allows for identification and management of correlations between the risk incurred and the level of income that can be earned. The intention of those managing risk at the Group companies is to keep the exposure within the pre-agreed and authorized safety levels rather than to fully eliminate the exposure arising from changes in the identified and monitored risk factors.

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

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

The Group also enters into derivative transactions, mainly interest rate swap contracts and forward currency contracts. These transactions are entered into in order to continuously manage the interest rate risk and currency risk arising in the course of the Group's operations and resulting from the financing sources used by the Group.

In 2010, only one subsidiary in the TAURON Group: Południowy Koncern Energetyczny S.A. applied hedge accounting to derivative transactions entered into in order to eliminate the interest rate risk. These activities were carried out in accordance with the company's authorized Financial Risk Management Strategy. As at 31 December 2010, two TAURON Group companies: TAURON Polska Energia S.A. and Południowy Koncern Energetyczny S.A. had open derivative transactions, as discussed in detail in Note 38.6, however they did not apply hedge accounting to such instruments.

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

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

It has been assumed that each employee is responsible for risk management. The Management boards of the Group companies review, agree and approve policies for managing each of these risks, while employees are aware of the risks arising in their area of operations and feel responsible for risk management. The Group companies also monitor the market price risk arising from all financial instruments held by the Group. The Group companies' accounting policies relating to derivatives are set out in Note 11.

38.1. Interest rate risk

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

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

31 December 2010 – fixed interest rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Deposits	2 603	17 170	–	–	–	**19 773**
Bonds, T-bills and other debt securities	–	–	–	–	–	–
Financial liabilities						
Preferential loans	210	–	–	–	–	**210**

(in PLN thousands)

31 December 2010 – floating interest rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Deposits	14 815	–	–	–	905	**15 720**
Loans granted	60	60	60	60	–	**240**
Cash	1 473 981	–	–	–	–	**1 473 981**
Financial liabilities						
Issued debentures and other debt securities	357	–	–	845 650	–	**846 007**
Bank overdrafts	2 464	–	–	–	–	**2 464**
Preferential loans	103 335	106 890	25 217	7 649	22	**243 113**
Arm's length loans	218 661	64 047	13 796	12 907	–	**309 411**

31 December 2009 – fixed interest rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Deposits	4 170	16 372	–	–	–	**20 542**
Bonds, T-bills and other debt securities	4 151	–	–	–	–	**4 151**
Financial liabilities						
Preferential loans	1 598	60	–	–	–	**1 658**

31 December 2009 – floating interest rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Deposits	2 411	141	–	–	792	**3 344**
Loans granted	75	–	–	240	–	**315**
Cash	1 032 103	–	–	–	–	**1 032 103**
Financial liabilities						
Issued debentures and other debt securities	80 993	81 314	81 314	162 629	190 405	**596 655**
Bank overdrafts	59 453	–	–	–	–	**59 453**
Preferential loans	105 051	101 253	101 162	20 162	40	**327 668**
Arm's length loans	348 432	286 262	121 224	27 046	6 527	**789 491**

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

38.2. Currency risk

The Group companies are exposed to changes in EUR/PLN, USD/PLN and CZK/PLN exchange rates due to their investment activities and contracts with overseas entities. The tables below present the Group's exposure to currency risk, analyzed by the particular classes of financial instruments in the years 2010 and 2009.

Currency position as at 31 December 2010

	Total carrying amount in PLN	EUR		USD		CZK	
		in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets							
Trade receivables and other financial receivables	2 279 310	2 023	8 012	–	–	57 271	9 049
Cash and cash equivalents	1 473 981	2 782	11 018	–	–	13 759	2 174
Total		**4 805**	**19 030**	–	–	**71 030**	**11 223**
Financial liabilities							
Interest-bearing loans	555 198	2 461	9 748	3 649	10 817	–	–
Trade payables and other financial liabilities	1 636 633	2 182	8 642	–	–	19 778	3 125
Finance lease and hire purchase comittments	91 262	2 970	11 762	–	–	–	–
Total		**7 613**	**30 152**	**3 649**	**10 817**	**19 778**	**3 125**
Net currency position		**(2 808)**	**(11 122)**	**(3 649)**	**(10 817)**	**51 252**	**8 098**

Currency position as at 31 December 2009

	Total carrying amount in PLN	EUR		USD		CZK	
		in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets							
Trade receivables and other financial receivables	1 883 149	64	264	–	–	–	–
Cash and cash equivalents	1 032 107	1 007	4 136	–	–	–	–
Total		**1 071**	**4 400**	–	–	–	–
Financial liabilities							
Interest-bearing loans	1 178 940	5 887	24 187	92 633	264 031	–	–
Trade payables and other financial liabilities	1 496 409	184	752	–	–	–	–
Finance lease and hire purchase comittments	123 668	–	–	–	–	–	–
Total		**6 071**	**24 939**	**92 633**	**264 031**	–	–
Net currency position		**(5 000)**	**(20 539)**	**(92 633)**	**(264 031)**	–	–

38.3. Commodity price risk

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

Fuel type	Unit	2010		2009	
		Volume	Purchase cost	Volume	Purchase cost
Coal	tonne	7 839 301	1 777 636	7 556 379	1 805 619
Gas	thousand m^3	3 001 016	192 025	2 057 102	140 640
Electricity	MWh	17 774 911	3 422 567	15 051 410	3 091 952
Heat energy	GJ	7 081 741	188 693	6 118 926	157 673
Total			**5 580 921**		**5 195 884**

38.4. Credit risk

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

Apart from individual customers, the Group companies trade only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

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

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

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

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

There is no significant concentration of credit risk within the Group's core activities, except as listed in Note 38.4.2.

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

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

Debt securities held by the Group are described in detail in Note 37.3.3.

38.4.2. Trade receivables

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

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

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

As at 31 December 2010, the Group's largest trade receivables were due from PSE Operator S.A.: PLN 105,353 thousand, ArcelorMittal Poland S.A.: PLN 103,116 thousand, KGHM Polska Miedź S.A.: PLN 94,369 thousand and Kompania Węglowa S.A.: PLN 65,255 thousand.

As at 31 December 2009, the Group's largest trade receivables were due from ArcelorMittal Poland S.A.: PLN 95,104 thousand, KGHM Polska Miedź S.A.: PLN 53,845 thousand and PSE Operator S.A.: PLN 37,235 thousand.

(in PLN thousands)

38.4.3. Deposits, cash and cash equivalents

The Group manages credit risk related to cash and cash equivalents by diversifying the banks in which surplus cash is invested. All of the entities with which the Group enters into deposit transactions operate in the financial sector. They only include banks with a high rating and an appropriate level of equity as well as strong and stable market position. The share of three banks with which the Group holds the largest cash balances as at 31 December 2010 accounted for 71% of all cash balances.

38.4.4. Derivative instruments

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

38.4.5. Impairment write-downs/allowances and ageing of receivables

As at 31 December 2010 and 31 December 2009, impairment write-downs/allowances were recognized against trade receivables and certain investments in other entities. Movements in the impairment write-downs/allowances recognized for these classes of financial instruments in particular years are presented in the tables below.

Year ended 31 December 2010

	Trade receivables and other financial receivables	Loans granted	Shares of non-consolidated entities
Allowance/write-down as at 1 January 2010	**(158 024)**	–	**(2 707)**
Recognised	(73 691)	–	(1 104)
Utilized	24 487	–	2
Reversed	52 376	–	304
Cancelled	40	–	71
Other movements	(70)	–	171
Allowance/write-down as at 31 December 2010	**(154 882)**	–	**(3 263)**
Value of item before allowance	2 434 192	239	154 152
Value of item net of allowance (carrying amount)	2 279 310	239	150 889

Year ended 31 December 2009

	Trade receivables and other financial receivables	Loans granted	Shares of non-consolidated entities
Allowance/write-down as at 1 January 2009	**(169 519)**	–	**(2 744)**
Recognised	(65 783)	–	–
Utilized	37 838	–	–
Reversed	39 558	–	10
Cancelled	86	–	27
Other movements	(204)	–	–
Allowance/write-down as at 31 December 2009	**(158 024)**	–	**(2 707)**
Value of item before allowance	2 041 173	315	149 224
Value of item net of allowance (carrying amount)	1 883 149	315	146 517

In determining the impairment of these assets, the Group considered the factors that are discussed in detail in Note 11 of these consolidated financial statements The Group has no material items that were non-recoverable at the balance sheet date and for which no allowance was recognized. Presented below is an ageing analysis of trade receivables and other financial receivables and loans granted, including impairment write-downs/allowances.

(in PLN thousands)

Ageing analysis of trade receivables, other financial receivables and loans granted as at 31 December 2010

	Not past due	Past due				
		<30 days	30–90 days	90–180 days	180–360 days	>360 days
Before allowance/write-down	2 017 985	171 716	69 364	33 741	39 171	102 454
Allowance/write-down	(18 864)	(1 165)	(2 300)	(4 555)	(27 184)	(100 814)
After allowance/write-down	**1 999 121**	**170 551**	**67 064**	**29 186**	**11 987**	**1 640**

Ageing analysis of trade receivables, other financial receivables and loans granted as at 31 December 2009

	Not past due	Past due				
		<30 days	30–90 days	90–180 days	180–360 days	>360 days
Before allowance/write-down	1 574 041	253 451	64 653	20 917	31 717	96 709
Allowance/write-down	(26 105)	(3 211)	(5 068)	(5 001)	(22 474)	(96 165)
After allowance/write-down	**1 547 936**	**250 240**	**59 585**	**15 916**	**9 243**	**544**

38.5. Liquidity risk

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

The tables below summarize the maturity profile of the Group's financial liabilities as at 31 December 2010 and 31 December 2009 based on contractual discounted payments.

Financial liabilities as at 31 December 2010

	Interest accrued	Principal						Total
		less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	more than 5 years	
Interest-bearing loans and issued debentures	758	153 056	171 215	170 935	39 013	866 206	22	**1 401 205**
Trade payables		943 255	1 002	400	400	400	–	**945 457**
Commitments resulting from purchases of fixed and intangible assets		388 108	359	–	–	–	–	**388 467**
Derivative instruments		6 917	–	–	–	–	–	**6 917**
Other financial liabilities		249 399	39 484	5 243	316	541	809	**295 792**
Obligations under finance leases and hire purchase contracts		8 578	14 877	14 887	13 085	24 050	15 785	**91 262**
Total	**758**	**1 749 313**	**226 937**	**191 465**	**52 814**	**891 197**	**16 616**	**3 129 100**

Financial liabilities as at 31 December 2009

	Interest accrued	Principal						Total
		less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	more than 5 years	
Interest-bearing loans and issued debentures	796	137 178	458 341	468 897	303 700	209 837	196 972	**1 775 721**
Trade payables		963 628	2 565	–	–	–	–	**966 193**
Commitments resulting from purchases of fixed and intangible assets		195 062	75 073	1 474	–	–	–	**271 609**
Derivative instruments		2 135	8 904	–	–	–	–	**11 039**
Other financial liabilities		219 268	24 094	2 017	1 313	465	412	**247 569**
Obligations under finance leases and hire purchase contracts		10 247	25 130	24 713	12 271	24 531	26 776	**123 668**
Total	**796**	**1 527 518**	**594 107**	**497 101**	**317 284**	**234 833**	**224 160**	**3 395 799**

38.6. Derivatives

As at 31 December 2010, the Group recognized an asset arising from derivative instruments in the amount of PLN 257 thousand. The asset in question was recognized as a result of the measurement of forward currency contracts held by TAURON Polska Energia S.A. as at 31 December 2010. The parent hedges against the risk of changes in foreign exchange rates due to entering into transactions with foreign counterparties. Since the Company does not apply hedge accounting, the forward currency contracts held were measured at the balance sheet date through profit or loss.

As at 31 December 2010, the Group also recognized liabilities arising from derivative instruments, amounting to PLN 6,917 thousand. These included interest rate swaps (IRS) which were entered into by Południowy Koncern Energetyczny S.A. in order to hedge against the interest rate risk arising from:

- issued debentures, amounting to PLN 4,443 thousand,
- investment loans, amounting to PLN 2,474 thousand.

On 30 December 2010, Południowy Koncern Energetyczny S.A. repaid the full amount of the liability arising from debentures issued to external parties. As a result, the cumulative loss on the measurement of derivative instruments, which up until that date had been recognized in other comprehensive income, was transferred from the revaluation reserve resulting from valuation of hedging instruments to the net profit. After the balance sheet date, those derivative instruments were settled with an effect of PLN (616) thousand. As at 31 December 2010, the Company held one interest rate swap maturing in January 2011, which had been entered into in order to hedge against the interest rate risk arising from the investment loan. This interest rate swap was settled on 10 January 2011 with a profit of PLN 83 thousand. No hedge accounting is applied with respect to derivatives held at the 2010 year-end.

In 2009, the following three subsidiaries of the TAURON Polska Energia S.A. Group used derivative instruments for hedging purposes: Południowy Koncern Energetyczny S.A., EnergiaPro Gigawat Sp. z o.o. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.; however, only Południowy Koncern Energetyczny S.A. was in possession of hedging derivative instruments as at 31 December 2009 – an asset amounting to PLN 1,747 thousand and a liability amounting to PLN 11,038 thousand. Forward contracts held by the other two companies expired in December 2009. Hedge accounting was applied with respect to those instruments.

38.7. Market risk – sensitivity analysis

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

- interest rate risk,
- currency risk,
- electricity price risk,
- risk of changes in the prices of CO_2 emission allowances and energy certificates and
- risk of changes in the prices of commodities (e.g. coal).

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

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

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

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

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

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

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

38.7.1. Currency risk sensitivity analysis

The Group identifies its exposure to the risk of changes in the EUR/PLN, USD/PLN and CZK/PLN exchange rates. The tables below present sensitivity of profit before taxation to potential reasonable changes in foreign exchange rates within a time horizon up until the date of the next financial statements, assuming there are no changes in other risk factors:

Year ended 31 December 2010

Classes of financial instruments	31 December 2010		Sensitivity analysis for currency risk as at 31 December 2010											
			EUR/PLN				USD/PLN				CZK/PLN			
	Carrying amount	Value at Risk	exchange rate EUR/PLN +12.3%		exchange rate EUR/PLN -12.3%		exchange rate USD/PLN +20.3%		exchange rate USD/PLN -20.3%		exchange rate CZK/PLN +9.6%		exchange rate CZK/PLN -9.6%	
	In PLN thousand	In PLN thousand	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*
Trade receivables and other financial receivables	2 279 310	17 061	985	–	(985)	–	–	–	–	–	869	–	(869)	–
Cash and cash equivalents	1 473 981	13 192	1 355	–	(1 355)	–	–	–	–	–	209	–	(209)	–
Arm's length loans	309 411	20 565	(1 199)	–	1 199	–	(2 196)	–	2 196	–	–	–	–	–
Trade payables	945 457	11 696	(1 062)	–	1 062	–	–	–	–	–	(294)	–	294	–
Obligations under finance leases and hire purchase contracts	91 262	11 762	(1 447)	–	1 447	–	–	–	–	–	–	–	–	–
Total			**(1 368)**	–	**1 368**	–	**(2 196)**	–	**2 196**	–	**784**	–	**(784)**	–

The risk exposure as at 31 December 2010 is representative of the Group'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				USD/PLN				CZK/PLN			
	Carrying amount	Value at Risk	exchange rate EUR/PLN +13.25%		exchange rate EUR/PLN -13.25%		exchange rate USD/PLN +19.69%		exchange rate USD/PLN -19.69%		exchange rate CZK/PLN +10.40%		exchange rate CZK/PLN -10.40%	
	In PLN thousand	In PLN thousand	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*
Trade receivables and other financial receivables	1 883 149	263	35	–	(35)	–	–	–	–	–	–	–	–	–
Cash and cash equivalents	1 032 103	4 137	548	–	(548)	–	–	–	–	–	–	–	–	–
Arm's length loans	790 118	288 218	(3 205)	–	3 205	–	(51 988)	–	51 988	–	–	–	–	–
Trade payables	966 193	752	(100)	–	100	–	–	–	–	–	–	–	–	–
Total			**(2 722)**	–	**2 722**	–	**(51 988)**	–	**51 988**	–	–	–	–	–

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

38.7.2. Interest rate risk sensitivity analysis

The Group identifies its exposure to the risk of changes in WIBOR, EURIBOR and LIBOR USD. The tables below present sensitivity of profit before taxation to reasonable potential changes in interest rates within a time horizon up until the date of the next financial statements, assuming there are no changes in other risk factors:

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				LIBOR USD			
	Carrying amount	Value at Risk	WIBOR + 60 bp		WIBOR -60 bp		EURIBOR + 33 bp		EURIBOR -33 bp		LIBOR USD + 36 bp		LIBOR USD -36 bp	
	In PLN thousand	In PLN thousand	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*
Deposits	35 493	15 720	94	–	(94)	–	–	–	–	–	–	–	–	–
Loans granted	240	240	1	–	(1)	–	–	–	–	–	–	–	–	–
Cash and cash equivalents	1 473 981	1 473 981	8 765	–	(8 765)	–	36	–	(36)	–	–	–	–	–
Preferential loans	243 323	243 113	(1 459)	–	1 459	–	–	–	–	–	–	–	–	–
Arm's length loans	309 411	309 411	(1 733)	–	1 733	–	(32)	–	32	–	(39)	–	39	–
Bank overdrafts	2 464	2 464	(15)	–	15	–	–	–	–	–	–	–	–	–
Issued debentures and debt securities	846 007	846 007	(5 076)	–	5 076	–	–	–	–	–	–	–	–	–
Total			**577**	–	**(577)**	–	**4**	–	**(4)**	–	**(39)**	–	**39**	–

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				LIBOR USD			
	Carrying amount	Value at Risk	WIBOR + 81 bp		WIBOR - 81 bp		EURIBOR + 66 bp		EURIBOR - 66 bp		LIBOR USD + 70 bp		LIBOR USD - 70 bp	
	In PLN thousand	In PLN thousand	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*	*Profit/ (Loss)*	*Equity*
Deposits	23 887	3 344	27	–	(27)	–	–	–	–	–	–	–	–	–
Loans granted	315	315	3	–	(3)	–	–	–	–	–	–	–	–	–
Cash and cash equivalents	1 032 103	1 032 103	8 327	–	(8 327)	–	27	–	(27)	–	–	–	–	–
Derivative instruments (assets)	1 747	1 747	275	7 030	(275)	(7 030)	–	–	–	–	–	–	–	–
Preferential loans	329 369	327 668	(2 654)	–	2 654	–	–	–	–	–	–	–	–	–
Arm's length loans	790 118	789 491	(4 060)	–	4 060	–	(160)	–	160	–	(1 848)	–	1 848	–
Bank overdrafts	59 453	59 453	(482)	–	482	–	–	–	–	–	–	–	–	–
Issued debentures and debt securities	596 781	596 655	(4 833)	–	4 833	–	–	–	–	–	–	–	–	–
Derivative instruments (liabilities)	11 038	11 038	739	3 642	(739)	(3 642)	–	–	–	–	–	–	–	–
Total			**(2 658)**	**10 672**	**2 658**	**(10 672)**	**(133)**	–	**133**	–	**(1 848)**	–	**1 848**	–

(in PLN thousands)

39. Capital management

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

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

In 2010, the TAURON Polska Energia S.A. Group implemented a cash pooling structure designed primarily to ensure financial liquidity in the TAURON Group while reducing the costs of short-term external financing and maximizing the amount of finance income generated using surplus cash.

In addition, in 2010 the TAURON Group implemented a central financing model which, among others, results in the reduction of borrowing costs and an increase of financing opportunities, reduces the number of covenants in borrowing agreements, reduces the need for setting up collateral and reduces administrative expenses, thus improving the ratings issued by rating agencies.

In the first stage of implementing the central financing model, debentures were issued for a total amount of PLN 848,200 thousand in order to restructure part of the financial liabilities of the TAURON Group companies. In addition, under the external debenture issue program, TAURON Polska Energia S.A. holds a flexible revolving line amounting to PLN 450,000 thousand, which can be made available at any moment in time.

In addition, as part of its centralized finance management model, in December 2010 the Group launched the program of issuing intercompany debentures under which cash is managed in a mid-term and long-term horizon. The finance management model adopted by the Group is designed to optimize borrowing costs as well as to support day-to-day operations of the TAURON Group companies and the implementation of their investment plans.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Within net debt, the Group includes interest-bearing loans and borrowings (including debt securities), trade and other payables, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent less the net unrealized gains reserve.

	As at 31 December 2010	**As at 31 December 2009 (*adjusted figures*)**
Interest-bearing loans and borrowings	1 401 205	1 775 721
Trade and other payables and finance lease and hire purchase comittments	1 727 895	1 620 077
Less cash and cash equivalents	1 473 981	1 032 103
Net debt	**1 655 119**	**2 363 695**
Equity attributable to equity holders of the parent	14 704 825	11 858 566
Revaluation reserve from valuation of hedging instruments	–	(766)
Total capital	**14 704 825**	**11 859 332**
Capital and net debt	**16 359 944**	**14 223 027**
Leverage ratio	10%	17%

40. Employment structure

The average employment in the Group in the reporting periods covered by these financial statements was as follows:

	Year ended 31 December 2010	**Year ended 31 December 2009**
Management of the parent	5	5
Managements of subsidiaries	49	46
Administration	4 098	4 087
Sales department	2 059	2 028
Manufacturing	21 326	21 695
Others	943	978
Total	**28 480**	**28 839**

(in PLN thousands)

41. Auditor's fees

These consolidated financial statements of the TAURON Polska Energia S.A. Group were audited by Ernst & Young Audit Sp. z o.o. with its registered office in Warsaw, Rondo ONZ 1. The audit contract between TAURON Polska Energia S.A. and Ernst & Young Audit Sp. z o.o. was concluded on 19 November 2010 and covers the audit of the Company's separate and consolidated financial statements for the years 2010–2012. The amount of the auditor's fees is presented in the table below.

	Year ended 31 December 2010	Year ended 31 December 2009
Statutory audit	101	160
– consolidated financial statements	37	100
– separate financial statements	64	60
Other services	86	50
Total	**187**	**210**

The fees paid by the Company to Ernst & Young Audit Sp. z o.o. in 2010 due to the preparation of a prospectus amounted to PLN 1,469 thousand.

42. Events after the balance sheet date

On 24 February 2011, 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	....

REPORT ON OPERATIONS OF TAURON POLSKA ENERGIA S.A. CAPITAL GROUP FOR THE FINANCIAL YEAR 2010

MARCH 2011

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1. BASIC INFORMATION ON TAURON GROUP

1.1. TAURON Group Organization

As of 31 December 2010 TAURON Polska Energia S.A. Capital Group (hereinafter referred to as TAURON Group) consisted of TAURON Polska Energia S.A. parent company (hereinafter also referred to as TAURON or the Company), 39 subsidiaries and co-subsidiaries in a indirect or direct way), 19 affiliated companies and 28 other companies.

As of the day of making the present report TAURON Group consisted of TAURON parent company, 39 subsidiaries and co-subsidiaries in an indirect or direct way, 19 affiliated companies and 29 other companies.

Entities subject to consolidation

As a part of TAURON Group financial statements of seventeen subsidiary companies are included by consolidation as of 31 December 2010 with the financial statement of the Company, by applying full consolidation methods, including:

1) Południowy Koncern Energetyczny S.A. with the seat in Katowice (hereinafter referred to as PKE),
2) ENION S.A. with the seat in Kraków (hereinafter referred to as Enion),
3) EnergiaPro S.A. with the seat in Wrocław (hereinafter referred to as EnergiaPro),
4) Elektrownia Stalowa Wola S.A. with the seat in Stalowa Wola (hereinafter referred to as ESW),
5) Elektrociepłownia Tychy S.A. with the seat in Tychy (hereinafter referred to as Elektrociepłownia Tychy),
6) Przedsiębiorstwo Energetyki Cieplnej Katowice S.A. with the seat in Katowice (hereinafter referred to as PEC Katowice),
7) Elektrociepłownia EC Nowa sp. z o.o. with the seat in Dąbrowa Górnicza (hereinafter referred to as Elektrociepłownia EC Nowa),
8) Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A. with the seat in Dąbrowa Górnicza (hereinafter referred to as PEC Dąbrowa Górnicza),
9) Kopalnia Wapienia "Czatkowice" sp. z o.o. with the seat in Krzeszowice (hereinafter referred to as Kopalnia Wapienia Czatkowice),
10) Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. with the seat in Katowice (hereinafter referred to as PEPKH),
11) Południowy Koncern Węglowy S.A. with the seat in Jaworzno (hereinafter referred to as PKW),
12) TAURON Sprzedaż sp. z o.o. with the seat in Kraków[1] (hereinafter referred to as TAURON Sprzedaż),
13) TAURON EKOENERGIA sp. z o.o. with the seat in Jelenia Góra (hereinafter referred to as TAURON Ekoenergia),
14) TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław[2] (hereinafter referred to as TAURON Obsługa Klienta),
15) TAURON Czech Energy s.r.o. with the seat in Ostrava, the Czech Republic (hereinafter referred to as TAURON Czech Energy),
16) BELS INVESTMENT sp. z o.o. with the seat in Jelenia Góra (hereinafter referred to as Bels Investment),
17) MEGAWAT MARSZEWO sp. z o.o. with the seat in Jelenia Góra (hereinafter referred to as Megawat Marszewo).

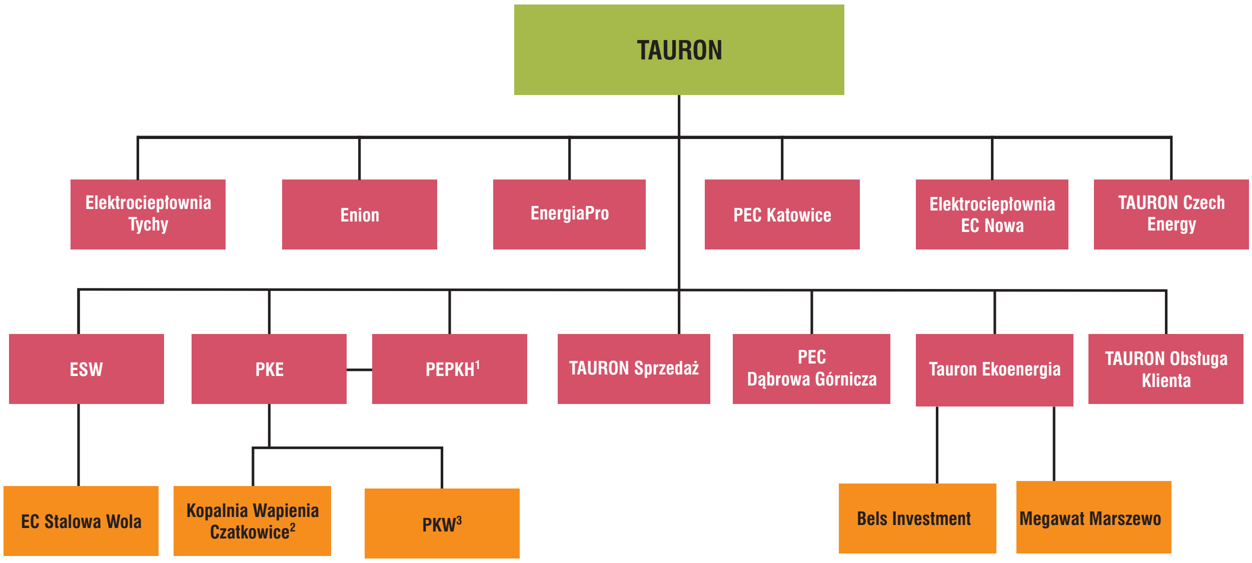
Moreover, TAURON Group encompasses by equity method an investment in a joint venture – Elektrociepłownia Stalowa Wola S.A. with the seat in Stalowa Wola (hereinafter referred to as EC Stalowa Wola).

[1] *On the basis of the resolution of ENION ENERGIA sp. z o.o. Shareholders' Meeting of 18.11.2010, as of 03.01.2011 a change of the company's firm ENION ENERGIA sp. z o.o. to TAURON Sprzedaż sp. z o.o. was registered, therefore, as a part of this present report, the changed name of the company has been applied.*

[2] *On the basis of the resolution of EnergiaPro Gigawat sp. z o.o. Shareholders' Meeting of 18.11.2010, as of 03.01.2011 r. a change of the company's firm EnergiaPro Gigawat sp. z o.o. to TAURON Obsługa Klienta sp. z o.o. was registered, therefore, as a part of this present report, the changed name of the company has been applied.*

TAURON Group Structure

The following scheme presents TAURON Group corporate structure as of 31 December 2010 and as of the day of making this present report, encompassing the companies subject to consolidation.



Notes:

[1] TAURON holds directly 10% shares in the Company's share capital, which gives 27.78% votes at the Shareholders' Meeting and it also uses shares which are the property of PKE which constitute 70% shares in the Company's share capital giving 61.11% votes at the Shareholders' Meeting.

[2] On the basis of agreement to use 100% of the Company's shares, giving 100% votes at the Shareholders' Meeting, being the property of PKE.

[3] On the basis of agreement to use 52.48% shares of the Company, giving 68.01% votes at the Shareholders' Meeting, being the property of PKE.

Detailed information concerning organizational and capital links between the entities shown in the aforementioned scheme is presented in point 1.3 of the present report.

Changes in TAURON Group structure

In 2010 the following changes in TAURON Group structure took place:

1. On 24 February 2010 ESW established a special purpose vehicle (SPV) under the company Elektrociepłownia Stalowa Wola S.A., set up to carry out an investment based on building a gas-steam unit in Stalowa-Wola of the capacity of about 400 MW and it took up 500 000 shares of its share capital of the nominal value of 1 PLN each in return for cash contribution. As of 31 December 2010 ESW had shares in EC Stalowa Wola in the amount of 50% of share capital.
2. On 23 April 2010 TAURON Ekoenergia acquired 1,000 shares of the nominal value of 50 PLN each, constituting 100% share capital of Bels Investment, to build a wind farm of the capacity of 40 MW.
3. On 17 May 2010 in order to gain direct control over PEPKH and to enable performing supervision over the operations of the aforementioned company in a direct way as well as to secure a real influence of TAURON on the operations of this company, PKE established for the Company, for a payment, usufruct of 700 shares belonging to PKE in PEPKH constituting 70% of share capital and giving 61.11% of votes at the shareholders' meeting, at the same time with an authorization to exercise rights from the shares encumbered with usufruct.
4. On 10 June 2010 there was a merger of TAURON parent company and its subsidiary companies ENION Zarządzanie Aktywami sp. z o.o. and Energomix Servis sp. z o.o.

   As a result of the merger the shareholders of companies' taken-over ENION Zarządzanie Aktywami sp. z o.o. and Energomix Servis sp. z o.o., received new issue of the Company's shares:

   – 193 850 314 shares of the nominal value of 1 PLN each were issued to ENION Zarządzanie Aktywami sp. z o.o. shareholders,

   – 124 814 986 shares of the nominal value of 1 PLN each were issued to Energomix Servis sp. z o.o. shareholders.

   Exchange parities were established on the basis of market value of the merging entities, evaluation resulting from an independent expert's evaluation made on 1 December 2009. Exchange parities were established in the following way: for each share of ENION

Zarządzanie Aktywami sp. z o.o. the shareholders of ENION Zarządzanie Aktywami sp. z o.o. received 427 shares of TAURON (426.01 shares before rounding off), whereas for one share of Energomix Servis sp. z o.o. the shareholders of Energomix Servis sp. z o.o. received 799 shares of TAURON (798.86 shares before rounding off).

What is more, uncontrolling shareholders of ENION Zarządzanie Aktywami sp. z o.o. and Energomix Servis sp. z o.o. were obliged to contribute extra charges (in accordance with art. 492 § 3 of the Act of 15 September 2000, Code of Commercial Companies) in the amount of 1.15 PLN for each share of ENION Zarządzanie Aktywami sp. z o.o. exchanged to Company's shares, whereas the shareholders of Energomix Servis sp. z o.o. – 0.16 PLN for each share exchanged for the Company's shares. Having registered merging shares the Company's share capital was increased by the amount of 318,665,300 PLN to the amount of 14,304,948,858 PLN.

As a result of the merger, TAURON became directly the owner of shares in the following companies:

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

5. On the basis of resolutions of the Extraordinary Shareholders' Meeting of 16 September 2010 of companies TAURON Sprzedaż and TAURON Ekoenergia, division of company TAURON Sprzedaż took place on 1 October 2010, by separating from it an organized part of the enterprise, consisting of tangible and intangible assets connected with the generation of electric energy from renewable sources of energy – hydroelectric power stations.

6. In connection with passing resolution no 4 by the Extraordinary Shareholders' Meeting of 26 April 2010 on spread share capital increase, the Company and State Treasury reached an agreement, on 21 October 2010 to take up by the State Treasury Company's shares BB series in the course of private subscription, on the basis of which the State Treasury took up 163,110,632 ordinary registered shares BB series of the nominal value of 9 PLN each, with the total nominal value of 1,467,996 thousand PLN. In connection with the aforementioned agreement the State Treasury contributed to cover the increased share capital of the Company intangible assets as:

   - 22,528,790 shares of the nominal value of 10 PLN each, being the property of the State Treasury in PKE, which constitutes 14.45% of all PKE registered shares, of the fair value of 863,754 thousand PLN,
   - 3,387,636 shares of the nominal value of 10 PLN each, being the property of the State Treasury in ESW, which constitutes 14.69% of all ESW registered shares, with the fair value of 80.524 thousand PLN,
   - 3,706,725,306 shares of the nominal value of 0.01 PLN each, being the property of the State Treasury in Enion, which constitutes 14.65% of all Enion registered shares, with the fair value of 407,740 thousand PLN,
   - 1,131,797,798 shares of the nominal value of 0.01 PLN each, being the property of the State Treasury in EnergiaPro, which constitutes 13.75% of all EnergiaPro registered shares, with the fair value of 350,857 thousand PLN.

   On 2 November 2010 District Court Katowice-East in Katowice VIII Economic Department of the National Court Register made the registration of increasing the Company's share capital to the amount of 15,772,944,546 PLN. After the registration the number of shares is 1,752,549,394.

   On 21 December 2010 TAURON acquired from the State Treasury, in cash, additional shares: for the amount of 497 thousand PLN in PKE, for the amount of 67 thousand PLN in ESW, for the amount of 45 thousand PLN in Enion and for the amount of 99 thousand PLN in EnergiaPro. As a result of the aforementioned action TAURON's share in the aforementioned subsidiary companies' share capital increased as well as it increased in their governing bodies which is illustrated by the table presented below.

Table no 1. Share of TAURON in companies, in connection with transactions made with the State Treasury

Company name	TAURON share in the company capital as of 31 December 2010	TAURON share in the company governing body as of 31 December 2010
PKE	99.46%	99.46%
Enion	99.68%	99.68%
EnergiaPro	98.76%	98.76%
ESW	99.74%	99.74%

7. On 18 November 2010 Extraordinary Shareholders' Meeting of companies TAURON Sprzedaż and TAURON Obsługa Klienta passed a resolution concerning the division of company TAURON Obsługa Klienta by means of separating from it an organized part of

the enterprise, consisting of tangible and intangible assets as well as liabilities connected with the sale of electric energy and its transfer to TAURON Sprzedaż. Moreover, as of 3 January 2011, a change of the scope of operation was registered and of the firm of both of the companies. The aforementioned activities took place as a part of realization of a strategic project in TAURON Group whose main aim was improving the quality and effectiveness of operation by focusing and development of particular competence in the area of mass service of the client as well as sale of electric energy to end consumers in one entity of TAURON Group and in the second one – competence in the area of electric energy sale. As a result of the aforementioned action, since 3 January 2011 company TAURON Sprzedaż has been carrying out activities connected with the sale of electric energy to end consumers, whereas TAURON Obsługa Klienta – in the area of mass service of the client. In both of the aforementioned entities TAURON has 100% shares in share capitals.

8. On 15 December 2010 TAURON Ekoenergia acquired 38,700 shares of Megawat Marszewo of the nominal value of 50 PLN each, constituting 100% share capital of this company. In order to purchase by TAURON Ekoenergia Megawat Marszewo shares, as of 8 December 2010, TAURON Ekoenergia company share capital was increased by the amount of 80,000 thousand PLN, by means of establishing new 80,000 shares, 1 thousand PLN worth each, which were taken up by the sole shareholder, that is TAURON, and covered by a cash deposit.
9. On 22 December 2010 the Company and PKE reached:
    1) an agreement to establish the usufruct of 18,473,553 shares of PKW (owned by PKE), which constitutes 52.48% shares in the company's share capital, giving 68.01% votes at the General Meeting – the agreement became effective as of 28 December 2010.
    2) an agreement to establish the usufruct of 30,812 shares of company Kopalnia Wapienia Czatkowice (owned by PKE), which constitutes 100% of the company's share capital and giving 100% votes at the Shareholders' Meeting – the agreement became effective with the date of its reaching.

    Usufruct of stock or shares which are the property of PKE in the aforementioned companies, parallel to an authorization to exercise rights from the stock/shares encumbered with usufruct was established for a payment in order to gain a direct control over the subject companies as well as to enable carrying out supervision over the operations of these companies in a direct way as well as to secure a real influence of TAURON over operations of the these companies.

The aforementioned processes, made in order to provide effective operation of TAURON Group as well as more efficient management of entities included in TAURON Group are in accordance with the "Corporate Strategy for TAURON Polska Energia S.A. Capital Group for 2008–2012 with the Perspective until 2020" ("Strategia Korporacyjna dla Grupy Kapitałowej TAURON Polska Energia S.A. na lata 2008–2012 z perspektywą do 2020 r."; hereinafter referred to as Corporate Strategy).

1.2. Changes in the management regulations of the Company's enterprise and its Capital Group

Rules of the management of the Company's enterprise

In accordance with stipulations of "TAURON Polska Energia S.A. Organizational Regulations" ("Regulamin Organizacyjny TAURON Polska Energia S.A.", hereinafter referred to as Organizational Regulations), the Company is run by the Company Management Board directly as well as by appointed procurators, Managers of Departments as well as proxies.

President of the Management Board, who is also the Managing Director, runs the Company's day-to-day business operations and makes decisions in all issues pertaining to the Company, not subject to the decision of the Management Board or other authorities of the Company and also supervises the work of a directly subordinate sector.

President of the Management Board – Managing Director, in particular:

1) conducts the Company's internal affairs and represents it in external contacts,
2) coordinates the whole of affairs connected with the operation of the Company Management Board,
3) performs the role of the employer within the meaning of labour law regulations,
4) conducts supervision over the sector subordinate to him/her,
5) issues internal normative acts in accordance with binding regulations,
6) makes all decisions connected with the Company's day-to-day management,
7) makes all actual and legal activities, bearing in mind the realization of the Company's objectives,
8) performs all other actions ensuring the Company's efficient operation.

Vice-Presidents of the Management Board have the following positions:

1) Management and Communication Manager,
2) Sales Manager,
3) Strategy and Development Manager,
4) Economy and Finance Manager.

Vice-Presidents of the Management Board – Sector Managers:

1) run the Company's day-to-day business operations in the entrusted scope and supervise the work of directly subordinate sectors,
2) make decisions not subject to the competence of the Company Management Board, in the scope of functions entrusted to subordinate organizational units, organizational sections, independent posts as well as other decisions as a part of powers of attorney and authorizations granted them by the Company Management Board or the President of the Management Board – Managing Director.

Vice-Presidents of the Management Board – Sector Managers, in particular:

1) conduct the Company's internal affairs and represent it in external contacts,
2) supervise the work of sectors subordinate to them,
3) make decisions connected with the day-to-day management of the Company,
4) make all actual and legal activities, bearing in mind the realization of the Company's objectives,
5) perform all other actions ensuring the Company's efficient operation.

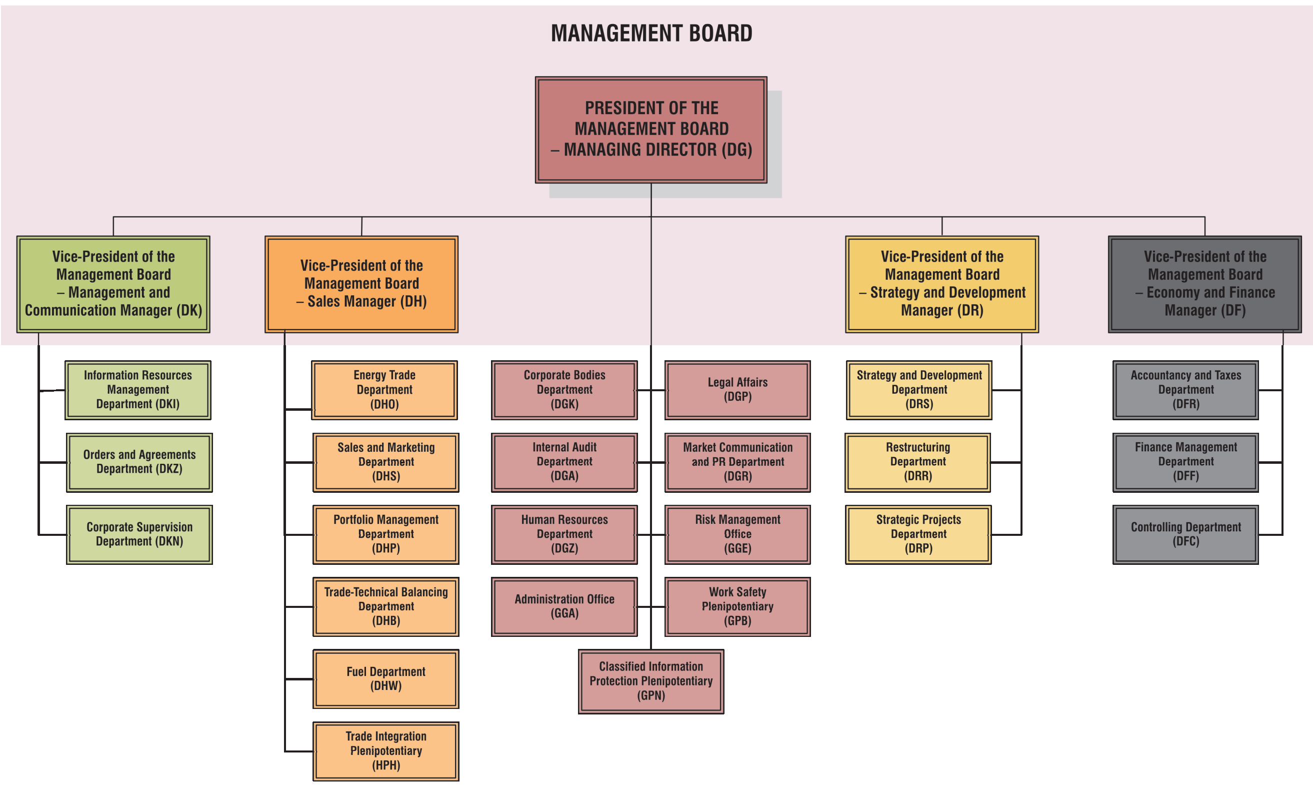
Department Managers:

1) run subordinate departments, bearing responsibility for the effects of their work,
2) define objectives and tasks, within their material jurisdiction, of particular organizational sections and independent posts which are a part of their managed department,
3) coordinate work of structures subordinate to them in accordance with the Company's interest and legal regulations,
4) implement guidelines and recommendations of the Members of the Management Board – Sector Managers as well as they keep them up-to-date with the work of their subordinate department,
5) make all necessary actions ensuring an efficient and effective functioning of the subordinate department.

In especially justified cases, significant due to the proper functioning of the Company, an organizational post "Department Manager Deputy" can be established. The scope of duties for the Department Manager Deputies is established, in accordance with the binding regulations, by the Department Manager. Detailed scopes of actions for the persons managing the departments are defined by the scope of duties, entitlements and responsibilities.

In 2010, as well as until the day of making this present report, no changes in the aforementioned regulations of the Company management, included in the Organizational Regulations, have been introduced.

Company's organizational chart, as of 31 December 2010 and also as of the day of making this present report, is the following:



The organizational chart presented above, presenting the structure of sectors subordinate to the Members of the Management Board – Sector Managers to the level of organizational sections – Offices subordinate directly to the Members of the Management Board – Sector Managers constitutes an annexe to Organizational Regulations, adopted by the Company Management Board and approved by the Supervisory Board.

It needs to be mentioned that on 24 February the Supervisory Board of the Company adopted resolutions on appointing Members of the Management Board for the third term of office for the following positions:

1) President of the Management Board,
2) Strategy and Development Vice-President of the Management Board,
3) Corporation Vice-President of the Management Board,
4) Sales Vice-President of the Management Board,
5) Economy and Finance Vice-President of the Management Board.

Detailed information on appointing Members of the Management Board for the third term of office has been included in point 3.8 of the present report.

Changes in the rules of TAURON Group management

In order to improve TAURON Group management, understood as a uniform economic organism composed of autonomous companies of commercial law as well as to increase its functionality, the Company's Management Board, on 12 October 2010, passed a resolution to establish "TAURON Group", operating on the basis of the TAURON Group Code (hereinafter referred to as the "Code").

The composition of "TAURON Group", established in such a way, includes TAURON (as the parent Company) as well as the following companies:

1) PKE,
2) Enion,
3) EnergiaPro,
4) ESW,
5) Elektrociepłownia Tychy,
6) PEC Katowice,
7) Elektrociepłownia EC Nowa,
8) PEC Dąbrowa Górnicza,
9) Kopalnia Wapienia Czatkowice,
10) PEPKH,
11) PKW,
12) TAURON Sprzedaż,
13) TAURON Ekoenergia,
14) TAURON Obsługa Klienta,
15) TAURON Czech Energy.

The previous management system of TAURON Group was based on management agreements reached with significant subsidiary companies within the meaning of art. 7 of the Act of 15 September 2000, Code of Commercial Companies (the so-called holding company agreements). However, due to the actions undertaken by the Company aiming at taking over 100% capital in significant subsidiary companies as well as restrictions resulting from the contractual regulating relation, the competence division in TAURON Group (including, among other things: autonomy of interest of the party of the agreement, decision to reach and possible termination of an agreement at the level of managements), TAURON Management Board passed the Code on 12 October 2010.

The Code became effective for each of the companies with the date of its passing by the General Meeting or Shareholders' Meeting of a given company, by a resolution of its participation in "TAURON Group", which meant agreeing by a given company to respect the Code regulations.

The Code became an intra-organizational, core normative act of "TAURON Group", regulating its establishing, organization and functioning. It is based on the premise that "TAURON Group" members' interest and strategy are coherent and uniform. The Code regulates functioning of the "TAURON Group", providing the accomplishment of objectives by especially designed solutions in the area of "TAURON Group" entities management, especially to define objectives of companies' operations, enabling to reach the assumed results. Solutions proposed in the Code take into account, among other things, appropriately amended concepts worked out as a part of management agreement within the meaning of art. 7 of the Act of 15 September 2000, Code of Commercial Companies, including the concepts on the rules of determining, consultation or change of Business and Management Units.

In order to manage "TAURON Group" effectively, the Management Board of TAURON as of 12 October 2010 passed also resolutions concerning:

a) establishing Areas,
b) membership of particular companies which are a part of "TAURON Group" in appropriate Areas,
c) establishing Management Areas, as a part of which Rules of Cooperation are introduced.

Another important element enabling making operational decisions as a part of "TAURON Group" was setting up, on the basis of the Code, three committees:

1. TAURON Group Management Committee,
2. TAURON Group Uniformity Committee,
3. Project Assessment Committee.

The aim to set up the aforementioned Committees was launching to conduct operational activity by the companies, on the basis of uniform assumptions of "TAURON Group", in accordance with the law, interest of the "TAURON Group" as well as its stakeholders.

The Committees serve the following functions:

1. opinion-forming for the Company's Management Board,
2. decision-making,
3. supervisory for the Management Boards of "TAURON Group" subsidiary companies.

The main aim of the committees is to oversee the realization by "TAURON Group" members of the assumed uniformity programme in the common interest of all its members. Detailed tasks of the committees have been specified in their operation regulations passed by the Company's Management Board.

In order to provide continuity of functioning of management competence as a part of "TAURON Group", management agreements, within the meaning of art. 7 of the Act of 15 September 2000, Code of Commercial Companies shall be gradually terminated parallel to implementing regulations on the basis of the Code.

1.3. Organizational or capital connections

TAURON, as of 31 December 2010, held directly or indirectly stocks and shares in significant subsidiary companies of TAURON Group, the list of which is presented in the table below.

Table no 2. List of significant subsidiary companies as of 31.12.2010

Company name	Address	Core scope of activity	TAURON share in the company capital	Entity which held stocks/shares as of 31 December 2010	TAURON share in the company's governing body	Entity which held stocks/shares as of 31 December 2010
PKE	40-389 Katowice; ul. Lwowska 23	Generation, transfer and distribution of electric energy and heat	99.46%	TAURON – 99.46%	99.46%	TAURON – 99.46%
Enion	30-390 Kraków; ul. Zawiła 65 L	Distribution of electric energy	99.68%	TAURON – 99.68%	99.68%	TAURON – 99.68%
EnergiaPro	53-314 Wrocław; Pl. Powstańców Śląskich 20	Transfer and distribution of electric energy	98.76%	TAURON – 98.76%	98.76%	TAURON – 98.76%
ESW	37-450 Stalowa Wola; ul. Energetyków 13	Generation and distribution of electric energy and heat	99.74%	TAURON – 99.74%	99.74%	TAURON – 99.74%
TAURON Sprzedaż	30-417 Kraków; ul. Łagiewnicka 60	Sale of electric energy	100.00%	TAURON – 100.00%	100.00%	TAURON – 100.00%
TAURON Obsługa Klienta	53-314 Wrocław; Pl. Powstańców Śląskich 16	Sale of electric energy	100.00%	TAURON – 100.00%	100.00%	TAURON – 100.00%
TAURON Ekoenergia	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electric energy	100.00%	TAURON – 100.00%	100.00%	TAURON – 100.00%

Company name	Address	Core scope of activity	TAURON share in the company capital	Entity which held stocks/shares as of 31 December 2010	TAURON share in the company's governing body	Entity which held stocks/shares as of 31 December 2010
Elektrociepłownia Tychy	43-100 Tychy; ul. Przemysłowa 47	Generation of electric energy, generation and distribution of heat	95.47%	TAURON – 95.47%	95.47%	TAURON – 95.47%
Kopalnia Wapienia Czatkowice[1]	32-063 Krzeszowice 3; os. Czatkowice 248	Mining, crushing and grinding down limestone and stone minining for the construction industry	99.46%	PKE – 100.00%	99.46%	PKE – 100.00%
PKW[1]	43-600 Jaworzno; ul. Grunwaldzka 37	Hard coal mining	52.20%	PKE – 52.48%	67.64%	PKE – 68.01%
PEPKH[1]	40-389 Katowice; ul. Lwowska 23	Electric energy trade	79.62%	PKE – 70.00%; TAURON – 10.00%	88.55%	PKE – 61.11%; TAURON – 27.78%
PEC Katowice	40-126 Katowice; ul. Grażyńskiego 49	Generation and distribution of heat	95.66%	TAURON – 95.66%	95.66%	TAURON – 95.66%
Elektrociepłownia EC Nowa	41-308 Dąbrowa Górnicza; al. J. Piłsudskiego 92	Generation of electric energy, generation of heat and technical gases	84.00%	TAURON – 84.00%	84.00%	TAURON – 84.00%
PEC Dąbrowa Górnicza	41-300 DąbrowaGórnicza; al. J. Piłsudskiego 2	Generation and distribution of heat	85.00%	TAURON – 85.00%	85.00%	TAURON – 85.00%
TAURON Czech Energy	750 00 Ostrawa, Na Rovince 879/C Republika Czeska	Electric energy trade	100%	TAURON – 100%	100%	TAURON – 100%
Bels Investment[2]	02-674 Warszawa; ul. Marynarska 11	Generation of electric energy	100%	TAURON Ekoenergia – 100%	100%	TAURON Ekoenergia – 100%
Megawat Marszewo [2]	02-674 Warszawa; ul. Marynarska 11	Generation of electric energy	100%	TAURON Ekoenergia – 100%	100%	TAURON Ekoenergia – 100%

[1] *TAURON is the user of stocks/shares which are the property of PKE.*

[2] *In 2010 TAURON Ekoenergia acquired shares which constitute 100% of share capital in Bels Investment and Megawat Marszewo in order to implement tasks in Renewable Energy Sources Unit.*

As of the day of making this present report, in relation to the state as of 31 December 2010, information concerning the following significant subsidiary companies has changed:

Table no 3. Changes in the list of significant subsidiary companies as of the day of making the present report

Company name	Address	Core operations	TAURON share in the company capital	Entity which holds stocks/shares as of 1 March 2011	TAURON share in the company's governing body	Entity which holds stocks/shares as of 1 March 2011
Enion	30-390 Kraków; ul. Zawiła 65 L	Distribution of electric energy	99.71%	TAURON – 99.71%	99.71%	TAURON – 99.71%
TAURON Obsługa Klienta	53-314 Wrocław; Pl. Powstańców Śląskich 16	Services (client service)	100%	TAURON – 100%	100%	TAURON – 100%
Bels Investment	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electric energy	100%	TAURON Ekoenergia – 100%	100%	TAURON Ekoenergia – 100%
Megawat Marszewo	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electric energy	100%	TAURON Ekoenergia – 100%	100%	TAURON Ekoenergia – 100%

1.4. Main domestic and foreign investments

In the scope of acquiring stocks and shares in companies:

1. as of 8 December 2010, TAURON, as the sole shareholder TAURON Ekoenergia, took up 80,000 shares worth 1 thousand PLN each, which it paid up in cash. New shares were established by increasing share capital of TAURON Ekoenergia by the amount of 80,000 thousand PLN. This process was connected with acquiring by TAURON Ekoenergia 38,700 shares of the nominal value 50 PLN each, constituting 100% share capital in Megawat Marszewo;
2. on 21 October 2010, TAURON acquired shares of the following subsidiary companies: PKE with the fair value of 863,754 thousand PLN, ESW with the fair value of 80,524 thousand PLN, Enion with the fair value of 407,740 thousand PLN and EnergiaPro with the fair value of 350,857 thousand PLN, which was subject to contribution in-kind by the State Treasury to pay up the increased share capital of the Company. On 21 December TAURON purchased from the State Treasury in cash additional shares in the aforementioned companies;
3. on 10 June 2010, a merger of the parent company TAURON and its subsidiary companies ENION Zarządzanie Aktywami sp. z o.o. and Energomix Servis sp. z o.o. took place. As a result of the merger, TAURON become directly the owner of the shares which used to be the property of the aforementioned entities.

Detailed information concerning the aforementioned transactions is included in point 1.1 of the present report.

Moreover, apart from issuing internal bonds, in 2010 TAURON and TAURON Group companies did not make any significant purchase of securities.

In connection with Internal Bonds Issuance Programme launched in December 2010, three companies of TAURON Group issued bonds to refinance their financial liabilities (credits and bonds) which were bought in total by TAURON:

Enion 15.8 million PLN,

PKW 49.5 million PLN,

PKE 782.9 million PLN.

In relation to the structure of main capital investments it needs to be emphasized that in 2010, generally all surpluses of cash of the companies were allocated in banks as short-term deposits suited to the companies' operational needs. Since implementing cash pooling in TAURON Group, described in detail in the further part of this present report, companies which are a part of the structure have given a part of their cash surpluses to Pool Leader (TAURON), which then either used the means to finance activity of other entities of TAURON Group or invested in cash market instruments with the lowest investment risk.

1.5. Remuneration of the managing and supervising persons

The total amount of remuneration, understood as the value of remuneration, awards and benefits received in cash, in kind or in any other form paid by TAURON to members of the Management Board for 2010 was 5,691 thousand PLN. As the total amount of the remuneration and awards paid or due for 2010 the gross amount of remuneration paid or due in the period from January to December 2010 was given.

Members of TAURON Management Board are not included in an incentive or bonus scheme based on the Company's capital. In the table below remuneration of the members of the Company's Management Board for 2010 has been presented.

Table no 4. Remuneration of the members of the Company's Management Board for 2010 (information in thousand PLN)

Surname and name	Period of holding the position in 2010	Remuneration and awards*	Other benefits*	Total	Income derived in subsidiary companies**
Lubera Dariusz	01.01.2010 – 31.12.2010	1,116	151	1,267	51
Schmid Joanna	01.10.2010 – 31.12.2010	225	37	262	0
Stolarczyk Dariusz	01.01.2010 – 31.12.2010	975	138	1,113	58
Zamasz Krzysztof	01.01.2010 – 31.12.2010	958	113	1,071	58
Zawadzki Krzysztof	01.01.2010 – 31.12.2010	972	110	1,082	57
Tokarski Stanisław	01.01.2010 – 31.08.2010	768	128	896	60
Total		**5,014**	**677**	**5,691**	**284**

** No charges.*

*** Data from information on income and charged advance payments on account on income tax for 2010 PIT-11.*

It needs to be emphasised that remuneration with charges paid by the Company to all persons who served the function of the members of the Management Board in 2010 was in total 5,967 thousand PLN.

Remuneration of the members of the Company's Supervisory Board for 2010 has been presented in the table below:

Table no 5. Remuneration of the members of the Company's Supervisory Board for 2010 (information in thousand PLN)

Surname and name	Period of holding the position in 2010	Remuneration and awards	Other benefits	Total
Tajduś Antoni	01.01.2010 – 31.12.2010	47	0	47
Koziorowski Leszek	14.09.2010 – 31.12.2010	16	0	16
Kuciński Jacek	14.09.2010 – 31.12.2010	15	0	15
Luty Włodzimierz	01.01.2010 – 31.12.2010	44	0	44
Michalewski Michał	01.01.2010 – 31.12.2010	44	0	44
Szyke Jacek	14.09.2010 – 31.12.2010	15	0	15
Ściążko Marek	01.01.2010 – 31.12.2010	44	0	44
Trzaskalska Agnieszka	01.01.2010 – 31.12.2010	46	0	46
Kurowski Witold	01.01.2010 – 13.09.2010	29	0	29
Skrzypek Tadeusz	01.01.2010 – 13.09.2010	29	0	29
Total		**329**	**0**	**329**

In 2010 members of the Company's Supervisory Board did not receive remuneration and awards from TAURON Group companies since they did not hold positions in supervisory boards and management boards of these companies.

1.6. Number and nominal value of the Company's shares as well as stocks and shares in affiliated entities which are owned by the managing and supervising persons

The ownership of TAURON shares as well as stocks/shares in entities affiliated with TAURON which are owned by the persons managing and supervising the Company, as of 31 December 2010 and as of the day of making the present report is shown by the following table:

Table no 6. Ownership of TAURON shares as well as stocks/shares in affiliated entities – managing persons

Name and surname	TAURON shares		Stocks/shares in entities affiliated with TAURON	
	Number	Nominal value (PLN)	Number	Nominal value (PLN)
As of 31.12.2010				
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
As of the day of making the present 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 7. Ownership of TAURON shares as well as stocks/shares in affiliated entities – supervising persons

Name and surname	TAURON shares		Stocks/shares in entities affiliated with TAURON	
	Number	Nominal value (PLN)	Number	Nominal value (PLN)
As of 31.12.2010				
Antoni Tajduś	0	0	0	0
Agnieszka Trzaskalska	0	0	0	0
Leszek Koziorowski	0	0	0	0

Name and surname	TAURON shares		Stocks/shares in entities affiliated with TAURON	
	Number	Nominal value (PLN)	Number	Nominal value (PLN)
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
As of the day of making the present 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. Employee share ownership plan

In 2010 there were no employee stock ownership plans in the Company. It needs to be emphasised that on the basis of regulations of the Act of 7 September 2007 on the rules of acquiring shares from the State Treasury in the consolidation process of power engineering sector companies, shares conversion right or right to shares of the consolidated companies: PKE, Enion, EnergiaPro and ESW for the shares of the consolidating company, that is TAURON, was continued in 2010. Entitled employees of the aforementioned consolidated companies took up about 13% shares in the Company's share capital. In accordance with the adopted schedule and binding regulations of law, the process of shares exchange ended as of 13 August 2010. Still, heirs of the entitled persons, who until 12 August 2010 had submitted petitions for ascertainment of inheritance acquisition can exchange the shares within one year from the moment of the court's binding ruling on ascertaining inheritance acquisition from the person originally entitled to the shares.

1.8. Rules on making an annual consolidated financial statement

The consolidated financial statement has been made in accordance with the International Financial Reporting Standards as well as IFRS approved by the European Union ("EU", hereinafter referred to as IFRS). IFRS include standards and interpretations approved by the International Accounting Standards Board as well as the International Financial Reporting Interpretation Committee

TAURON Group companies, except for the Company, Enion and TAURON Czech Energy, maintain their account books in accordance with the policy (rules) of accountancy defined by the Accounting Act of 29 September 1994 and regulations issued on its basis ("Polish Accounting Standards" – "PSR"). The consolidated financial statement includes adjustments not included in TAURON Group companies' account books introduced in order to make the consolidated statement in accordance with the IFRS. TAURON and Enion make their financial statements in accordance with IFRS beginning with the financial statements for the periods beginning on 1 January 2010. TAURON Czech Energy makes the statement in accordance with the accounting principles binding in the Czech Republic.

The consolidated financial statement has been made on the assumption of continuing the business operation by TAURON Group companies in the possible to predict future.

On 13 September 2010, by the order of the President of the Company's Management Board "Accounting Policy of TAURON Polska Energia S.A. Capital Group" ("Polityka rachunkowości Grupy Kapitałowej TAURON Polska Energia S.A.") was introduced made on the basis of the International Financial Reporting Standards.

The accounting principles (policy) applied to make the consolidated financial statement have been presented in note 11 of the Consolidated Financial Statement for the year ended 31 December 2010.

2. DESCRIPTION OF TAURON GROUP OPERATION

2.1. Core operation units

TAURON Group is a vertically integrated energy enterprise which has a leading position in the areas of generation, distribution and sale of electric energy in Poland and Central-East Europe.

TAURON Group conducts its operations in the following areas (hereinafter also referred to as segments):

– **Mining Area**, covering mainly mining, concentrating and sale of hard coal in Poland. This operation is carried out by PKW.

– **Generation Area**, covering mainly generation of electric energy and heat from conventional sources as well as generation of electric energy and heat with co-burning of biomass. This activity is carried out by PKE, Elektrociepłownia Tychy, ESW, Elektrociepłownia EC Nowa and EC Stalowa Wola.

– **RES Area**, covering generation of electric energy from renewable sources (excluding generation of electric energy from biomass assigned to Generation Area). This generation is carried out by TAURON Ekoenergia and its subsidiary companies: Bels Investment and Megawat Marszewo as well as, until the end of September 2010, by TAURON Sprzedaż. Since October 2010 the activity of producing electric energy from renewable sources (water power stations) has been carried out by TAURON Ekoenergia which has taken over generation assets from TAURON Sprzedaż.

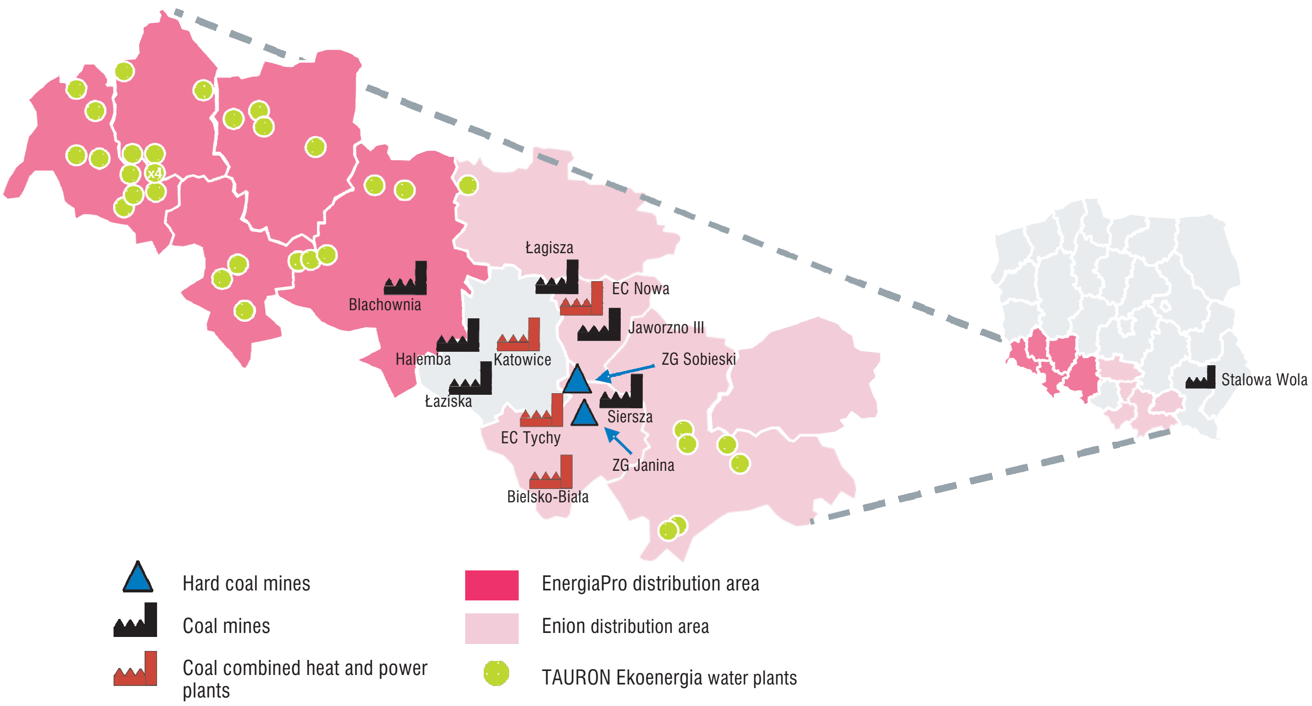
– **Distribution Area**, covering electric energy distribution with using power grids located in the south of Poland. This operation is carried out by EnergiaPro and Enion.

– **Trade Area**, covering electric energy supply to end consumers and electric energy wholesale as well as trading and management of CO_2 credits and management of property rights from certificates of origin. Activity in this area is carried out by companies: TAURON Sprzedaż, PEPKH, TAURON Czech Energy and TAURON. In 2010 activity in this unit was also carried out by TAURON Obsługa Klienta, which since 3 January 2011 has been operating in the area of client service.

– **"Other" Area** covering mainly distribution and sale of heat as well as other operations. The activity in this area is carried out by companies: PEC Katowice, PEC Dąbrowa Górnicza, Kopalnia Wapienia Czatkowice.

TAURON Group operates and obtains profits mainly from the sale and distribution of electric energy and heat, generation of electric energy and heat as well as sale of hard coal.

The map presented below shows the location of key assets of TAURON Group in particular areas as well as areas in which TAURON Group companies have been assigned as a distribution system operator.



2.1.1. Mining Area

The basic activity carried out by TAURON Group as a part of the Mining Area is mining, concentrating and sale of hard coal in Poland. Through PKW, TAURON Group conducts mining activity in two mining facilities: Zakład Górniczy Sobieski and Zakład Górniczy Janina. According to Polish Classification of Deposits these facilities have about 2,480 million balance tons of hard coal resources which is about 20% of national balance resources of hard coal.

In 2010 PKW produced in total 4.5 million tons of trading coal, that is about 8.8% less in comparison with 2009 when the production of trading coal was 4.9 million tons.

2.1.2. Generation Area

The basic activity of the Generation Area as a part of TAURON Group includes generation of electric energy and heat in 11 power plants and combined heat and power plants (facilities producing at the same time electric energy and useful heat) powered by hard coal and by means of biomass co-burning. Total attainable output capacity of generation entities of the Generation Area was 5,448 MWe of electric energy and 3,200 MWt of heat power at the end of 2010. Electric capacity remained unchanged in comparison with 2009 and constituted 15.3% of the domestic production potential.

In 2010 generation units of the Generation Area produced 20.8 TWh net electric energy, that is about 14% more than in 2009 in which net electric energy generation was 18.2 TWh. Heat production in 2010 was 17.2 PJ and in comparison with production in 2009 which was 15.7 PJ, was bigger by 9.9%.

2.1.3. RES Area

The basic activity carried out by TAURON Group in the RES Area is generation of electric energy from renewable sources of energy in hydroelectric power stations as well as managing TAURON Group projects in the area of energy generation from other renewable sources of energy. In the RES Area there are 35 hydroelectric power stations with the capacity of 131.2 MW which constituted 2.4% of the total attainable capacity of TAURON Group in 2010. TAURON Group hydroelectric power stations produced over 0.48 TWh of electric energy which is 10.7% more in comparison with 2009 (about 0.44TWh).

2.1.4. Distribution Area

TAURON Group is one of the biggest distributors of electric energy in Poland, both when it comes the volume of supplied electric energy as well as revenues from the distribution activities. The Distribution Area uses power grids of vast range, located in the southern part of Poland. The term “distribution” is used for the transport of electric energy by power grids to end consumers. Operation within the Distribution Area of TAURON Group is carried out by two companies: Enion and EnergiaPro. Both Enion and EnergiaPro conduct their activity on the basis of five branches, where Enion conducts its activity through branches in Bielsko-Biała, Będzin, Częstochowa, Kraków and Tarnów and EnergiaPro through branches in Jelenia Góra, Wrocław, Legnica, Opole and Wałbrzych. On 31 December 2008 the President of the Energy Regulatory Office (hereinafter referred to at the President of the ERO) appointed Enion and EnergiaPro as distribution system operators on the area defined in the concessions granted to these entities for the period until 31 December 2025.

In 2010 TAURON Group Distribution Area supplied in total 37.5 TWh of electric energy (including 32.9 TWh to end consumers). The Distribution Area rendered distribution services for 4.1 million consumers. In 2009 the Distribution Area supplied 36.4 TWh of electric energy (including 30.9 TWh to end consumers).

2.1.5. Trade Area

Trade Area includes activity in the area of the sale of electric energy to end consumers, including key clients as well as activity in the area of wholesale of electric energy and other products of electric energy market, including CO_2 credits and property rights from certificates of origin.

In 2010 retail sale was over 34.3 TWh of electric energy to 4.1 million end consumers, both to households as well as entrepreneurs, which in comparison with 2009, in which the sale was about 30.4 TWh means an increase by 12.8%. TAURON Group share in the total sale of electric energy in Poland on the basis of data available to the Company, that is data from the Energy Market Agency (Agencja Rynku Energetyki – ARE) for 2009 was 27.1%. In the Company’s opinion, in 2010 its market share remained at a similar level.

2.1.6. “Other” Area

“Other” Area includes mainly activity based on the distribution and sale of heat. TAURON Group companies which conduct activity in the area of heat distribution and sale are mainly PEC Katowice and PEC Dąbrowa Górnicza, which also deal with the generation of heat in their own thermal power stations. As of 31 December 2010 the total attainable capacity of PEC Katowice was 20.4 MWt, and PEC Dąbrowa Górnicza 174.3 MWt and constituted about 5.7% of the attainable heat capacity of TAURON Group. In 2010 PEC Katowice and PEC Dąbrowa Górnicza produced 0.17 PJ and 0.87 PJ respectively, in comparison with 0.14 PJ and 0.77 PJ in 2009.

Total sale of heat purchased and produced was: in PEC Katowice 5.53 PJ in 2010 in comparison with 4.86 PJ in 2009, in PEC Dąbrowa Górnicza 5.67 PJ in 2010 in comparison with 5.05 PJ in 2009.

2.2. Review of economic-financial information

Basic economic-financial information entered in the annual consolidated financial statement

Annual consolidated statement of the comprehensive income has been shown in the table below:

Table no 8. Annual consolidated statement of comprehensive income

Statement of comprehensive income	2010		2009		Dynamics (2010/2009)
	thousands PLN	% of total income from sale	thousands PLN	% of total income from sale	
Continuing operations					
Income from the sale of products, goods and materials without the elimination of excise	11,108,492	*72%*	9,855,179	*72%*	112.7%
Excise tax	(418,178)	*3%*	(412,755)	*3%*	101.3%
Income from the sale of products, goods and materials	10,690,314	*69%*	9,442,424	*69%*	113.2%
Income from the sale of services	4,698,111	*30%*	4,227,538	*31%*	111.1%
Other income	40,454	*0,3%*	24,660	*0.2%*	164.0%
Income from sale	**15,428,879**	***100%***	**13,694,622**	***100%***	**112.7%**
Selling cost	(13,089,128)	*85%*	(11,521,540)	*85%*	113.6%
Gross profit (loss) on sales	**2,339,751**	***15%***	**2,173,082**	***15%***	107.7%
Other operating income	105,186	*1%*	112,106	*1%*	93.8%
Selling costs	(231,252)	*1%*	(188,182)	*1%*	122.9%
Overheads	(670,308)	*4%*	(621,537)	*5%*	107.8%
Other operating costs	(144,118)	*1%*	(154,686)	*1%*	93.2%
Operating profit (loss)	**1,399,259**	***9%***	**1,320,783**	***10%***	105.9%
Operating profit margin (%)	*9.1%*		*9.6%*		
Financial income	93,864	*1%*	113,456	*1%*	82.7%
Financial costs	(235,573)	*2%*	(208,170)	*2%*	113.2%
Share in the profit (loss) of an affiliated entity and joint venture disclosed by equity method	(236)	–	–	–	–
Gross profit (loss)	**1,257,314**	***8%***	**1,226,069**	***9%***	102.5%
Gross profit margin (%)	*8.1%*		*9.0%*		
Income tax	(265,931)	*2%*	(277,906)	*2%*	95.7%
Net profit (loss) from continuing operations	**991,383**	***6%***	**948,163**	***7%***	104.6%
Net profit margin (%)	*6.4%*		*6.9%*		
Profit (loss) from discontinued operations	0	–	0	–	–
Net profit (loss) for the financial year	**991,383**	***6%***	**948,163**	***7%***	104.6%
Other comprehensive income for the financial year, taking tax into account	630		19,906		3.2%
Total income for the financial year	**992,013**	***6%***	**968,069**	***7%***	102.5%
Profit attributable to:					
Shareholders of the parent company	858,656		774,426		
Non-controlling interests	132,727		173,737		
Total income attributable to:					
Shareholders of the parent company	859,151		791,425		
Non-controlling interests	132,862		176,644		
EBIT and EBITDA					
EBIT	1,399,259		1,320,783		105.9%
EBITDA	2,767,147		2,641,090		104.8%

In 2010 TAURON Group recorded total income from sale at the level of 15,428.9 million PLN in comparison with 13,694.6 million PLN in 2009 which means an increase by about 12.7%. The biggest increase was recorded in income from the sale of goods and products which was higher by about 1,247.9 million PLN that is by 13.2% as well as in income from the sale of services which were higher by 470.6 million PLN that is by 11.1%. The main reasons of the increase are:

– increase of electric energy sale volume to end consumers,

– increase of income from electric energy distribution,

– increase of income from the sale of heat.

Selling cost in 2010 was 13,089.1 million PLN, which means an increase by about 13.6% in comparison with 2009.

Gross profit on sales in 2010 was 2,339.8 million PLN in comparison with 2,173.1 million PLN in 2009 which means an increase by about 7.7%.

In 2010 total selling costs of TAURON Group were 231.3 million PLN, which constituted an increase by about 22.9% in comparison with 2009. The increase of selling costs resulted mainly from the transfer of higher costs connected with the service of electric energy consumers by the companies from the Trade Area.

In 2010 overheads, including the costs (non-production) of equity depreciation, costs of using materials and energy, costs of external services as well as remuneration and employee benefits, in the scope in which they are used for the realization of management and administrative functions were 670.3 million PLN which means an increase by about 7.8% in comparison with 2009.

Other operating income of TAURON Group in 2010 was 105.2 million PLN which means a decrease by about 6.2% in comparison with the amount of 112.1 million PLN achieved in 2009. Decreasing other operating income is connected most of all with the lower level of released balance sheet reserves.

Decrease of other operating income by 10.6 million PLN in 2010 in comparison with 2009 results mainly from a lower level of created balance sheet reserves and write-offs.

Result on operations in 2010 was 1,399.3 million PLN in comparison with the result in the amount of 1,320.8 million PLN in 2009 which means an increase by about 5.9%.

Financial income of TAURON Group in 2010 was 93.9 million PLN, which means a decrease by about 17.3% in comparison with the amount of 113.5 million PLN achieved in 2009. The decrease of financial income is connected most of all with lower income from dividend. The decrease was partly compensated by achieving income from interest which was higher by 15.4 million PLN.

Increase of financial costs by 27.4 million PLN (13.2%) in 2010 in comparison with 2009 is a result of, among other things, revaluation of financial assets as well as increase of other costs connected with financial operations.

In 2010 TAURON Group gross profit was 1,257.3 million PLN which in comparison with 1,226.1 million in 2009 means an increase by about 2.5%.

As a result of the aforementioned factors net profit in 2010 was 991.4 million PLN which means an increase by 4.6% in comparison with 2009. Net profit margin of TAURON Group (relation of net profit to income from sale) was 6.4% in comparison with 6.9% achieved in 2009.

In accordance with the presented consolidate statement of comprehensive income, the total comprehensive income of TAURON Group, taking into account net profit increased or decreased by the change of hedging instruments value as well as other income taking tax into account, was 992.0 million PLN in 2010 in comparison with 968.1 million PLN in 2009 which means an increase by about 24.0 million PLN (2.5%).

Factors and occurrences of an untypical nature, significantly affecting TAURON Group operations and results achieved

Macroeconomic situation

TAURON Group conducts its operations mainly in Poland, that is why it is dependent on domestic macroeconomic trends. The country's macroeconomic situation translates directly into financial results achieved by TAURON Group since there a positive correlation between the increase of demand for electric energy – the core product of TAURON Group and economic growth (Gross Domestic Product at the end Q3 2010 increased by 4.2% in comparison with the previous year). Such a growth was observed in 2010 in comparison with a stagnation period in 2009.

According to PSE Operator information, in 2010 the use of electric energy on the area of Poland was higher in comparison with 2009 by 4.22%.

Situation in power engineering sector

Significant legislation changes have had an influence on the functioning of power engineering sector. As of 9 August 2010 an amendment of the Act of 10 April on Energy Law 1997 became effective. It imposed an obligation on energy producers to sell not less than 15% of electric energy produced in a given year at commodity exchange. On the other hand, the producers who have to right to receive means to cover stranded costs on the basis of the act of dissolution of LTC were forced to sell electric energy produced by them not covered by the obligation to sell which is mentioned in the previous sentence, by means of an open tender, on Internet trading platform on a regulated market or at commodity exchanges. Energy produced in renewable sources and cogeneration was, among other things, released from the obligation of sale at the exchange. As a consequence of these formal-legal changes there was a rapid turnover increase at the Polish Power Exchange (hereinafter referred to as TGE). Trading market of electric energy was also launched by Warsaw Stock Exchange which launched POEE platform, competitive to TGE.

TAURON Group began to fulfil the obligation resulting from the Act from the moment when new regulations became effective, that is since August 2010. TAURON Group has been operating actively on TGE. A significant change for the total wholesale market of energy trade, including also TAURON Group, was launching futures contracts on TGE.

Another consequence of this amendment was imposing on the entities selling electric energy to end consumers an obligation to redeem property rights from producing electric energy from sources which use gas from demethanation of mines or biogas. As of the day of making the present report, an order regulating share of this energy in total sale has not yet become effective.

Prices of electric energy and CO_2 credits on Polish, Czech and German markets

In 2010, in comparison with 2009, there were periodical fluctuations of market prices of electric energy. These fluctuations were the result of natural disasters caused by floods which resulted in limitation of production and electric energy supply to part of consumers.

Prices of electric energy on Polish market for particular months of 2010, beginning from Q2, showed a growing trend and then they became stable. Prices of recorded contracts for electric energy supply for particular months during the Q2 went up, on average, by 8%. The biggest increase of prices was observed for energy supply in December and was connected with an increased failure rate in power engineering system resulting in low power reserves as well as low temperatures recorded in that month.

An increasing trend of the prices of electric energy was also observed on the Czech and German markets. As on the Polish market, there was a significant price rise in Q2 2010 on these markets, and then a significant increase of electric energy prices on SPOT market in December, connected with low temperatures in that month. Prices on the Czech and German markets are very strongly correlated, both when it comes to the level as well as the observed fluctuation rate.

On the market of CO_2 credits, similarly to electric energy markets, during 2010 a growing trend was dominating. In comparison with Q1 prices in Q2 went up by 15%. The change of prices on the market of CO_2 credits was translated into electric energy prices, which also went up in Q2 2010. Then, in the middle of the year, prices of EUA became stable, fluctuating around 14.5 EUR/Mg.

Factors which will influence TAURON Group operation result

The following factors, as it used to be in the past, shall have the biggest influence on TAURON Group operations:

- changes in power sector regulations, including the actions and decisions of the President of the ERO,
- macroeconomic situation, especially in Poland, as well as economic situation of the area on which TAURON Group is operating, of the European Union as well as global economy,
- political environment, especially in Poland and at the level of the European Union,
- amendment of the Act of 10 April 1997 on Energy Law and other acts concerning, among other things, the obligation of public sale of electric energy by producers (the obligation has been binding since August 2010),
- introducing electric energy production support system in high efficiency cogeneration in facilities powered by methane (obligation since September 2010),
- prices of electric energy on the wholesale market,
- prices of electric energy and coal as well as distribution rates as factors influencing the value of revenues and costs,
- prices of certificates of origin of energy from renewable sources and cogeneration,
- prices of CO_2 credits,
- prices of energy resources,
- geological-mining conditions,
- demand for electric energy and heat,
- number of CO_2 credits granted free of charge after 2012 as well as prices of acquired credits,
- seasonal character and weather conditions,
- amount of compensations to cover stranded costs connected with the dissolution of LTC, including the settlement of the dispute between the President of ERO and producers from TAURON Group (PKE) entitled to receive compensations as a part of LTC Act,

concerning an annual adjustment of stranded costs for 2008 (ERO lodged an appeal against the sentence to the Court of Competition and Consumers' Protection),

– results of settlement of the proceedings between ERO against Enion and TAURON Sprzedaż (ERO proceedings are under way after winter power grid failures on the area of Enion operations),

– possible failures of equipment, installations and grids which are the property of TAURON Group.

2.3. Evaluation of factors and occurrences of an untypical nature, significantly affecting results achieved

In 2010 an increased demand for electric energy in the National Power Engineering System was observed which was a result of an economic growth and increase of demand for energy. In 2010 TAURON Group was carrying out its sales strategy whose aim was, among other things, gaining new clients, which was also reflected in the sales increase to retail consumers segment. In 2010 34.3 TWh of electric energy was sold to retail consumers, which in comparison with 2009 means an increase of 12.8%.

Economic boom favoured increasing the volume of electric energy distribution, also as a result of gaining new clients. In 2010 electric energy distribution was by about 3% higher than in 2009 and was 37.5 TWh.

Legislation changes, introducing the obligation to sell electric energy by means of an open tender at Internet trading platform on a regulated market or on commodities exchanges, resulting from the amendment of the Act of 10th April 1997 on Energy Law, forced increasing the activity of TAURON Group at TGE. The necessity to maintain proper securities as well as keeping a deposit to be accounted for in the period of performing a futures transaction. Additional security results in an increase of financial and operational costs connected with conducting business activity.

Weather conditions in 2010 favoured an increase of generation and sale of heat – the companies of TAURON Group produced 18.3 PJ of heat, 10.1% more in comparison with 2009.

2.4. Important occurrences having a significant influence on operations and financial results of TAURON Group or whose influence is possible in the coming years

The following reorganizational actions of TAURON Group which result from the assumptions of the Corporate Strategy are among important occurrences having a significant influence on operations and financial result of TAURON Group for 2010:

- Since 2009 the Company has been carrying out the process of taking over from Kompania Węglowa S.A (hereinafter referred to as Kompania Węglowa) shares of PKW and Kopalnia Węgla Kamiennego "Bolesław Śmiały" (hereinafter referred to as KWK Bolesław Śmiały) which is a branch of Kompania Węglowa, owned by it. It is planned that PKW I KWK Bolesław Śmiały shares will be taken from Kompania Węglowa in exchange for TAURON shares. At the same time there are actions aiming at taking over by TAURON PKW shares which constitute 52.48% of PKW share capital and shares constituting 70.00% of PEPKH share capital, whose present owner is PKE.
- In 2010 a process of consolidation of generation assets of TAURON Group was launched. In this way generation assets of TAURON Group based on hard coal will be focused in one entity of TAURON Group.
- In 2010 concentration of generation assets took place – concentration of hydroelectric power stations in TAURON Ekoenergia. On 1 October 2010 District Court in Wrocław registered increasing share capital of TAURON Ekoenergia company, and at the same time registered division of TAURON Sprzedaż company which took place by separating from this company an organized part of the enterprise consisting of tangible and intangible assets connected with electric energy generation in renewable sources of energy – hydroelectric power stations and transferring it to TAURON Ekonergia, under art. 529 § 1 point 4 of the Code of Commercial Companies. As a result of the division carried out since October TAURON Ekoenergia has been the owner of all hydroelectric power stations belonging to TAURON Group.
- Presently in TAURON Group, the activity in the scope of electric energy distribution is carried out by two companies which perform the function of Distribution System Operator (OSD). These are: Enion and EnergiaPro. In Q4 2010 actions were undertaken as a result of which in TAURON Group there shall be one OSD company.
- Reorganization of operations as a part of TAURON Group in 2010 took into account creating Uniform Sales Area (JOS) and Client Service Centre (COK) by focusing activity connected with sale of electric energy in TAURON Sprzedaż, and activity connected with client service – in TAURON Obsługa Klienta. These actions were carried out parallel to works connected with transfer of tasks from client service area from Enion and EnergiaPro to TAURON Obsługa Klienta functioning in TAURON Group as COK. Works connected with the transfer of tasks from the area of client service are still carried out.
- On 13 July 2010 the process of creating Heat Area on the basis of heating companies included in this Unit was started in TAURON Group. In accordance with the undertaken assumptions, the leading entity of the Heat Area was PEC Katowice. In the first stage it is planned to join distribution assets of heating companies PEC Katowice and PEC Dąbrowa Górnicza. Works are being carried out to prepare development strategy for this Unit.

2.5. Core products, goods and services

The table below presents production and sales volumes in TAURON Group for 2010 and 2009.

Table no 9. Production and sales volumes for 2010 and 2009

KEY OPERATIONAL RATES	2010	2009	Change of value (2010–2009)	Dynamics (2010/2009)
Production of hard coal (in millions tonnes)	4,5	4,9	-0,4	91,2%
Net generation of electric energy (in TWh)	21,3	18,6	2,7	114,4%
Including: generation from renewable sources (in TWh)	*1,10*	*0,98*	*0,12*	*112,7%*
Generation of heat (in PJ)	18,3	16,6	1,7	110,1%
Distribution of electric energy (in TWh)	37,5	36,4	1,1	103,0%
Retail sale of electric energy (in TWh)	34,3	30,4	3,9	112,8%

Financial results according to areas of operation

The table below presents TAURON Group results divided by particular areas (segments) of operation for 2010 and 2009. Information for particular areas does not include consolidation exemptions.

Table no 10. TAURON Group results divided by particular areas (segments) of operation for 2010 and 2009

Detailed list (thousands PLN)	2010	2009	Dynamics (2010/2009)
Coal mining			
Income on sales	1,081,398	1,167,089	92.7%
Operating profit	5,908	147,031	4.0%
Amortization and write-offs for non-financial assets	104,743	106,171	98.7%
EBITDA	110,651	253,202	43.7%
Generation of electric energy and heat from conventional sources			
Income on sales	5,863,208	5,338,487	109.8%
Operating profit	656,169	677,144	96.9%
Amortization and depreciation as well as impairment of non-financial assets	556,272	504,272	110.3%
EBITDA	1,212,441	1,181,416	102.6%
Generation of electric energy from renewable sources			
Income on sales	167,202	123,332	135.6%
Operating profit	89,407	55,141	162.1%
Amortization and depreciation as well as impairment of non-financial assets	25,487	21,311	119.6%
EBITDA	114,894	76,452	150.3%
Distribution of electric energy			
Income on sales	4,509,033	4,146,034	108.8%
Operating profit	509,281	155,621	327.3%
Amortization and depreciation as well as impairment of non-financial assets	622,641	626,950	99.3%
EBITDA	1,131,922	782,571	144.6%
Sale of energy and other products of energy market			
Income on sales	12,093,842	11,521,855	105.0%
Operating profit	88,145	301,837	29.2%
Amortization and depreciation as well as impairment of non-financial assets	8,300	4,339	191.3%
EBITDA	96,445	306,176	31.5%
Other			
Income on sales	597,963	518,408	115.3%
Operating profit	35,445	6,579	538.8%
Amortization and depreciation as well as impairment of non-financial assets	50,445	57,264	88.1%
EBITDA	85,890	63,843	134.5%
Unallocated items and eliminations			
Income on sales	(8,883,767)	(9,120,583)	97.4%
Operating profit	14,904	(22,570)	–
Amortization and depreciation as well as impairment of non-financial assets	0	0	–
EBITDA	14,904	(22,570)	–
Total EBITDA	**2,767,147**	**2,641,090**	**104.8%**

Coal mining

In 2010 total income on sales in the Mining Area was 1,081.4 million PLN, which means a decrease by about 7.3% in comparison with 2009.

EBIT of the Unit in 2010 was 5.9 million PLN, and EBITDA 110.7 million PLN. In 2009 EBIT was 147.0 million PLN, whereas EBITDA 253.2 million PLN. Decrease of EBIT in the Mining Area by about 96.0% in 2010 in comparison with 2009 resulted mainly from decreasing the mining output level due to more difficult geological conditions.

Generation of electric energy and heat from conventional sources

In 2010 total income on sales in the Generation Area was 5,863.2 million PLN, which means an increase by about 9.8% in comparison with 2009.

In 2010 EBIT of the Unit w 2010 was 656.2 million PLN, and EBITDA 1,212.4 million PLN. In 2009 EBIT was 677.1 million PLN, whereas EBITDA 1,181.4 million PLN. Decrease of EBIT in 2010 by about 3.1% in comparison with 2009 resulted mainly from a lower average sale of electric energy parallel to higher costs of production fuel.

Generation of electric energy from renewable sources

In 2010 total income on sales in RES Area was 167.2 million PLN, which means an increase by about 35.6% in comparison with 2009.

In 2010 EBIT of the Unit was 89.4 million PLN, and EBITDA 114.9 million PLN. In 2009 EBIT was 55.1 million PLN, whereas EBITDA 76.5 million PLN. Increase of EBIT in 2010 by about 62.1% in comparison with 2009 was mainly caused by a bigger production volume which translated into higher income from the sale of electric energy and property rights from electric energy certificates of origin from RES.

Distribution of electric energy

In 2010 total income on sales in Distribution Area was 4,509 million PLN, which means an increase by about 8.8% in comparison with 2009.

In 2010 EBIT of the Unit was 509.3 million PLN, and EBITDA 1,131.9 million PLN. In the previous year EBIT was 155.6 million PLN, whereas EBITDA 782.6 million PLN. Increase of EBIT in 2010 in comparison with 2009 resulted mainly from the bigger sale carried out at higher average rates for distribution services parallel to a decrease of the costs of energy purchase to cover balance sheet difference and overhead costs.

Sale of energy and other products of energy market

In 2010 total income on sales in the Trade Area was 12,093.8 million PLN, which means an increase by about 5.0% in comparison with 2009.

In 2010 EBIT of the Unit was 88.1 million PLN, and EBITDA 96.4 million PLN. In 2009 EBIT was 301.8 million PLN, whereas EBITDA 306.2 million PLN. Decrease of EBIT by about 70.8% in 2010 in comparison with 2009 was caused mainly by increased costs from the obligation to redeem property rights (electric energy certificates of origin) as well as the growing competition on the market and consequently a fall of average prices of electric energy sale to end consumers.

Income on other operations

In 2010 total income on sales in Other Area was 598.0 million PLN, which means in increase by about 15.3% in comparison with 2009.

In 2010 EBIT of the Unit was 35.4 million PLN, and EBITDA 85.9 million PLN. In 2009 EBIT was 6.6 million PLN, whereas EBITDA 63.8 million PLN. Increase of EBIT in 2010 in comparison with 2009 resulted mainly from an increased demand for heat from consumers which was caused, among other things, by a prolonged heating season.

2.6. Potential customers markets and sources of supply

TAURON Group is a vertically integrated energy enterprise controlling the whole value chain from coal mining to supplying electric energy to end consumers. Therefore, TAURON Group is conducting its operations in all key segments of energy market (excluding electric energy transfer which is exclusively under management of Transfer System Operator), that is in the area of coal mining, generation, distribution as well as sale and trade of electric energy and heat. Vertical integration of TAURON Group enables to decrease dependence of TAURON Group on external suppliers of hard coal. Access to its own hard coal deposits as well as control of its own generation assets make TAURON Group partly independent from market fluctuations of fuel and electric energy prices, increasing the stability of income and margins achieved by TAURON Group.

In 2010 about 27% of the current fuel demand for the generation of electric energy and heat of TAURON Group was met with hard coal from TAURON Group’s own mining facilities.

Mining Area

PKW company acting in TAURON Group Mining Area is a producer of power coal, type 31.2, offered on sale on the market in thick and medium coal sizes and power fines. Depending on the coal size, the coal has the following trade parameters:

– energy value from 19 MJ/kg to 23 MJ/kg,

– ash content from 9% to 16%,

– sulphur content from 1.0% to 1.4%.

PKW conducts the sale of coal in two directions:

– sale of fine coal and coal sludges to power plants and combined heat and power plants of TAURON Group,

– sale of thick, medium and small coal sizes through an organized sales network in Poland.

Main regions of coal sale from PKW is the region of southern and central Poland, in particular the following provinces: śląskie, małopolskie, podkarpackie, świętokrzyskie and dolnośląskie.

Generation Area and RES Area

Generation of electric energy and heat by TAURON Group generation units depends on the supplies of hard coal. The main suppliers of hard coal for TAURON Group producers are Kompania Węglowa (about 50% of the demand) and PKW (about 27% of the demand).

In 2010 hard coal sale by PKW was 4.5 million Mg, including 3.1 million Mg (69%) to TAURON Group companies of the Generation Area.

In 2010 a definite majority of net electric energy production of the Generation Area was sold to the Company, on the basis of framework agreements. A small volume of produced electric energy is sold to independent consumers connected in the past to the installation of TAURON Group power plants and combined heat and power plants.

In 2010, after the introduction of amendments, in the Act of 10 April 1997 on Energy Law, among other things, art. 49a, of 9 August 2010 (after taking into consideration contracts reached before the introduction of amendments of the aforementioned Act as well as energy excluded under these regulations from this obligation), the total sale of electric energy was carried out in a way which enabled public access to this energy, that is by means of an open tender, on Internet trading platform on the regulated market, on TGE or Energy Market of the Warsaw Stock Exchange.

Heat produced by TAURON Group companies is sold to TAURON Group companies which deal with distribution and sale of heat, as well as to external consumers.

Moreover, companies of the Generation Area obtain, by means of electric energy generation from RES as well as cogeneration, certificates of origin, which are purchased and submitted to the President of the ERO to be redeemed by the Trade Area companies.

Distribution Area

Distribution Area includes Enion and EnergiaPro, which, on the basis of the President's of the ERO decision, function as Distribution System Operators.

Enion services about 2.4 million consumers, for whom in 2010 it supplied 20 TWh of electric energy. The company covers with its operations an area of 25,538 km^2 located mainly in the provinces of małopolskie and śląskie, and moreover in the provinces of podkarpackie, łódzkie, opolskie and świętokrzyskie. Operating functions are carried out by five branches of the company in: Bielsko-Białej, Będzin, Częstochowa, Kraków and Tarnów.

EnergiaPro services about 1.7 million consumers, for whom in 2010 it supplied 17.5TWh of electric energy. EneriaPro operates in the area of the province of dolnośląskie and opolskie. The area of operation of this company covers 27.329 thousand km^2. Operating functions are carried out by five branches of the company in: Jelenia Góra, Legnica, Opole, Wałbrzych and Wrocław.

Electric energy is supplied to consumers qualified to the following rate groups:

– A Group – consumers connected to high-voltage power grid,

– B Groups – consumers connected to medium-voltage power grid,

– C, D and R Groups – consumers connected to low-voltage power grid,

– G Group – consumers using energy for household needs, irrespective of the voltage of the power grid.

Sale of distribution services is carried out on the basis of umbrella agreements as well as agreements to render distribution services reached with consumers. First of the aforementioned type of agreements includes both sale of electric energy by the Trade Area (in 2010 it was TAURON Sprzedaż and TAURON Obsługa Klienta) as well as supply of the energy by OSD company (Enion and EnergiaPro respectively).

Second type of the agreements is the so-called split agreements, which concern only the sale of distribution service. Under this type of agreements the consumers purchase electric energy in a selected individual sale company, on the basis of a separate agreement.

Sales value share as a part of the umbrella agreements, with the total value of distribution services sale to end consumers fluctuates around 75%. The volume of supply as a part of umbrella agreements in the total volume of supply to end consumers is about 55%.

Trade Area

Companies which operate in the area of electric energy sale are mainly responsible for the sale of electric energy to end consumers. In 2010 the total sale of electric energy carried out by these companies for over 4.1 million end consumers was 34.3TWh. TAURON Group companies which carry out operations in the area of electric energy retail sale buy electric energy mainly from TAURON.

Income generated from the sale of electric energy depends, to certain extent, on the current electric energy rates. Until 2 November 2007 rates for electric energy sold by TAURON Group for all end consumers were subject to approval by the President of the ERO. Since then, TAURON Group has been obliged just to submit to approval of the President of the ERO rates for electric energy sale to consumers in households, which is the so-called G rate group.

In the past companies which carried out their activity in the scope of electric energy sale to end business consumers used A rate group for consumers connected to the high-voltage power grid, B rate group for consumers connected to the medium-voltage power grid and C rate group for consumers other than households connected to the low-voltage power grid. In connection with energy market liberation and the need to offer end consumer-suited prices and products, TAURON Group is individually negotiating conditions of electric energy sale agreements. As a result, A, B, and C rates are becoming applied less and less frequently as the basis to establish electric energy prices, and TAURON group began to classify its clients into three categories depending on the kind of power grids they are connected to:

– WN consumers, which includes consumers from A rate as well as TPA consumers connected to high-voltage power grids,
– SN consumers, which includes consumers from B rate as well as TPA consumers connected to medium-voltage power grids,
– nN consumers, which includes consumers from C rate as well as TPA consumers connected to low-voltage power grids.

In this way, companies carrying out their activity in the scope of electric energy sale are slowly abandoning offering their consumers electric energy prices which are based on rate groups applied to consumers charged for the electric energy distribution service.

Presently, end consumers negotiate prices of electric energy sale, except for households, in case of which rate G, approved by the President of the ERO, is still being applied. Each consumer category is offered a different range of products and for each of them TAURON Group adopts a different marketing approach. Both companies dealing with electric energy sale in TAURON Group offered similar prices and standardised products to consumers in a given category.

The table below presents categories of TAURON Group end consumers on the basis of voltage and specificity of their business:

Table no 11. TAURON Group end consumers categories

Consumer group	Description of consumers
WN Consumers	Consumers from the sectors of heavy industry, smelting industry, chemical industry, mining industry, automotive industry
SN Consumers	Clients from other sectors of industry, producers of equipment, consumers from food industry, public sector, construction sector and public utilities sector
nN Consumers	Clients dealing with sales, services, banking, catering and small businessmen
G rate group	Households
Other consumers	TPA consumers not connected to TAURON Group distribution network

The table below presents data on the volume of electric energy sold by companies operating in the area of electric energy sale to end consumers. It also presents numbers of clients of these companies, divided by individual consumer categories in 2010.

Table no 12. Volume of sold electric energy and number of clients in 2010

Kind of consumers	Volume of sold electric energy in TWh	Percent of sold electric energy in total sales	Number of consumers in thousands
WN Consumers	8.67	25.2%	0.07
SN Consumers	8.82	25.7%	6.88
nN Consumers	5.16	15.0%	376.88
G rate group	7.89	23.0%	3 716.90
Other consumers	3.80	11.1%	001
Total	**34.34**	**100.0%**	**4 100.73**

TAURON Group retail sales went up by 3.9 TWh, which is by 12.8%, from 30,4 TWh in 2009 to 34.3 TWh in 2010.

In the rates group section the increase of sold energy volume is the following:

– group A by 2.05 TWh, which is by 31.0%, from 6.62 TWh in 2009 to 8.67 TWh in 2010,
– group B by 0,35 TWh, which is by 4.1%, from 8.47 TWh in 2009 to 8.82 TWh in 2010,
– groups C, D, R in total by 0.07 TWh, which is by 1.4%, from 5.09 TWh in 2009 to 5.16 TWh,
– group G by 0.40 TWh, which is by 5.3%, from 7.49 TWh in 2009 to 7.89 TWh in 2010,
– other retail consumers by 1.03 TWh, which is by 37.2%, from 2.77 TWh in 2009 to 3.80 TWh in 2010.

In 2010 the value and volume of electric energy sale for the biggest client of TAURON Group did not exceed, respectively, 10% of total electric energy sales value and 10% of total volume of sold electric energy. Only the share of two biggest clients of TAURON Group in electric energy sale exceeded 5% of total value and 5% of total volume of sold electric energy. The biggest clients of TAURON Group are ArcelorMittal Poland S.A., CMC Zawiercie S.A., Górażdże Cement S.A., ISD Huta Częstochowa sp. z o.o., KGHM Polska Miedź S.A., Kompania Węglowa, Zakłady Azotowe in Tarnów-Mościce S.A.

Electric energy sales market is competitive and the consumers have the opportunity of choosing electric energy provider among many providers of electric energy. As a result, on one hand TAURON Group sells electric energy also to consumers on areas other than the area covered by TAURON Group distribution network, and on the other hand it competes with other electric energy providers for clients who are on the area covered by TAURON Group distribution network.

Together with price release as well as the possibility of selecting electric energy provider a growing trend of competition on the market has been observed, especially when it comes to end consumers connected to WN and SN grids. Another factor indicating competition increase is the appearance of entities/persons active only in market niches indentified by them.

"Other" Area

The core activity of "Other" Areas companies, carried out on the basis of concessions granted by the President of the Energy Regulatory Office is:

– heat generation,
– heat trading,
– heat transfer and distribution.

Activity of PEC Dąbrowa Górnicza is carried out on the area of the province of śląskie and małopolskie. The company has its own heat sources with the total installed heat capacity of 173.6 MW. The share of heat produced in own sources in total volume of the sale of heat is about 14%. Other heat sold by this company is purchased from PKE and Elekrociepłownia EC Nowa as well as from producers outside TAURON Group, mainly from the following entities:

– Elektrociepłownia "Będzin" S.A.,
– Fortum Częstochowa S.A. in Częstochowa,
– Elektrociepłownia EC Wojkowice sp. z o.o.

PEC Katowice company operates on the area of the province of śląskie. This company, apart from heat produced in its own sources (total installed heat capacity is 28.5% MW), which meets about 2% of the total demand of consumers, purchases heat in the form of hot water from PKE and Spółka Ciepłowniczo-Energetyczna Jaworzno III sp. z o.o. (companies of TAURON Group) as well as from external suppliers of heat produced, including mainly from the following entities:

– Elektrociepłownia Chorzów "ELCHO" sp. z o.o.,
– Zakłady Energetyki Cieplnej sp. z o.o.,
– Elektrociepłownia "Szopienice" sp. z o.o.,
– Ciepłownia Siemianowice sp. z o.o.

In 2010 heating companies sold, together with the heat produced, 11.2 PJ of heat, which is almost by 1.3 PJ (13.2%) more than in 2009 (9.9 PJ).

TAURON Group conducts its operations mainly on the territory of Poland. In 2010 and 2009 sale for foreign clients was 228.9 million PLN and 233.7 million PLN respectively.

2.7. Information on agreements significant to TAURON Group operation

In 2010 TAURON Group Companies reached agreements significant to TAURON Group operation, that is agreements whose subject is worth at least 10% of Company's equity.

In the period from 11 June 2010, that is from the day of allowing Company's shares to be listed until 1 December 2010 total turnover was achieved of a significant value between TAURON Group subsidiary companies and Kompania Węglowa, as the Seller. Total approximate net value as of the day of making this report was 2.48 billion PLN. At the same time the Company has informed that an agreement of the highest value reached with Kompania Węglowa was an agreement reached on 1 December 2010 reached by PKE as the Buyer. The subject of this agreement was sale of coal for power purposes, which came from coal mines and mining facilities of Kompania Węglowa, to be used in power plants and combined heat and power plants owned by PKE. The agreement was reached for the period of 3 years; the approximate value of the agreement in the aforementioned period is to be about 2.3 billion PLN net. Information on thereto was included in Current Report no 58/2010.

2.8. Information on significant transactions with affiliated units

All transactions with affiliated entities are reached in accordance with market conditions.

Detailed information on transactions with affiliated entities has been presented in note 36 of the Consolidated Financial Statement for the year ended 31 December 2010.

2.9. Information on credit and loan agreements taken out and terminated

In 2010 TAURON Group accepted and launched implementing of TAURON Group central financing model, that is financing at the level of TAURON and its distribution via intra-group bonds to other TAURON Group companies (it does not apply to loans from the National and Provincial Environment Protection and Water Management Fund as well as European Union funds, whose party has to be the final beneficiary of the means). The first stage of implementing the subject model was restructuring of the existing debt within TAURON Group.

The majority of changes (taking out and terminations) which took place during the financial years in credits and loans portfolio, resulted from TAURON Group debt refinancing process by means of bonds issued by the Company. Credit agreements reached by companies result from actions which had been started before accepting and implementing the central financing model.

In the tables below a list of credits and loans (re)-reached by TAURON Group companies as well as a list of credits and loans terminated by TAURON Group companies before their due date in 2010 has been presented.

Table no 13. List of credit and loan agreements (re)-reached by TAURON Group companies in 2010

Company name	Kind of agreement	Kind and level of interest rate	Amount of liability	Currency	Due date
ESW	Investment credit	WIBOR 3M + fixed margin	80,000,000	PLN	30.06.2017
EnergiaPro	Investment credit	WIBOR 1M + fixed margin	100,000,000	PLN	02.11.2014
Enion	Investment credit	WIBOR 1M + fixed margin	60,000,000	PLN	30.06.2013
PEC Katowice	Loan agreement	Rate* * Rediscount rate not less than 3%	12,428	PLN	30.11.2012
PEC Katowice	Loan agreement	Rate* * Rediscount rate not less than 3%	13,500	PLN	30.09.2012
PEC Katowice	Loan agreement	Rate* * Rediscount rate not less than 3%	15,000	PLN	15.12.2012
PEC Katowice	Loan agreement	Rate* * Rediscount rate not less than 3%	15,800	PLN	30.08.2013
PEC Katowice	Loan agreement	Rate* * Rediscount rate not less than 3%	72,330	PLN	31.05.2013
PEC Katowice	Loan agreement	Rate* * Rediscount rate not less than 3%	73,281	PLN	30.11.2012
PKE	Working capital credit in current account	WIBOR 1M – fixed margin	150,000,000	PLN	08.11.2011
PKE	Loan agreement	Rate* * Base Rate + fixed margin	40,000,000	PLN	15.12.2022
PKW	Investment credit	WIBOR 1M + fixed margin	27,420,000	PLN	29.05.2015
PKW	Investment credit	WIBOR 1M + fixed margin	29,960,000	PLN	31.03.2015

Table no 14. List of credits and loans terminated before their due date in 2010 by TAURON Group companies

Company name	Kind of agreement	Kind and level of interest rate	Initial liability	Currency	Due date
ESW	Investment credit	WIBOR 3M + fixed margin	80,000,000	PLN	30.06.2017
Enion	Investment credit	WIBOR 1M + fixed margin	9,587,623	PLN	31.12.2013
Enion	Investment credit	WIBOR 1M + fixed margin	11,467,200	PLN	31.12.2013
Enion	Investment credit	WIBOR 1M + fixed margin	15,724,677	PLN	31.03.2012
Enion	Investment credit	WIBOR 1M + fixed margin	13,574,600	PLN	31.03.2012
Enion	Investment credit	WIBOR 1M + fixed margin	36,896,900	PLN	31.03.2012
Kopalnia Wapienia Czatkowice	Investment credit	WIBOR 1M + fixed margin	6,500,000	PLN	29.07.2011
PEC Dąbrowa Górnicza	Investment credit	WIBOR 1M + fixed margin	6,000,000	PLN	30.06.2010
PEC Dąbrowa Górnicza	Investment credit	WIBOR 1M + fixed margin	12,000,000	PLN	30.06.2011
PKE	Investment credit	WIBOR 3M + fixed margin	115,000,000	PLN	30.09.2012
PKE	Investment credit	WIBOR 3M + fixed margin	124,000,000	American dollar	31.12.2012
PKE	Investment credit	WIBOR 1M + fixed margin	101,578,000	PLN	31.10.2011
PKE	Investment credit	WIBOR 3M + fixed margin	35,600,000	American dollar	31.12.2012
PKE	Investment credit	WIBOR 3M + fixed margin	263,408,564	PLN	31.12.2011
PKE	Investment credit	EURIBOR 6M + fixed margin	4,115,000	Euro	31.12.2021
PKW	Investment credit	WIBOR 1M + fixed margin	27,420,000	PLN	29.05.2015
PKW	Investment credit	WIBOR 1M + fixed margin	29,960,000	PLN	31.03.2015

Moreover, carrying out, among other things, the function of central obtaining of financing in the first half of 2010, TAURON began implementing the structure of cash pooling in TAURON Group, reaching for this purpose an agreement of credit under current account. On the basis of this agreement TAURON has a credit limit for current financing of its operations.

In connection with the character of the implemented cash pooling in TAURON Group (real one based on loans), the Company reached with TAURON Group companies Framework Loan Agreements.

In the table below a list of credit and loan agreements reached in 2010 connected with cash pooling has been presented.

Table no 15. List of credit and loan agreements reached in 2010 connected with cash pooling

Kind of agreement	Kind and level of interest rate	Amount	Currency	Due date
Credit under current account	WIBOR 1M + fixed margin	100 million	PLN	27.05.2011
Framework Loan Agreement	WIBOR 1M + fixed margin	Unlimited	PLN	28.05.2011

Loans received as a part of cash pooling are short-term without a determined due date – loans granted can be paid any time, but not later than until the end of the reached loan agreement, that is until 28 May 2011.

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

In 2010 TAURON Group implemented cash pooling whose structure is based on loans between all its members. In cash pooling structure, at the end of 2010, there were 13 companies of TAURON Group and the Company was managing this structure.

As a part of cash pooling the total amount of loans received during the year by TAURON (that is the total of all loans granted and paid many times during the year resulting from the nature of cash pooling) was 1,834.5 million PLN and was granted by:

TAURON Ekoenergia	129.2 million PLN
ESW	92.2 million PLN
PEC Dąbrowa Górnicza	24.5 million PLN
TAURON Sprzedaż	532.7 million PLN
EnergiaPro	759.4 million PLN
TAURON Obsługa Klienta	13.2 million PLN
Elektrociepłownia EC Nowa	124.9 million PLN
Enion	100.6 million PLN
PEPKH	6.1 million PLN
PEC Katowice	51.6 million PLN

As of 31 December 2010 the balance of loans received by TAURON as a part of cash pooling is 460.1 million PLN and applies to:

TAURON Ekoenergia	2.4 million PLN
ESW	25.3 million PLN
PEC Dąbrowa Górnicza	0.8 million PLN
TAURON Sprzedaż	68.1 million PLN
EnergiaPro	237.2 million PLN
Elektrociepłownia EC Nowa	6.1 million PLN
Enion	100.6 million PLN
PEPKH	5.1 million PLN
PEC Katowice	14.4 million PLN

Total amounts of loans granted by the Company in 2010 within the structure of cash pooling (that is the total of all loans granted and paid many times during the year resulting from the nature of cash pooling) was for:

ESW	43.8 million PLN
TAURON Obsługa Klienta	754.2 million PLN
Elektrociepłownia Tychy	31.0 million PLN
PEC Dąbrowa Górnicza	32.3 million PLN

As of 31 December 2010 the balance of loans granted by TAURON is 19.7 million PLN and applies only to Elektrociepłownia Tychy.

Loans granted as a part of cash pooling are of short-term nature to be used for current servicing of liabilities but at the same time they have no defined due date – loans granted can be paid any time, but not later than until the end of the reached loan agreement, that is until 28 May 2011.

Interest rate depended on the direction of the granted loan, level of using cash means by the Members of cash pooling and it was also based on WIBID O/N and WIBOR 1M rates increased or decreased by fixed margin as well as adjusted by an accordingly defined bonus.

In 2010 TAURON Group companies granted sureties and guarantees in accordance with the following table.

Table no 16. Sureties and guarantees granted by TAURON Group companies in 2010

Company granting guarantee/surety	Beneficiary	Guarantee/surety	Amount of guarantee/surety	Due date
TAURON	CEZ a.s.	Corporate guarantee	1,000,000 euro	31.12.2011
TAURON	UniCredit Bank Czech Republic a.s.	Corporate guarantee	500,000 euro	08.06.2011

Company granting guarantee/surety	Beneficiary	Guarantee/surety	Amount of guarantee/surety	Due date
TAURON	Provincial Environment Protection and Water Management Fund	PKE loan guarantee in the form of a blank bill of exchange	40,000,000 PLN	15.12.2022
EnergiaPro	BZ WBK S.A.	Co-signing for a credit Energetyka Cieplna w Kamiennej Górze	1,708,000 PLN	31.12.2014
PKE	Provincial Environment Protection and Water Management Fund	Co-signing for a loan Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. w Tychach	1,400,000 PLN	20.01.2013

In 2010 TAURON Group companies had agreements enabling granting bank guarantees to the maximum amount of 69.5 million PLN. As a part of the available limits tender and performance bank guarantees have been opened to the total amount of 36.7 million PLN. Moreover, TAURON Group companies had open performance bank guarantee in the amount of 500,000 EUR and 11,700,000 CZK.

2.11. Assessment of the possibility of investment plans realization

In 2010 the following main strategic investments were continued:

– construction of steam – gas unit in ESW – investment is carried out with a strategic partner – PGNiG S.A. The aim of the investment is to build and give to operation a new steam – gas unit with the capacity of about 400 MWe. On 15 April 2010 Realization Agreement was reached between TAURON, PGNiG S.A., PGNiG Energia S.A. and ESW, which in particular defines the rules of preparing and carrying out the investment project. The main contractor is selected on the basis of negotiations with a notification, the deadline of submitting final offers is scheduled at the end of June 2011 and signing the contract in July 2011. The completion of the project is scheduled for 2014;

– construction of a new power unit with the capacity of 50 MWe and 182 MWt, suitable for the generation of electric energy and heat on the area of Elektrociepłownia Bielsko-Biała which belongs to PKE. This investment is to replace the existing units which are getting old and becoming less effective with a unit which will meet all environment protection requirements which apply to the emission of NO_x, SO_2 and dusts. The completion of the investment is scheduled for the middle of 2013;

– construction of wind farm in the town of Wicko with the capacity of 40 MW. The investment has already been approved by appropriate corporate bodies and its completion is scheduled for 2012;

– construction of cogeneration unit powered with biomass with the capacity of 50 MWe and 45 MWt on the area of Elektrownia Jaworzno III which belongs to PKE. The investment has already been approved by appropriate corporate bodies. The completion of construction works is scheduled for 2012;

– modernization of one of ESW boilers in order to adapt it to biomass burning. The investment has already been approved by appropriate corporate bodies and the completion of construction works is scheduled for 2012;

– construction of new generation facilities in cogeneration at the level of 50 MWe and 86 MWt in Elektrociepłownia Tychy as well as modernization of the existing unit in order to adapt to biomass burning. The investment has already been approved by appropriate corporate bodies and the completion of this investment is scheduled for the beginning of 2016;

– construction of new power unit with the capacity of 910 MW on the area of Elektrownia Jaworzno III which belongs to PKE. It is expected that the new unit will be highly efficient and available as well as it will have low levels of NO_x, SO_2, CO_2, and dusts emission. The completion of this investment project is scheduled for 2016;

– construction of fumes denitrogenizing installation in 6 units of Elektrownia Jaworzno III as well as 4 blocks of Elektrownia Łaziska which belongs to PKE. This investment will allow reducing NO_x emission in these units to levels which will be obligatory in Poland from 2018. Construction works are to begin in 2011 and are to be carried out until 2015 with the completion of 2 exhaust fumes denitrogenizing systems per year;

– construction of a new unit with the capacity of 910 MW on the area of Elektrownia Blachownia – as a part of action undertaken by the Company and PKE in the scope of the project to re-build generation facilities in Elektrownia Blachownia with the participation of strategic partner – KGHM Polska Miedź S.A. Among other things a Letter of Intent has been signed on starting cooperation on construction of electric energy generation sources on the area of the present Elektrownia Blachownia. At the moment works are being done connected with announcing an intention of creating a "joint entrepreneur" by PKE and KGHM Polska Miedź S.A. to competition authority.

Strategic investments and their financing is managed centrally at the level of the Company. On the basis of analyses carried out, the Company's Management Board assesses that TAURON Group is able to finance present and future investment plans from means generated from operational activity as well as by obtaining debt financing.

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

In the table below an annual consolidated statement of financial position has been presented.

Table no 17. Annual consolidated statement of financial position (information in thousands PLN)

Statement of financial position	As of 31 December 2010	As of 31 December 2009
ASSETS		
Fixed assets	**18,959,101**	**18,475,838**
Tangible assets	17,524,936	17,260,573
Intangible assets	970,530	824,751
Shares in affiliated units and joint ventures recorded by equity method	764	–
Other long-term financial assets	177,452	179,746
Other long-term non-financial assets	123,613	58,547
Deferred income tax assets	161,806	152,221
Current assets	**4,466,786**	**3,673,704**
Stocks	408,560	536,201
Income tax liabilities	74,749	52,926
Trade receivables and other receivables	2,273,145	1,874,996
Other short-term financial assets	28,193	18,753
Other short-term non-financial assets	208,158	158,725
Cash and cash equivalents	1,473,981	1,032,103
Fixed assets classified for sale	**4,397**	**5,951**
TOTAL ASSETS	**23,430,284**	**22,155,493**
LIABILITIES		
Equity	**15,212,071**	**14,233,666**
Primary capital	15,772,945	13,986,284
Capital reserve	475,088	64,050
Hedging tools revaluation reserve	–	(766)
Exchange differences from foreign unit	(271)	–
Profits retained/Uncovered losses	(1,542,937)	(2,191,002)
Non-controlling interest	**507,246**	**2,375,100**
Long-term liabilities	**4,070,063**	**4,027,449**
Credits, loans and debt securities	1,076,178	1,179,406
Liabilities from leasing and rental agreements with the purchase option	67,810	88,291
Long-term reserves and employment benefits	1,059,028	978,807
Long-term accruals and government grants	644,522	624,567
Trade liabilities and other long-term liabilities	6,910	5,683
Deferred income tax reserve	1,215,615	1,150,695
Short-term liabilities	**4,148,150**	**3,894,378**
Trade liabilities and other liabilities	1,629,723	1,490,726
Current part of credits, loans and debt securities	325,027	596,315
Current part liabilities from leasing and rental agreements with the purchase option	23,452	35,377
Other short-term liabilities	752,819	556,669
Accruals and government grants	189,712	210,267
Income tax liabilities	68,672	67,034
Short-term reserves and employment benefits	1,158,745	937,990
TOTAL LIABILITIES	**23,430,284**	**22,155,493**

As of 31 December 2010 balance sheet total of TAURON Group was 23,430.3 million PLN and increased by 1,274.8 million PLN, that is by 5.8% in comparison with the state as of 31 December 2009.

TAURON Group fixed assets at the end of 2010 were 18,959.1 million PLN in comparison with 18,475.8 million PLN at the end of 2009 and constituted over 80% of total assets. The increase of fixed assets level by 483.3 million PLN results mainly from the increase of tangible assets in connection with the realization of investment into generation and distribution assets.

TAURON Group current assets as of 31 December 2010 increased by about 793.1 million PLN (21.6%) in comparison with 31 December 2009, and most of all as a result of the increase of cash and trade liabilities.

As of 31 December 2010 and as of 31 December 2009 total equity, which was the dominating source of TAURON Group assets financing was 15,212.1 million PLN and 14.233.7 million PLN respectively, which constitutes 64.9% and 64.2% of total equity and liabilities. Minority shareholders' interest (non-controlling interest) as of 31 December 2010 and as of 31 December 2009 was 507.2 million PLN and 2,375.1 million PLN respectively. Total equity increase was caused mainly by increasing share capital from 13,986.3 million PLN at the end of 2009 to 15,772.9 million PLN at the end of 2010. Changes in the equity have been described in the Consolidated Financial Statement for the year ended 31 December 2010 (note 30).

Change of long-term liabilities during the financial year ended 31 December 2010 results mainly from a lower, by 103.2 million PLN, level of debt from bank credits, loans and debt securities and long-term reserves higher in total by 145.2 million PLN.

Short-term reserves increased from 3,894.4 million PLN as of 31 December 2009 to the level of 4,148.2 million PLN as of 31 December 2010 that is by 253.8 million PLN (6.5%) most of all due the increase of trade liabilities and reserves in total by 359,7 million PLN (among other things by means of using reserves on the obligation to submit certificates to redemption by companies of the Trade Area). The balance of short-term bank credits, loans and debt securities as of 31 December 2010 was 325.0 million PLN which means a decrease by 271,3 million PLN (45.5%) in comparison with the state as of 31 December 2009.

Table no 18. Statement of cash flows (information in thousand PLN)

Statement of cash flows	Year ended 31 December 2010	Year ended 31 December 2009
Cash flows from operating activities		
Gross profit/(loss)	1,257,314	1,226,069
Adjustments	1,263,031	737,130
Net cash from operating activities	**2,520,345**	**1,963,199**
Cash flows from investing activities		
Sales of tangible and intangible assets	11,731	15,879
Purchase of tangible and intangible assets	(1,518,088)	(1,440,255)
Sale of other financial assets	56,189	91,287
Purchase of other financial assets	(70,570)	(34,777)
Takeover of a subsidiary, after deducting cash taken over	23	–
Dividends received	4,349	5,256
Interest received	1,377	1,594
Repayment of loans granted	1,475	4,000
Loans granted	(1,400)	(1,295)
Other	6,438	4,287
Net cash from investing activities	**(1,508,476)**	**(1,354,024)**
Cash flows from financing activities		
Purchase of own shares	–	–
Repayment of liabilities from financial leasing	(35,842)	(37,272)
Income from taking out loans/credits	167,115	208,398
Repayment of loans/credits	(744,020)	(415,385)
Issue of debt securities	848,200	44,000
Redemption of debt securities	(608,692)	(166,308)
Dividends paid to shareholders of the parent company	–	(51,167)
Dividends paid to minority shareholders	(5,573)	(7,074)
Other disbursements to owners	–	(8,376)
Interest paid	(115,820)	(109,333)
Purchase of non-controlling interest	(9,863)	–
Other	(8,369)	(947)
Net cash from financing activities	**(512,864)**	**(543,464)**
Net increase/(decrease) in cash and cash equivalents	**499,005**	**65,711**
Net foreign exchange differences	(134)	220
Cash and cash equivalents at the beginning of the period	**972,655**	**906,944**
Cash and cash equivalents at the end of the period	**1,471,660**	**972,655**

Total net cash flows from operating, investing and financing activities of TAURON Group for the financial year ended 31 December 2010 were 499.0 million PLN in comparison with 65,7 million PLN for the year ended 31 December 2009.

In 2010 the increase of flows from operating activity in comparison with 2009 was caused most of all by a higher gross profit (increase by 31.2 million PLN), higher amortization and depreciation, change of stocks level – in comparison with 2009 there was a fall in stocks level which had a positive influence on cash flows (in contrast with 2009 when the increase of stocks decreased the level of cash from operating activities) and also a lower than a year before increase of the level of other assets. Moreover, in 2010 the following aspects influenced the level of net cash from operating activity: increase of the level of debts, increase of liabilities except for credits and loans; decrease of accruals and paid income tax.

Negative net cash flows from investment activity for the financial year ended 31 December 2010 were 1,508.5 million PLN. In comparison with the financial year ended 31 December 2009, investment expenses were higher by about 11.4%.

Cash flows balance from investment activity included most of all expenses to purchase tangible and intangible assets in the amount of 1,518.1 million PLN.

Negative net cash flows from financial activity for the financial year ended 31 December 2010 were 512.9 million PLN in comparison with 543.5 million PLN for the financial year ended 31 December 2009. Decreasing net expenses from financial activity in 2010, in comparison with 2009, results from the gradual decreasing of TAURON Group debt.

2.13. Significant off-balance sheet items in the subject, volume and value perspective

Significant off-balance sheet items include:

1) mining damages – connected with excavation activities of mining facilities,
2) non-agreement usage of property – connected with the lack of legal titles to all lands on which distribution networks are situated as well as equipment connected with them,
3) compensations from stranded costs – connected with the act of dissolving LTC,
4) antimonopoly proceedings – connected with pending antimonopoly proceedings held by the Competition and Consumers' Protection Office and concerning the charges to overuse the dominating position on the electric energy distribution market,
5) potential obligation from environment protection – connected with the obligation to rehabilitate production waste stockpiles,
6) proceedings of URE on imposing a financial fine – connected with power blackouts,
7) excise tax – connected with incompatibility of Polish regulations on excise from electric energy with European Union regulations.

Detailed information on off-balance sheet items has been presented in note 34 of the Consolidated Financial Statement for the year ended 31 December 2010.

2.14. Financial resources management

In 2010 TAURON implemented cash pooling structure, whose main aim is providing financial liquidity in TAURON Group parallel to limiting costs of external short-term financing and maximizing financial income from cash surpluses. Thanks to the implemented structure of cash pooling companies which had short-term resources deficiencies could use resources of companies which had financial surpluses. Resources collected in cash polling were actively managed by TAURON, and surpluses were allocated to lowest risk cash market instruments.

As a part of current financial activity TAURON Group effectively managed the cycle of money circulation by adjusting liabilities and obligations due dates.

In 2010 TAURON accepted and implemented TAURON Group central financing model which has an influence, among other things, on decreasing the costs of internal financing and increasing the possibility to obtain financing, it decreases the number of covenants in financing agreements, reduces the necessity to grant material collaterals as well as reduces administrative costs influencing at the same time a better assessment of the Company's financial position issued by rating agencies.

In the first stage of implementing the central financing mode, bonds issuance took place in the total amount of 848.2 million PLN to restructure part of financial debt of TAURON Group companies. Moreover, as a part of TAURON Group external bonds issuance programme has a guaranteed revolving line in the amount of 450 million PLN which can be started at any moment.

What is more, as a part of the central financing model of TAURON Group finances, in December 2010, an internal bonds issuance programme was launched, through which medium- and long-term management of financial means takes place. The adopted model of finance management is to optimize costs of obtaining financing and provide means for current activity of TAURON Group entities as well as to carry out investment plans defined in Corporate Strategy.

In 2010 TAURON Group had the full capability to regulate its debts in their due date, which is shown by fully accepted on the market net debt ratios/EBITDA as well as DSCR ratio calculated on the basis of consolidated statements.

2.15. Differences between financial results recorded in the annual statement and result forecasts for a given year published earlier

The Company's Management Board has not published result forecasts for 2010.

3. OTHER INFORMATION

3.1. Risks and threats factors

Realizing Corporate Strategy TAURON manages business risks which occur in the operations of the whole TAURON Group. Risks management process functions with the view to realize adopted business objectives of TAURON Group as a part of the acceptable risk level adopted by the Company's Management Board.

Bearing in mind the above, the Company's Management Board implemented "Corporate Risk Management Policy in TAURON Group" and appointed Risk Committee as well as it began a process of its implementation in key subsidiary companies.

Comprehensive Risk Management System covers significant risks which occur in the operations of TAURON Group. The nature of risks is defined in particular by defining its significance level and probability of materialization. The Comprehensive Risk Management System covers all elements of TAURON Group value chain, and all employees of TAURON Group take part in the risk management process.

Assessment, as to what extent TAURON Group is exposed to the aforementioned risk factors, takes into consideration their probability of occurrence and significance as well as adequacy of such risk management strategy. Order in which particular risks have been presented does not reflect the scale of the assessment.

1. ***Microeconomic risk*** – microeconomic situation of Poland, European Union and global economy has a significant influence on TAURON Group operations and situation. Macroeconomic risks are connected mainly with the level of Polish GDP, inflation rate, exchange rate, interest rates, fiscal and monetary policy of the country as well as economic crisis, unemployment level, liquidation of companies, limiting of housing construction business and industrial investments in the region. Changes in economic situation can have an influence on the operations (especially on the generation of electric energy and heat as well as sales volume), financial results and TAURON Group market position. Macroeconomic risk factors can have a negative influence on TAURON Group operations, its financial situation or results of its operations.
2. ***Political risk*** – TAURON Group operations are exposed to changes in the country's policy. Examples of this are regulations concerning prices of electric energy distribution and transfer as well as changes of financial policy. In connection with the fact that the Company's significant shareholder is the State Treasury there is an additional risk connected with the uncertainty when it comes to political majority and possible changes in the country's energy and dividend policy which applies to companies with the State Treasury interest. Political factor risks can have a significant negative influence on TAURON Group operations, its financial situation or results of its operations.
3. ***Risk of unstable legal system and European Union regulations connected with the functioning of energy sector, including environment protection*** – the risk applies to all legal changes, changes of Polish and European Union regulations which the Company and its significant subsidiary companies are subject to as well as legislation environment uncertainty. Introducing new regulations or amendments to the already existing legal acts can directly or indirectly influence TAURON Group operations. There is a risk of introducing unattractive and imprecise regulations and orders in many areas of law connected with TAURON Group operations. Changes in European Union and Polish regulations of the widely understood energy sector, the requirement to fulfil obligations resulting from new legal regulations and, as a result, the necessity to introduce activity in new regulations, can cause a cost increase of the enterprise functioning by increasing significant and unexpected costs, for example generation of electric energy and heat, and can even lead to losing a concession in the scope required for the operations carried out by TAURON Group. Moreover, regulations on environment protection are becoming more and stricter, and adapting to changes in this scope can also be connected with bearing significant costs. Not respecting environment protection regulations can lead to the necessity of periodical discontinuing or giving up of conducting a given operation. Permanent exclusion of certain technologies resulting from the implementation of the European Union regulations can limit TAURON Group production potential and can weaken its negotiating position with financial institutions which can also cause losing a market share. Risk factors of an unstable legal system as well as European Union regulations connected with the functioning of energy sector, including environment protection, can have a significant negative influence on TAURON Group operations, its financial situation or results of its operations.
4. ***Risk of TAURON Group operations inconsistency with the presently binding regulations of law in areas supervised by the President of the URE /President of the UOKiK/*** – there is a risk of stating by the President of the URE that a Distribution System Operator (OSD) is not independent or does not treat entities on the market equally. President of the URE can order introducing certain amendments in the binding rules of cooperation, for example in agreements with trading companies. There is a possibility of imposing a fine on TAURON Group companies by means of the Act of 10 April 1997 on Energy Law. In case of the Company this risk is not connected with the process of submitting rates for approval, since the Company is not bound by this obligation. In the area of competition and consumer protection law there is a risk of suits which concern the operations concentration strategies, at variance with the interpretation of the currently binding law regulations presented by the President of the Competition and Consumer's Protection Office (hereinafter referred to as the President of the UOKiK). There is a risk of infringing antimonopoly regulations by distribution companies which are subject to regulations on the ban to overuse the dominating position. Risk factors of TAURON Group operations inconsistency with the presently binding law regulations in areas supervised by the President of the URE/President of the UOKiK can have a significant negative influence on TAURON Group operations, its financial situation or results of its operations.

5. ***Corporate supervision risk*** – there is a risk of ineffective cooperation between TAURON Group companies (horizontal dimension) as well as between subsidiary companies and the parent company (vertical dimension). The structure of a capital group requires a coordination of many operations within the group, therefore there is a risk of difficulties in the reporting process, management processes and information management from/to subsidiary companies. Materialization of corporate risk supervision can result in incomplete translation of the parent company's strategic objectives to subsidiary companies, prolonged decision lead times and implementing solutions, creating an incoherent interpretation of regulations, delays in making decisions or a lack of required decisions, not adapting to the changing market conditions or weakening TAURON Group market position. Corporate supervision risk factors can have a negative influence on TAURON Group operations, its financial situation or results of its operations.
6. ***Competition risk*** – TAURON Group is exposed to a growing competition risk from new and present members of the energy market. The risk is connected with the progressing liberalization of energy market, especially with the planned release of electric energy prices for G group consumers as well as releasing heat prices, and also in connection with changes on the retail market and the consumers' right to change a provider. TAURON Group is exposed to the risk of losing its present consumers on the retail market or the necessity to decrease the margin implemented on the sale of electric energy to its present consumers which influences the income of the sales company and TAURON Group financial result. Competition risk factors can have negative effect on TAURON Group operations, its financial situation or the result of its operations.
7. ***Risk of obtaining financing and financing servicing*** – *the* risk of the lack of possibilities to obtain financing for operating and investment needs or obtaining financing on conditions which are different from the adopted assumptions (financing costs are higher than benchmark costs, an increased number of convenants). The risk is translated into the lack of means for the projects included in the Corporate Strategy and in investment plans, and in an extreme case to the operating and financial operation servicing of the Company. Risk connected with an improper financing strategy or an improper financial servicing (realization, timeliness or not keeping the conditions of financial agreements) can cause termination of financing agreements or worsening of their conditions influencing at the same time worsening of the Company and TAURON Group's financial result. Risk factors of obtaining and servicing financing can have a negative effect on the operations of TAURON Group, its financial situation or the result of its operations.
8. ***Risk connected with the termination of LTC*** – regulations of the act on the rules of covering costs resulted in connection with an early termination of long-term agreements of electric energy and power supply enable TAURON Group to receive compensation of stranded costs. There is a risk of questioning by the President of the URE of the amounts due to cover stranded costs as well as the obligation to pay back advance payments received on this account. On the basis of the Act of 29 June 2007 on the rules of covering costs resulted in producers in connection with an early termination of agreements of the sale of electric energy and system services, the programme to cover stranded costs constitutes a public help. There is a risk of qualifying by the European Commission of the rules of using means from the programme as a public help which is not in compliance with the Common Market. Such a qualification can mean the necessity to return the received aid with interest. Risk factors connected with LTC termination can have a significant negative influence on TAURON Group operations, its financial situation or results of its operations.
9. ***Environmental risk, including the one connected with atmospheric conditions*** – there is a possibility to bear losses resulting from non-compliance with legal regulations, the way of implementing European legislation to Polish legislation and administrative decisions, including the need to carry out actions on the basis of parameters defined in the permission, which can lead to not obtaining permissions/decisions or exceeding certain critical parameters or also bearing significant costs to fulfil conditions defined in the decisions. The risk is also connected with the possibility of an occurrence of a loss in environment and a serious industrial failure which can lead to natural environment degradation, necessity to pay compensations, threatening the realization of production tasks as well as local/regional inhabitants' protests. Moreover, atmospheric conditions have an influence on the demand for electric energy and heat and can have a negative influence on technical conditions of generation and distribution of electric energy and heat. Materialization of risk can cause a decrease of TAURON Group income as well as claims from the consumers of electric energy and heat to pay damages or grant discounts. Environment risk factors, including the ones connected with atmospheric conditions can have a negative influence on TAURON Group operations, its financial situation or results of its operations.
10. ***Risk connected with the obligation to redeem CO_2 credits*** – *the* risk is connected with emitting CO_2 into the atmosphere in connection with TAURON Group activity in the scope of electric energy and heat generation as well as the need to redeem by TAURON Group a suitable number of CO_2 credits, corresponding to the actual generation of electric energy and heat. Failure to redeem or redeem a wrong number of credits can result in imposing a fine for each unit of an unredeemed credit. Limiting free allotments and, as a result, a significant increase of costs to purchase the outstanding CO_2 credits can result in decreasing the planned sales profitability or not total covering of these costs by the prices of electric energy sale. Inadequate division of free credits between entities on the energy market in relation to the amount of CO_2 emission as well as a limited availability of credits on the market can impair profitability of the Company and TAURON Group on electric energy market. Risk factors connected with the obligation to redeem CO_2 credits can have a negative effect on TAURON Group operations, its financial situation or results of its operations.
11. ***Property failure risk*** – *the* risk of occurrence of significant and/or permanent failures and damages of equipment used by TAURON Group companies. Companies which conduct their activities in the scope of mining, generation and distribution of electric energy and heat are especially vulnerable to this risk. Materialization of this risk can be connected with the need to bear additional costs of

infrastructure repair, blackouts and disruptions in operations as well as the need to give discounts or pay fines. Risk of property failure factors can have a negative effect on TAURON Group operations, its financial situation or results of its operations.

12. ***Purchase of materials/fuels risk*** – risk connected with significant and/or unexpected changes of the prices of coal and other fuels. It can result in the need to change suppliers, increasing costs of transport and the need to renegotiate agreement with carriers. Moreover, change of prices of fuels for contracted production can lead to reaching financial results at variance with expectations. This risk is also connected with the need to fulfil obligations of the production process as well as legal requirements on keeping certain fuel stocks in order to provide electric energy and heat generation continuity. Meeting these requirements can be connected with the need to bear higher costs or imposing a fine in case of failure to fulfil these conditions. Purchase of materials/fuels risk factors can have a significant negative influence on TAURON Group operations, its financial situation or results of its operations.
13. ***Risk connected with rates assignment process*** – applies to the obligation of OSD and companies selling electric energy and heat to end consumers to submit to the President of the URE electric energy, heat and distribution services rates for approval. The main threat is adopting an unfavourable policy by the President of the URE on limiting the amount of reasonable costs requested by TAURON Group in relation to actual costs borne. It also applies to the level of electric energy purchase costs. Moreover, there is a risk of not including an investment in TAURON Group development plan or questioning the amount of costs of investment carried out. Risk factors connected with rates assignment process can have a negative influence on TAURON Group operations, its financial situation or results of its operations.
14. ***Volumetric risk*** – volumetric risk is connected with the volatility of electric energy trade volume which depends of the quality or possibility of planning sale/purchase, whose main result is difference between the planned and actually realized volume of deliveries. Main factors of this risk are seasonability, competition operations or activity in gaining clients as well as technological conditionings. Materialization of this risk can result in an increase of costs connected with closing open positions on the forward market and/or balancing market, on futures market and/or current market as well as losing income and margin decrease on sale of electric energy to consumers. Volumetric risk factors can have a negative effect on TAURON Group operations, its financial situation or results of its operations.
15. ***Prices changeability risk*** – this risk on electric energy market is connected with uncertainty in the scope of electric energy prices, CO_2 credits, property rights from certificates of origin. The main factors of this risk are possible, strong fluctuations of electric energy prices and CO_2 credits, seasonability of prices, changeability of the difference between EUA/CER prices, limited liquidity of the market, changes concerning the availability of intersystem exchange transfer capabilities, changes of electric energy prices resulting from changes of fuel market and CO_2 emission market. Materialization of this risk can cause loss of income, decreasing or lack of margin in particular segments of operations, loss of sales volume. Volumetric risk factors can have a negative influence on TAURON Group operations, its financial situation or results of its operations.
16. ***Unregulated legal state of property risk*** – TAURON Group uses numerous property for conducting its basic operations. Due to the way of conducting energy investments in the past, part of property used by TAURON Group has unregulated legal state. That is why there is a risk of bearing additional costs from, for example, compensations, the need to remove or rebuild energy equipment or right-of-way for transmission lines. What is more, due to the way of taking over property after the Second World War from private persons by the State Treasury or other national of self-government bodies there is a risk of filing a claim by the former property owners or its successors to return the used property or pay compensation. Risk factors of unregulated legal state of property can have a negative effect on TAURON Group operations, its financial situation or results of its operations.

Information on financial risk has been included in point 3.10 of the present report.

3.2. Factors significant for TAURON Group development

Planned structure of TAURON Group

The planned structure model of TAURON Group was defined in the accepted and approved Corporate Strategy. Assumptions concerning the main directions of TAURON Group development result from this document, including:

1. direct supervision of the Company over all links of value chain, that is from mining to other activities;
2. functioning, as a part of each link (unit) leading companies, the so-called leaders;
3. increasing TAURON Group value through mergers and takeovers;
4. concentration of wholesale trade in the company and support function for particular Areas of TAURON Group.

Realization of corporate strategy

2010 was the second years of implementing Corporate Strategy which was adopted on 21 September 2008. During that year the main strategic aims and development directions were maintained. The overriding strategic aim of TAURON Group is a constant increase of value providing a secure return on the invested capital for shareholders. The value is based on the basis of basic economic-finance ratios, that is sales increase and EBIT margin.

Corporate Strategy is based on five main strategic aims:

1. concentrating on profitable increase in core operation units – increase of coal output as well as increase of production and sale of electric energy, wholesale trade increase, keeping consumers' base in the sales area, limiting non-core operations to finance development of core undertakings;
2. improving effectiveness – reduction of operating costs, optimization of directions and investment outlays, improvement of assets usage, using integration synergies, optimization of financial result;
3. management integration of all elements of value chain – defining and implementing rules of ownership supervision, centralization of decision-making process, decentralization of operating actions, implementing an optimum investment financing model;
4. human resources development – launching talent management programme, intensification of cooperation with universities, cooperation with research workers, effective incentive system and management through objectives, promoting knowledge management in TAURON Group;
5. development of activities on attractive markets in Poland and abroad – expansion to other regions of Poland, using possibilities of growth offered by energy market in Central-East Europe, monitoring of markets and potential targets for takeovers and acquisitions, opening foreign trade offices.

The adopted corporate Strategy, in first years of its implementation, has been a strategy of integration, whose one of the most important actions is carrying out TAURON Group integration process on the basis of the basic process of value chain. The second most important task for TAURON Group resulting from the Corporate strategy is realization of significant investments in the development of core operations. Implementing of Corporate Strategy takes place on the basis of approved Corporate Strategy Implementation Programme, established project structure, division of tasks and competences.

The aforementioned guidelines are evolution determinants of the existing functional-organizational structure towards reaching the target model which assumes creating one company in each area apart from Other Area. In 2011 it is planned to establish one company in the Distribution Area, integration of companies in the Generation Area and integration of PEC Katowice and PEC Dąbrowa Górnicza.

3.3. Important achievements in research and development

When it comes to research and development TAURON Group carried out activities connected with the generation of electric energy, including generation of electric energy from renewable sources, in technologies which would be more effective, environmentally-friendly and cheaper in construction and operation than the ones used presently. The second group of activities is developing technologies connected with capturing, transport and storing or practical use of CO_2 which is produced in burning processes. The third group are actions which aim at increasing effectiveness of electric energy distribution.

On 5 January 2010 National Research and Development Centre (henceforth referred to as NCBiR) announced a decision to co-finance four research tasks as a part of strategic programme of scientific research and development works entitled "Advanced Technologies of Obtaining Energy":

1) working out technologies for highly efficient, "zero-emission" coal units integrated with capturing CO_2 from fumes,
2) working out oxygen burning technologies for dust and fluid boilers integrated with CO_2 capture,
3) working out a technology of coal gasifying for highly efficient production of fuels and electric energy generation,
4) working out integrated technologies of fuels and energy generation from biomass, agricultural waste and others.

The aim of the programme is working out technological solutions whose implementation will contribute to achieving the assumptions of "3 x 20" Strategy of the European Union. The programme is to be a significant support for implementing results of scientific research and technologies which are based on main fuel source in Poland which is coal as well as on alternative sources of energy. TAURON Group companies are involved in the realization of all four tasks included in the programme.

TAURON, as a member of two winning consortia, takes part in realization of the first and third research task. Moreover, PKE and PKW are also independently members of consortia carrying out particular tasks: PKW – the third task and PKE the first three tasks. Moreover, research is being carried out in ESW as a part of the fourth research task. In this way TAURON Group is involved in works which are the most important directions of Clean Energy Technologies development, which are also connected with CO_2 sequestration.

3.4. Issues concerning natural environment

Most important actions in the area of environment protection in 2010

Among the most important actions in the area of environment protection in 2010 carried out in TAURON Group companies the following need to be included:

1) construction of new capacities in PKE which meet the newest norms concerning environment protection,

2) increasing generation of electric energy and heat in renewable sources with using biomass (burning and co-burning) in PKE and ESW,
3) modernization of the existing PKE installations in order to reduce NO_x emissions to the level enabling to meet norms binding from 2018.

Criminal sanctions for infringing on requirements in the area of environment protection and fees for business use of environment in 2010

In 2010, no sanctions connected with infringing on requirements on environment protection were imposed on TAURON Group companies included in the present report.

In 2010 TAURON Group companies included in the present report paid fees in the total amount of 57,537 thousand PLN. Total amount of fees from the business use of environment paid in 2010 has been presented by the table below:

Table no 19. Amount of fees connected with business use of environment paid in 2010

Company name	Fees for business use of environment (thousands PLN) in 2010
PKE	43,555
PKW	4,440
ESW	4,068
Elektrociepłownia EC Nowa	3,398
Elektrociepłownia Tychy	1,134
PEC Dąbrowa Górnicza	493
PEC Katowice	230
Enion	77
EnergiaPro	77
Kopalnia Wapienia Czatkowice	64
TAURON Ekoenergia	1
TOTAL	**57,537**

Other companies of TAURON Group included in the present report did not pay any fees for business use of environment.

3.5. Information on employment

Average employment in TAURON Group on full-time basis has been shown by the table below.

Table no 20. Average employment on full-time basis in TAURON Group as divided by units of operation

Average employment during the year (rounded off to full-time basis)	2010	2009
Mining Area	6,098	6,096
Generation Area	6,404	6,471
RES Area	234	227
Distribution Area	12,520	12,895
Trade Area	1,515	1,400
Other Area	1,709	1,750
Total	**28,480**	**28,839**

3.6. Information on the entity entitled to examine financial statements

Information on the agreement with an entity entitled to examine financial statements has been presented in note 41 of the Consolidated Financial Statement for the year ended 31 December 2010.

3.7. Company branches

The Company does not have branches (plants).

3.8. Occurrences significantly influencing Company operations

Occurrences significantly influencing Company operations, which took place in the financial year (chronologically):

Implementing the services of cash pooling

On 28 May 2010 parent company TAURON and its selected subsidiary companies as well as Bank Polska Kasa Opieki S.A. signed an agreement to render services of cash pooling. The aim of reaching the agreement is the possibly most effective management of owned cash means, effective financing of current needs of TAURON Group companies in the area of working capital, improving financial liquidity as well as optimizing income and financial costs of particular companies of TAURON Group which are the members of the agreement as well as the whole TAURON Group.

The Company is the Pool Leader. First transactions in the cash pooling service took place in June 2010. Interest rates conditions were established in accordance with market conditions.

ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o. merger

On 10 June 2010 a merger of parent company TAURON and its subsidiary companies ENION Zarządzanie Aktywami sp. z o.o. and Energomix Servis sp. z o.o took place. Detailed information in the aforementioned scope has been included in point 1.1 of the present report.

Shares merger

Pursuant to resolution of the General Meeting of the Company of 26 April 2010 on merging shares of the Company and amendment of the Company's Articles of Association, shares merger by increasing nominal value of one Company share from the former amount of 1 PLN to 9 PLN took place as well as proportionate decrease of the total number of shares in a way that all 9 shares of the nominal value of 1 PLN each were exchanged into 1 Company share with the nominal value of 9 PLN each. Shares merger took place without the simultaneous increase of the Company's share capital. As a result of the merger of shares all former Company shares series: A, B, C, D, E, F, G, H, I, J and K were replaced by new AA series including 1,589,438,762 shares which was registered in The Register of Entrepreneurs of the National Court Register on 14 June 2010.

Stock exchange debut

On 30 June 2010 the State Treasury carried out a public offering of TAURON shares, as a result of which individual and institutional investors purchased 51.6% of the Company's shares. Also shares purchased from the State Treasury by entitled employees as a part of consolidated companies' conversion were traded. The shares constituted about 13% of the Company's capital (this process has been described in point 1.7 of the present report). As of the day of opening the trading at the Warsaw Stock Exchange shares of the Company were traded at 5.13 PLN which is exactly what was the final price of shares sale to investors in the public offering. On 17 December 2010 the Company was listed in the index of the twenty biggest companies listed at the Warsaw Stock Exchange.

Increasing share capital in connection with contributing subsidiary companies shares

In connection with adopting by the Extraordinary General Meeting of the Company resolution no 4 as of 26 April 2010 on spread increase of share capital, the Company and the State Treasury, on 21 September 2010, reached an agreement to take up by the State Treasury Company's shares BB series under private subscription, on the basis of which the State Treasury took up 163,110,632 ordinary registered shares, series BB, with the nominal value of 9 PLN each, with the total nominal value of 1,467,996 thousand PLN. Detailed information in the aforementioned scope has been included in point 1.1 of the present report.

Resolution on decreasing shares' nominal value

On 10 November 2010 TAURON Extraordinary General Meeting adopted a resolution on decreasing share capital by decreasing shares' nominal value. In accordance with the subject resolution share capital will be decreased by the amount of 7,010,197,576 PLN, from the amount of 15,772,944,546 PLN to the amount of 8,762,746,970 PLN, by decreasing nominal value of each share by the amount of 4 PLN that is from the amount of 9 PLN to the amount of 5 PLN. Decreasing Company share capital is done in order to restructure equity capital of the Company by removing disproportions between share and supplementary capital as well as between shares nominal value and its market value. Pursuant to art. 456 § 1 of the Act of 15 September 2000, Code of Commercial Companies, the adopted share capital decrease was announced in Monitor Sądowy i Gospodarczy no 229 of 25 November 2010. With this announcement the Company summoned creditors to submit claims against TAURON within three months from the day of the announcement.

On 28 February 2011, a decrease of Company share capital was submitted at Katowice-East District Court in Katowice, in order to be registered in the National Court Register.

Bonds issuance

On 16 December 2010 an agreement was signed between the Company and Bank Handlowym w Warszawie S.A., ING Banki Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Banki S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Nordea Bank Polska S.A. on TAURON bonds issuance programme at the amount of 1.3 billion PLN. The term of the agreement is five years. The main aim of bonds issuance programme is obtaining financing to pay liabilities of TAURON Group companies whose conditions are less favourable than conditions obtained by the Company in this process and at the same time to decrease the debt level structurally subordinate within TAURON Group. An additional aim is obtaining means to finance general corporate needs of the Company. On 29 December 2010, in order to refinance the existing debt, the Company issued 5-year corporate bonds with the nominal value of 848.2 million PLN. Means obtained by TAURON were given to key subsidiary companies: PKE, Enion and PKW through intragroup bonds issuance.

Appointing TAURON Management Board

On 24 February 2011 Company's Supervisory Board, as a result of completed qualification proceedings passed a resolution to appoint into the Company's Management Board of the third term of office the following persons:

1) Dariusz Lubera – as President of the Management Board,
2) Joanna Schmid – as Strategy and Development Vice-President of the Management Board,
3) Dariusz Stolarczyk – as Corporation Vice-President of the Management Board,
4) Krzysztof Zamasz – as Trade Vice-President of the Management Board,
5) Krzysztof Zawadzki – as Economy-Finance Vice-President of the Management Board.

Supervisory Board resolutions to appoint the aforementioned persons into the composition of the Company's Management Board become effective as of the date of their adoption with the binding force from the day of the Company's Ordinary General Meeting approving the financial statement for the last whole financial year of performing the function of the member of the Management Board for the II term of office, that is for the financial year 2010.

Information on significant occurrences taking place after the balance sheet day until the day of making the financial statement has been described in note 42 of the Consolidated Financial Statement for the year ended 31 December 2010.

3.9. Financial ratios

The table below shows TAURON Group basic financial ratios.

Table no 21. TAURON Group basic financial ratios

Ratios	Definition	2010	2009
PROFITABILITY			
EBIT margin	Operating result / Income from sale	9.1%	9.6%
EBITDA margin	EBITDA / Income from sale	17.9%	19.3%
Net profitability	Net result / Income from sale	6.4%	6.9%
Return on equity	Net result / Equity	6.5%	6.7%
LIQUIDITY			
Current liquidity ratio	Current assets / short-term liabilities	1.08	0.94
DEBT			
General debt ratio	Total obligations / Total liabilities	0.35	0.36
Net debt/EBITDA	(Financial liabilities – Cash) / EBITDA	0.01	0.33
OTHER RATIOS			
Earnings per share	Net result / Number of ordinary shares	0.54	0.50
Price-earnings ratio	Share price / Earnings per share	10.61	–
Price book value ratio	Share price / Book value per 1 share	0.67	–

TAURON Group profitability for 2010, in comparison with 2009 was slightly lower. Both operating return and net return on sales as well as return on equity achieved comparable values in the analysed periods, with an almost 13% increase of return on sales of TAURON Group.

During 2010, as in 2009, each 1 million PLN of return on sales generated about 0.09 million PLN operating profit, where after adjustments by costs not generating negative cash flows, these profits are about 0.18 million PLN on each 1 million PLN of income. TAURON Group generated for the owners a return of 83 thousand PLN on each invested 1 million PLN.

When it comes to liquidity and debt of TAURON Group the situation has improved in comparison with 2009. Current liquidity ratio reached the value of 1.08 in comparison with the value of 0.94 from the previous year which results from decreasing the share of liabilities with short maturity period in financing the current assets. In 2010 TAURON Group achieved its full capacity to cover short-term liabilities with cash possessed and short-term current assets possible to float.

Total debt ratio as well as Net debt/EBITDA ratio depict the decreasing share of liabilities in TAURON Group financing. At the same time it means improving TAURON Group ability to obtain external financing, necessary to carry out investments planned by TAURON Group.

EPS ratio achieved in 2010 does not differ significantly from 2009. The level of 0.54 and 0.50 respectively was achieved with net profit for parent company's shareholders 858.7 million PLN and 774.4 million PLN respectively.

3.10. Financial instruments

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

TAURON Group manages credit risk understood as a potential credit occurrence which can be materialized in the form of contracting party's insolvency, lack of part payment of amounts due, threat of a significant delay in debt payment or other unpredictable deviations from contractual stipulations, in accordance with regulations adopted by Management Boards of particular companies. In order for it to be reduced, as a result of regularly carried out creditworthiness and financial standing analyses of the Company's contracting parties, in justified cases, appropriate collaterals are required from the contracting party, for example in the form of bank, insurance or corporate guarantees, avals, material collateral as well as regulations enabling withholding deliveries of goods, products or rendering services in case of late settling the accounts.

In 2010 TAURON Group, in order to minimize the possibility of the occurrence of cash flows disruptions as well as the risk of losing liquidity implemented cash pooling mechanism, which irrespective of means contributed by particular members has a flexible credit line in the form of a credit under current account in the amount of 100 million PLN. Moreover, an instrument providing liquidity safety launched as a part of implementation of central financing model adopted by TAURON Group is B tranche of 5-year TAURON bonds issuance programme in the amount of 450 million PLN whose taking is guaranteed by banks. Tranche B has the characteristics of a revolving line – it can be launched and paid back in any moment, and the limit is renewable.

In 2010 TAURON Group used, as a part of financial risk management, forward futures contracts and interest rate swaps. The aim of these transactions was securing particular companies from the risk of exchange rate and interest rate changes resulted from the conducted activity.

Aims and methods of financial risk management

In 2010 TAURON Group managed financial risk, understood as currency risk and interest rate risk in accordance with regulations adopted by Management Boards of particular companies. Due to dependencies between the risk borne and the level of income possible to obtain, TAURON Group companies manage financial risk in a conscious and responsible way, basing on the prepared and implemented financial risk policies. Due to correlation between the risk borne and the level of income possible to obtain, these regulations are not used to totally eliminate threats but to maintain them at a level defined earlier as safe.

The main aim of financial risk management is minimizing TAURON Group cash flows sensitivity to financial risk factors as well as minimizing financial costs and collateral costs as a part of a transaction with the use of derivative instruments.

In 2010 TAURON Group maintained its current collaterals and reached new transactions with the use of derivative instruments, where the scope of instruments was limited exclusively to interest rate swaps as well as foreign currency forward futures. The aim of the reached transaction was managing interest rate risk as well as currency risk resulting in the course of TAURON Group operations as well as resulting from the obtained sources of financing.

Only one subsidiary company of TAURON Group, that is PKE used hedge accounting in 2010. In order to eliminate risk resulting from the way of interest of the company financing sources (changeable WIBOR rate), the company reached interest rate swaps in previous years. These instruments changed the changeable interest rate to a fixed one and their conditions were fully suited to the base instrument (hedging position) providing comprehensive effectiveness of hedging. The aforementioned actions were carried out in accordance with the financial risk management strategy approved by the Company.

As of 31 December 2010 only two companies of TAURON Group, that is TAURON and PKE had active transactions with the use of derivative instruments.

The table below presents valuation of derivative instruments in TAURON Group portfolio as of 31 December 2010.

Table no 22. Valuation of derivative instruments in TAURON Group portfolio as of 31.12.2010

Company	Instrument	Valuation (in PLN) as of 31.12.2010
PKE	Interest Rate Swap	-6,917,115.88
TAURON	FX forward	256,619.35
Total:		**-6.660,496.53**

3.11. Present and forecast financial situation

Financial situation of TAURON Group is good. There have been no occurrences negatively influencing further operations of TAURON Group.

TAURON Management Board expects that TAURON Group financial standing will not worsen.

3.12. Information on proceedings pending

None of TAURON Group subsidiary companies holds proceedings before a court, authority having jurisdiction over arbitrary proceedings or a public administration authority whose single or total value consists of at least 10% of TAURON equity.

3.13. Agreements reached with managing persons anticipating settlement in case of their resignation or lay-off from the position occupied without a significant reason or when their dismissal or lay-off takes place due to Company's merger by takeover

TAURON did not reach agreements with managing persons anticipating settlement in case of their resignation or lay-off from the position occupied without a significant reason or when their dismissal or lay-off takes place due to Company's merger by takeover.

3.14. Agreements concerning potential changes in shareholding structure

The Company is a party in agreement of 8 April 2010 reached with Kompania Węglowa on the acquisition of KWK Bolesław Śmiały and shares in PKW.

On the basis of this agreement the Company and Kompania Węglowa were obliged to undertake actions aiming at contributing by Kompania Węglowa KWK Bolesław Śmiały enterprise to the special purpose vehicle, and then to contribute shares in the special purpose vehicle as well as all shares owned by Kompania Węglowa in PKW to the Company in exchange for new shares in the Company's increased share capital, which will be acquired by Kompania Węglowa. Acquiring new shares in the Company's increased share capital shall take place with the exclusion of preemptive right of the former shareholders of the Company on the basis of private subscription. In accordance with the agreement, Company's new shares acquired by Kompania Węglowa will then be subject to being allowed to be listed.

The amount of issuing new shares shall depend on final decision on Company's new shares' issue value as well as the value of Kompania Węglowa's contributions to cover these shares.

The Management Board does not have any information on the existence of other agreements (also reached after the balance sheet date) as a result of which there can be changes in proportions of shares owned by the current shareholders in the future.

3.15. Purchase of own shares

In 2010 the Company did not purchase own shares.

In 2010 remuneration for subsidiary companies EnergiaPro, Enion and ESW was paid by means of own shares purchase and their redemption in 2009 in accordance with TAURON Extraordinary General Meeting resolution as of 15 January 2009.

3.16. Income from securities issue

In December 2010 TAURON signed 5-year-long bonds issuance programme of the value of 1,300 million PLN. The programme is divided into two tranches:

- A Tranche – in the amount of up to 850 million PLN, to be used for refinancing part of TAURON Group liabilities,
- B Tranche – in the amount of 450 million PLN, to be used for general-corporate uses.

Also in December 2010 Internal Bonds Issuance Programme was implemented which results from the adopted model of central financing enabling companies from TAURON Group to obtain means in long- and short-term perspective.

As of the day of making the present report, as a part of Bonds Issuance Programme the Company launched A tranche in the amount of 848,2 million PLN (December 2010) which was used for refinancing part of TAURON Group companies' debt. In order to carry out the aforementioned process, in December 2010 three companies issued intragroup bonds, which were purchased in total by TAURON:

Enion 1.8 million PLN,

PKW 49.5 million PLN,

PKE 782.9 million PLN.

3.17. Characteristics of policy in the scope of TAURON Group development directions

Current assumption of the Corporate Strategy, adopted and approved by TAURON in 2008 were carried out in accordance with the approved plan in which the main actions were connected with TAURON Group integration along value chain and achieving by TAURON sales increase and EBIT margin. Corporate Strategy also contributed to a successful debut on the stock exchange in the middle of 2010. During that year main strategic objectives as well as development directions were maintained. Presently, works are being done on the review of the Corporate Strategy prepared in 2008 due to the dynamically changing legal conditioning and economic situation.

4. STATEMENT OF APPLICATION OF CORPORATE GOVERNANCE

Pursuant to § 91 sec. 5 point 4) of the Order of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and conditions to deem as equivalent information required by legal regulations of a country not being a member country, TAURON Management Board submits the Statement of Application of Corporate Governance in 2010.

4.1. Indicating the applied set of rules of corporate governance

On 11 June 2010, that is from the moment of public trading of shares, the Company is subject to rules of corporate governance described in the document "Good Practices of Companies Listed at Stock Exchange" (Corporate Governance Regulations), adopted by Stock Exchange Supervisory Board's Resolution no 12/1170/2007 of 4 July 2007, amended by Resolution no 17/1249/2010 of 19 May 2010.

The aforementioned Good Practices of Companies Listed at Stock Exchange were adopted for implementation by TAURON Management Board. All recommendations included in the subject document were carried out in the financial year 2010 from the day of the Company's shares' public trading.

Content of the aforementioned set of rules is published at the Warsaw Stock Exchange website at http://corp-gov.gpw.pl.

4.2. Indicating abandoned rules of corporate governance

The Company adopted all regulations of corporate governance resulting from "Good Practices of Companies Listed at Stock Exchange". In the period from the day of the Company's shares' public trading there have been no occurrences of infringing on the corporate governance regulations adopted by TAURON.

4.3. Description of main characteristics of internal control and risk management systems in relation to financial statements and consolidated financial statements making process

Pursuant to guidelines of Good Practices of Companies Listed at Stock Exchange the Company conducts systematic assessment of internal control and risk management in the process of making financial statements by binding documents (procedures), control activities carried out, information technology systems, internal audit, and supervision over internal control system as well as responsibility for task realization. An important role is also played by an independent expert auditor in the assessment of internal control and management risk system.

Among the essential documents and procedures regulating the process of making financial statements which are binding in the Company and TAURON Group one needs to mention TAURON Polska Energia S.A. Capital Group Accounting Policy, accounting policy of companies covered by consolidation, Organizational Regulations, TAURON Polska Energia S.A. with the seat in Katowice Management Board Regulations (hereinafter referred to as Company Management Board Regulations), TAURON Polska Energia S.A. with the seat in Katowice Supervisory Board Regulations (hereinafter referred to as Company Supervisory Board Regulations), TAURON Polska Energia S.A. Internal Audit Regulations, TAURON Group Ownership Supervision Regulations, Inventory Instructions in TAURON Polska Energia S.A. and other internal procedures. TAURON Polska Energia S.A. Capital Group Accounting Policy is in accordance with IFRS and constitutes directives for companies covered by consolidation in the process of making reporting packages for the consolidated statement. Supervision over the preparation of financial statements is performed by the Economy and Finance Vice-President of the Management Board, whereas responsibility for the making of reporting packages for TAURON Group consolidated financial statement is borne by Management Boards of companies covered by consolidation.

The Company keeps accounting books which constitute the basis for making a financial statement in the financial-accounting computer system of ERP class. Making the consolidated financial statement takes place with using specialist IT tools. In the Company there are IT and organizational solutions which protect the access to financial-accounting systems and they provide adequate protection and archivisation of account books. Notwithstanding the control mechanisms embedded in IT environment, control activities are carried out by means of financial statements verification and periodical review of financial reports by the Management Board, division of duties among employees, creating plans and verification of its implementations, review of legal changes, approving source documents by employees and their authorization by superiors.

In the Company there is internal audit understood as an independent and objective function whose essence is to help to achieve by the Company and TAURON Group economic objectives by introducing a systemized approach to the assessment and improvement of risk management process, control mechanisms system as well as corporate governance. Ways and rules of its implementation are described by TAURON Polska Energia S.A. Internal Audit Regulations as well as rules of cooperation which are binding in particular companies of TAURON Group. Carrying out the function of the internal audit the Company is governed by the Code of Ethics and International Standards. Auditing tasks are carried out on the basis of Long-term Audit Plan and Annual Audit Plan. These plans are based on the documented risk assessment, carried out at least once a year, with the participation of the Company's Management Board.

Supervisory Board makes an assessment of separate and consolidated financial statements and it appoints Audit Committee, which is an advisory and opinion-making body acting jointly within the structure of the Supervisory Board. Tasks of the Audit Committee are mainly monitoring financial reporting process and accuracy of financial information presented by the Company as well as effectiveness of internal control, internal audit and risk management systems in the Company and also of the independence and objectivity of the entity authorized to examine financial statements.

In 2010 the Company chose one entity authorized to examine and review financial statements for significant companies of TAURON Group as well as of the consolidated financial statement. As a part of audit works a reputable auditor makes an independent assessment of accuracy and correctness of separate and consolidated financial statements as well as confirms the effectiveness of internal control and risk management system.

4.4. Shareholders having large blocks of shares

The table below presents shareholders having, as of 31 December 2010 and as of the day of making the present report, to the knowledge of the Company's Management Board, directly or indirectly large blocks of shares of the Company.

Table no 22. Shareholders having, directly or indirectly, large blocks of shares

Shareholders	Number of shares	Percentage interest in share capital	Number of votes	Percentage interest in total number of votes
State Treasury*	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%

** In accordance with the shareholder's notice of 28.02.2011.*

*** In accordance with the shareholder's notice of 2.07.2010.*

4.5. Owners of securities giving special control rights

The Company did not issue securities which would give special control rights in relation to the Company.

4.6. Limitations on performing the voting right

Limitations on performing the voting right have been included in § 10 of the Company's Articles of Association as well as put into TAURON Polska Energia S.A. General Meeting Regulations. Company Articles of Association and General Meeting Regulations can be found at the Company's website http://tauron-pe.pl/.

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

1. The voting right of shareholders having over 10% of total votes in the Company shall be limited in the way that none of them can perform at the General Meeting more than 10% of the total votes in the Company.
2. Voting right limitation included in point 1 above does not apply to the State Treasury and entities subsidiary of the State Treasury in the period of time in which the State Treasury together with subsidiary entities subsidiary of the State Treasury has a number of the Company's shares entitling to performing at least 25% of total votes in the Company.
3. Shareholders' votes, between which there is a controlling or dependence relationship within the meaning of § 10 of the Articles of Association are cumulated; in case when the cumulated number of votes exceeds 10% of total votes in the Company, it is subject to reduction. Rules of votes' accumulation and reduction have been defined in 6 and 7 below.
4. A shareholder, within the meaning of § 10 of the Articles of Association is every person, including its parent and subsidiary company, which is entitled directly or indirectly to a voting right at the General Assembly on the basis of any legal title; it also applies to a person who does not have the Company's shares, and in particular to a user, pledgee, person entitled on the basis of a depositary receipt under regulations of the Act of 29 July 2005 on financial instruments trading, as well as a person entitled to take part in the General Meeting despite disposal of shares after the date of establishing the right to take part in the General Meeting.
5. By a parent company and subsidiary company, for the purposes of § 10 of the Articles of Association, one understands a person that:
   1) has a status of a dominating entrepreneur, dependent entrepreneur or has both the status of a dominating and dependent entrepreneur within the meaning of the Act of 16 February 2007 on competition and consumers' protection, or
   2) has the status of a parent company, higher level parent company, subsidiary company, lower level subsidiary company or which has both the status of a parent and subsidiary company (including a subsidiary company of lower level and co-subsidiary) within the meaning of Accountancy Act of 29 September 1994, or
   3) which has (parent company) or one which is under (subsidiary company) decisive influence within the meaning of the Act of 22 September 2006 on transparency of financial relationships between public bodies and public entrepreneurs and on financial transparency of some entrepreneurs, or
   4) whose votes resulting from the Company's shares owned directly or indirectly are subject to accumulation with votes of another person or other persons on conditions defined in the Act of 29 July 2005 on public offering and conditions of introducing

financial instruments to an organized trading system and on public companies in connection with possessing, disposing of or acquiring large blocks of the Company's shares.

6. Accumulation of votes is based on adding up the number of votes that particular shareholders of Shareholders' Group have.
7. Reduction of votes is based on decreasing the total number of votes in the Company that shareholders, who are a part of Shareholders' Group, are entitled to at the General Meeting to the level of 10% of total votes in the Company. Reduction of votes takes place in accordance with the following rules:
   1) number of a shareholder's votes who has the biggest amount of votes in the Company among all shareholders who are members of the Shareholders' Group is subject to being decreased by a number of votes equal to surplus of over 10% total votes in the Company that all shareholders in total are entitled to and who are members of the Shareholders' Group,
   2) if, despite the aforementioned reduction, the total number of votes that shareholders who are members of the Shareholders' Group are entitled to exceeds 10% of the total votes in the Company, a further reduction of votes belonging to other shareholders who are members of the Shareholders' Group takes place. Further reduction of particular shareholders' votes takes place in order established on the basis of the amount of votes that particular shareholders who are members of the Shareholders' Group have (from the highest to the lowest one). Further reduction takes place until the moment when the total number of votes owned by shareholders who are members of the Shareholders' Group does not exceed 10% of the total votes in the Company,
   3) in each case the shareholder whose voting right has been limited shall have to right to perform at least one vote,
   4) limitation on performing the voting right applies also to a shareholder absent at the General Meeting.
8. Each shareholder who is going to take part in the General Meeting, in person or through a proxy is obliged to, without a separate notice stipulated in point 9 below, notify the Management Board or the Chairperson of the General Meeting that s/he has, directly or indirectly, more than 10% of the total votes in the Company.
9. Notwithstanding the stipulation of point 8 above, in order to establish the basis for accumulation and reduction of votes, the Company's shareholder, Management Board, Supervisory Board or particular members of these bodies have the right to demand that the Company's shareholder provide information whether s/he is a person having the status of an entity dominating or subordinate towards other shareholder within the meaning of § 10 of the Articles of Association. The aforementioned entitlement includes also the right to demand revealing the number of votes that the Company's shareholder has independently or jointly with other shareholders of the Company.
10. A person who has failed to fulfil or fulfilled the information obligation stipulated in points 8 and 9 above improperly, until the moment of improvement of the information obligation performed improperly shall have the voting right from one share only; performing voting rights from other shares by such a person shall be null and void.

4.7. Limitations on transfer of securities property rights

There are no limitations in TAURON on the transfer of property rights of Company's securities.

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

MANAGEMENT BOARD

Rules on appointing and dismissing members of the Management Board

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

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

Competence of the Management Board

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

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

1) Management Board regulations,
2) organizational regulations of the Company's enterprise,
3) establishing and liquidating branches,

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

SUPERVISORY BOARD

Rules on appointing and dismissing members of the Supervisory Board

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

1) the period, in which the State Treasury, together with entities dependent on the State Treasury within the meaning of § 10 sec. 5 of the Articles of Association, has a number of shares of the Company entitling to perform at least 25% of the total votes in the Company, the State Treasury is represented by the minister competent for the issues of the State Treasury, is entitled to appoint and dismiss the members of the Supervisory Board in the amount equal to half of the maximum number of the composition of the Supervisory Board defined in the Articles of Association (in case when the number is not integral it is rounded down to an integral number, for example 4.5 is rounded down to 4 increased by 1 subject to the State Treasury:
    a) is obliged to vote at the General Meeting on establishing the number of members in the Supervisory Board representing the maximum number of members of the Supervisory Board defined in the Articles of Association or in case of submitting such a motion to the Management Board by a shareholder or shareholders who have a number of votes entitling to perform at least 5% of the total votes in the Company,
    b) is excluded from the voting right at the General Meeting on appointing and dismissing other members of the Supervisory Board, including independent members of the Supervisory Board; it does not however apply to the case when the Supervisory Board cannot act due to a composition smaller than required by the Articles of Association, and the shareholders present at the General Meeting other than the State Treasury do not round out the composition of the Supervisory Board in accordance with the distribution of places in the Supervisory Board defined in present point.
2) in the period of time in which the State Treasury, together with entities dependent on the State Treasury within the meaning of § 10 sec. 5 of the Articles of Association, has a number of the Company's shares entitling to perform under 25% of total voting rights in the Company, the State Treasury, represented by a minister competent for the issues of the State Treasury shall be entitled to appoint and dismiss one member of the Supervisory Board.
3) appointing and dismissing members of the Supervisory Board by the State Treasury in pursuant to the aforementioned point 1) or point 2) takes place by means of a statement submitted to the Company.

At least two members of the Supervisory Board shall meet the independence criteria (independent members of the Supervisory Board). The definition of an "independent member of the Supervisory Board" shall mean an independent member of the Supervisory Board within the meaning the order of the Committee of 15 February 2005, on the role of non-executive managers or managers not being members of the Supervisory Boards of listed companies and board's committee (supervising board) (2005/162/WE) taking into consideration Good Practices of Companies Listed at the Warsaw Stock Exchange.

Independent members of the Supervisory Board give the Company, before being appointed to the composition of the Supervisory Board, a written statement of having fulfilled the requirements of independence. In case of a situation causing not fulfilling the requirements of independence, a member of the Supervisory Board is required to immediately notify the Company about this fact. The Company shall inform shareholders about the present number of independent members of the Supervisory Board.

Competence of the Supervisory Board

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

1) assessment of the Management Board report on the Company's operations as well of the financial statement for the previous financial year in the scope of their compliance with the books, documents as well as with the actual state. It also applies to the consolidated financial statement of the Capital Group, provided it is made,
2) assessment of the Management Board's proposals of profit division or covering loss,
3) submitting to the General Meeting a written report on the results of operations which are included in points 1 and 2,
4) making reports of the Supervisory Board from the supervision of realization by the Management Board of investments, including the purchase of fixed assets, and in particular giving opinions on the correctness and effectiveness of expending cash connected with it,
5) making, together with the report on results of the annual financial statement of the Company, an opinion of the Supervisory Board on the issue of economic legitimacy of involving the Company's capital made in a given financial year in other entities of commercial law,
6) selecting an expert auditor to carry out the examination of the Company's financial statement and consolidated financial statement of the Capital Group,
7) determining the scope and deadlines of submitting by the Management Board annual material and financial plans as well as long-term strategic plans,
8) giving opinions on long-term plans and strategies of the Company and Capital Group,
9) giving opinions and accepting the rules of conducting sponsoring activity,
10) giving opinions on the annual plan of conducting sponsoring activity as well as quarterly reports on its realization,
11) passing a regulations describing in details the mode of action of the Supervisory Board,
12) adopting a uniform text of the Company's Articles of Association, made by the Company's Management Board,
13) approving the regulations of the Company's Management Board,
14) approving the organizational regulations of the Company's enterprise.

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

1) purchase property, perpetual usufruct or shares in property or perpetual usufruct of the value exceeding the equivalent of 5,000,000 EUR in PLN,
2) purchase components of fixed assets, excluding property, perpetual usufruct or share in property or perpetual usufruct, bonds issued by the Companies of the Capital Group of the value exceeding the equivalent of 5,000,000 EUR in PLN,
3) disposing of the components of fixed assets, including property, perpetual usufruct or share in property or perpetual usufruct of the value exceeding the equivalent of 5,000,000 EUR in PLN,
4) incur contingent liabilities including granting guaranties and sureties by the Company with the value exceeding the equivalent of 5,000,000 EUR in PLN,
5) issuing bills of exchange with the value exceeding the equivalent of 5,000,000 EUR in PLN,
6) advance payment on account of the expected dividend,
7) taking up or purchase of stocks or shares in other companies with the value exceeding the equivalent of 5,000,000 EUR in PLN, except for situations when taking up stocks or shares of these companies takes place in exchange for the Company's liabilities as a part of conciliatory or bankruptcy proceedings,

8) disposal of stocks or shares, with the value exceeding the amount of 5,000,000 EUR in PLN, with defining the conditions and mode of their disposal, except for:
    a) disposing shares which are traded on the regulated market,
    b) disposing stocks or shares that the Company has in the amount not exceeding 10% interest in the share capital of particular companies.

Moreover, competence of the Supervisory Board includes in particular:

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

4.9. Description of the Company's Articles of Association amendment rules

Change of the Company's Articles of Association takes place by means of General Meeting's resolution, and then requires issuing a decision by a proper court on entering the change into the Register of Entrepreneurs. A uniform text of the Company's Articles of Association, including amendments passed by the General Meeting are adopted by the Supervisory Board by means of a resolution.

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

The way of TAURON's General Meeting and its entitlements are included in the Company's Articles of Association and in the TAURON Polska Energia S.A. Regulations which are available at the Company's website http://tauron-pe.pl/.

Mode of operation

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

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

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

Competence of General Meeting

Resolutions of the General Meeting require:

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

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

Description of shareholders' rights and mode of their performance

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

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

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

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

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

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

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

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

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

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

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

4.11. Composition of managing and supervising bodies and their committees, changes, description of operation

MANAGEMENT BOARD

The present, II term of office of the Management Board, started on 8 March 2008. In accordance with the Company's Articles of Association this is a joint term of office and lasts for three years. The period covered by the present report constituted the third year of the Company's Management Board operation during the II term of office which ended 8 March 2011.

Management Board composition as of 31 December 2010 and as of the day of making the present 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 Management Board composition:

In the period covered by the present report the following changes in the composition of the Management Board took place:

1) Stanisław Tokarski – Vice-President of the Management Board, Strategy and Development Manager, appointed to the Company's Management Board on 8 March 2008 as of 31 August 2010 submitted a resignation from the performed function.
2) Joanna Schmid was appointed into the composition of the Management Board as of 1 October 2010 to the position of the Vice-President of the Management Board – Strategy and Development Manager.

In connection with the end of the term of office of the Company's Management Board, falling on 8 March 2011, on 24 February 2011 the Company's Supervisory Board, as a resulted of completed qualification proceedings adopted a resolution to appoint members of the Management Board of the third term of office. Detailed information in the aforementioned scope is included in point 3.8 of the present report.

Mode of operation

Management Board of TAURON Company operates on the basis of the Act of 15 September 2000, Code of Commercial Companies and other regulations of law, stipulations of the Company's Articles of Association and stipulations of the Company's Management Board's Regulations. While performing their obligations members of the Management Board are governed by regulations included in the Good Practices of Companies Listed at Warsaw Stock Exchange.

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

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

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

Resolutions of the Management Board are passed by an absolute majority of votes in the presence of 3/5 of the composition of the members of the Management Board. In case of an equal number of votes the vote of the President of the Management Board shall be decisive. The Management Board may pass resolutions in a written mode or by using means of direct distance communication. Voting in the aforementioned modes is ordered by the President of the Management Board or a member of the Management Board appointed by him/her, defining the deadline to vote by the members of the Management Board. It is acceptable to submit a different opinion. It shall be recorded in the minutes together with a justification. Decisions of the Management Board, being rulings in current issues, not requiring passing a resolution, are recorded only in the minutes.

SUPERVISORY BOARD

The present, II term of office of the Supervisory Board started on 11 December 2007. In accordance with the Company's Articles of Association the term of office in joint and is for three years. The period covered by the present report constituted third year of the Company's Supervisory Board's operation during the II term of office which ended 11 December 2010.

Supervisory Board composition as of 31 December 2010 and as of the day of making the present report:

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

Changes in the composition

Witold Kurowski and Tadeusz Skrzypek, appointed to the composition of the Supervisory Board on 31 January 2008 were dismissed as of 13 September 2010 by the shareholder – State Treasury, by means of personal entitlement under the Company's Articles of Association.

Leszek Koziorowski, Jacek Kuciński and Jacek Szyke were appointed to the composition of the Company's Supervisory Board on 14 September 2010 by the General Meeting. Leszek Koziorowski and Jacek Szyke meet the independence criteria within the meaning of the Order of the Commission of 15 February 2005 on the role of non-executive directors or being members of the Supervisory Board of listed companies and commission of the board (supervisory board) (2005/162/WE) plus Good Practices of Companies Listed at Warsaw Stock Exchange.

Mode of operation

A detailed description of the mode of the Supervisory Board mode of operation is included in the Company's Supervisory Board's regulations as well as in the Act of 15 September 2000, Code of Commercial Companies.

The main form of performing supervision by the Supervisory Board over the Company's operations are meetings of the Supervisory Board. The Supervisory Board performs its obligations jointly. Meetings of the Supervisory Board are summoned by the Chairperson of the Supervisory Board or Vice-Chairperson of the Supervisory Board by presenting a detailed agenda:

a) in accordance with decisions adopted by the Supervisory Board,
b) on his/her own initiative,
c) upon a written proposal of each member of the Supervisory Board,
d) upon a written proposal of the Management Board.

Meetings of the Supervisory Board take place in the Company's seat. In justified cases the meeting may be summoned in a different place.

In order to summon a meeting a written invitation of all members of the Supervisory Board at least 7 days before the date of the Supervisory Board's meeting is required. Due to material reasons the Chairperson of the Supervisory Board may shorten this period to 2 days, defining the mode of giving the invitation. Notifications of the Supervisory Board's meeting are sent by means of fax or electronic mail and are confirmed by phone. In the notification of the Supervisory Board's meeting the Chairperson defines the date of the meeting, place of the meeting as well as detailed draft of the agenda. The Supervisory Board shall meet when the need arises, however not less than once every two months. The Supervisory Board may meet without summoning a formal meeting if all members of the Supervisory Board are present and nobody appeals against the fact of holding the meeting or against the agenda.

A change of the proposed agenda may take place when all members of the Supervisory Board are present at the meeting and nobody appeals against the agenda. An issue not included in the agenda shall be included in the agenda of the next meeting.

Taking part in meetings of the Supervisory Board is the Supervisory Board Member's duty. A Member of the Supervisory Board shall give reasons of his/her absence in writing. Justification of the Supervisory Board Member's absence requires the Supervisory Board's resolution. Members of the Management Board of the Company may take part in the Supervisory Board's meetings unless the Supervisory Board voices an objection. Participation of the Management Board's members in the Supervisory Board's meetings is compulsory if they were invited by the Chairperson of the Supervisory Board. Also other persons may take part in the meetings if they were invited in the above mentioned way.

The Supervisory Board may seek opinion of legal advisers who render regular legal advice for the Company, as well as, in justified cases, it may appoint and invite to meetings of the Supervisory Board appropriate experts in order to ask their advice and make an appropriate decision. In the aforementioned cases the Supervisory Board shall pass a resolution concerning commissioning the work to a chosen expert (audit or consulting company) obliging the Company's Management Board to reach an appropriate agreement.

Meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in the case of his/her absence by the Vice-Chairperson. Due to material reasons, with the consent of the majority of the members of the Supervisory Board present at the meeting, the person chairing the meeting is obliged to submit to voting a motion to stop the meeting and establish a new date of resuming the Supervisory Board's meeting. The Supervisory Board makes decisions in the form of resolutions. The Supervisory Board's resolutions are passed mainly at the meetings. The Supervisory Board passes resolutions if at least half of its members are present at the meeting and all its members were invited in the way defined in the Regulations. Subject to absolutely binding regulations of law, including the Act of 15 September 2000, Code of Commercial Companies as well as provisions of the Company's Articles of Association, the Supervisory Board passes resolutions by an absolute majority of votes of the persons present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain". Resolutions cannot be passed in issues not included in the agenda unless all members of the Supervisory Board are present and nobody voices an objection. It shall not apply to resolutions on justifying the Supervisory Board's member absence at the meeting. A secret voting is ordered:

1) upon the request of at least one of the members of the Supervisory Board,
2) in personnel-related issues.

The Supervisory Board, in accordance with the Articles of Association of the Company passes resolutions in a written mode or by using means of direct distance communication. Passing a resolution in such a mode requires a justification and a prior submitting of the draft of the resolution to all members of the Supervisory Board. Passing resolutions in this mode does not apply to the appointing the Chairperson, the Vice-Chairperson and the Secretary of the Board, appointing or suspending in the activities of a member of the Supervisory Board and dismissing these persons as well as other issues the settlement of which requires a secret voting. Voting on a resolution passed in the aforementioned mode, a member of the Supervisory Board indicates the mode of his/her voting, that is "for", "against" or "abstain". In case of not taking a stance by a Member of the Supervisory Board in the time period defined by the Chairperson the resolution shall not be passed. Resolution with a note that it was passed in a written mode or by mode of voting using means of direct distance communication shall be signed by the Chairperson of the Supervisory Board. Resolutions passed in this mode shall be submitted at the first coming meeting of the Supervisory Board with announcing the result of the voting.

Members of the Supervisory Board shall take part in meetings and perform their duties in person, and while performing their duties they are obliged to exercise due diligence. Members of the Supervisory Board are obliged to keep information connected with the Company's activity which they have acquired in connection with holding their seat or at other occasion secret. The Supervisory Board performs its actions jointly.

The Supervisory Board may, due to material reasons, delegate particular members to perform certain actions independently for a defined period of time. The Supervisory Board may delegate its members, for a period not longer than three months, to temporarily perform duties of the members of the Management Board who have been dismissed, submitted their resignation or if due to other reasons they cannot perform their functions. The aforementioned delegation requires obtaining permission from the member of the Supervisory Board who is to be delegated.

The Supervisory Board may appoint among its members permanent or temporary working teams or committees to perform particular actions. The permanent committee of the Supervisory Board are TAURON Polska Energia S.A. Supervisory Board Audit Committee (hereinafter referred to as Audit Committee) and TAURON Polska Energia S.A. Supervisory Board Nominations and Remunerations Committee (hereinafter referred to as Nominations and Remunerations Committee). Composition, tasks and rules of operation of the aforementioned committees are defined by regulations passed by the Supervisory Board.

AUDIT COMMITTEE

Audit Committee was appointed on 13 May 2010 by the Supervisory Board among its members, in the following composition:

1. Michał Michalewski – Head of the Audit Committee,
2. Marek Ściążko – Member of the Audit Committee,
3. Witold Kurowski – Member of the Audit Committee.

Audit Committee composition as of 31 December 2010 and as of the day of making the present report:

1. Michał Michalewski – Head of the Audit Committee,
2. Marek Ściążko – Member of the Audit Committee,
3. Jacek Szyke – Member of the Audit Committee.

Changes in the composition

In connection with dismissing from the composition of the Supervisory Board of Witold Kurowski, who performed the function of the Audit Committee member, the Supervisory Board, as of 28 September 2010, appointed Jacek Szyke into the composition of the Audit Committee.

Mode of operation

A detailed description of the Audit Committee operation is included in TAURON Polska Energia S.A. Supervisory Board Audit Committee Regulations.

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

The composition of the Audit Committee includes from three to five members. The work of the Audit Committee are managed by the Head. Meetings of the Audit Committee are summoned by the Head of the Audit Committee on his/her own initiative or upon the motion of a member of the Audit Committee or Chairperson of the Supervisory Board.

Meetings of the Audit Committee take place as the need arises, but not earlier than once every quarter. The Head of the Audit Committee may invite members of the Supervisory Board, who are not members of the Audit Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company, including an expert auditor to the meetings of the Audit Committee. Head of the Audit Committee or a person appointed by him/her submits to the Supervisory Board motions, recommendations and reports. Report on the Audit Committee operations shall be submitted to the Supervisory Board at least once every six months.

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

The Company's Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the Audit Committee. Every year, the Audit Committee provides public record information, through the Company, on the composition of the Audit Committee, number of meetings held and participation in the meetings during the year as well as on main activities. In particular, the Audit Committee confirms its positive assessment of the independence of financial audit process and submits a short description of steps taken to form such a motion.

The Audit Committee's tasks are:

1) monitoring financial reporting process;
2) monitoring the accuracy of financial information presented by the Company;
3) monitoring the efficiency of internal control, internal audit and risk management systems existing in the Company;
4) monitoring performing financial audit;
5) monitoring independence and objectivity of an expert auditor and entity entitled to examine financial statements, including rendering by them services other than financial audit;
6) recommending an entity entitled to examine financial statements to perform financial audit to the Supervisory Board.

Company's Board of Management provides the possibility to use by the Audit Committee from the services of external advisors in the scope necessary to perform the obligations of the Audit Committee. The Company provides a programme to introduce new Audit Committee members' to their obligations and further trainings. All members of the Audit Committee shall in particular obtain information on the specificity of accounting, finance and operating activity of the Company. The Audit Committee may demand to submit by the Management Board information on the area of bookkeeping, finance, financial audit, internal audit and risk management.

NOMINATIONS AND REMUNERATIONS COMMITTEE

Nominations and Remunerations Committee was appointed on 27 August 2010 by the Supervisory Board among its members. The composition of the Nominations and Remunerations Committee includes three members.

Nominations and Remunerations Committee composition as of 31 December 2010 and as of the day of making the present report:

1. Antoni Tajduś – Head of the Nominations and Remunerations Committee,
2. Agnieszka Trzaskalska – Member of the Nominations and Remunerations Committee,
3. Włodzimierz Luty – Member of the Nominations and Remunerations Committee.

Mode of operation

Detailed description of the Nominations and Remunerations Committee mode of operation is included in TAURON Polska Energia S.A. Supervisory Board Nominations and Remunerations Committee Regulations.

The Nominations and Remunerations Committee is an advisory and opinion-making body acting jointly as a part of the Supervisory Board's structure and performs a support and advisory function towards the Supervisory Board. Tasks of the Nominations and Remunerations Committee are realized through submitting motions, recommendations, opinions and reports on the scope of its activities to the Supervisory Board by means of resolutions passed by the Nominations and Remunerations Committee. The Nominations and Remunerations Committee is independent from the Company's Management Board. The Management Board may not give binding orders to the Nominations and Remunerations Committee on performing its duties.

The composition of the Nominations and Remunerations Committee includes from three to five members, including at least one independent member of the Supervisory Board. Work of the Nominations and Remunerations Committee is managed by the Head.

Meetings of the Nominations and Remunerations Committee are summoned by the Head of the Nominations and Remunerations Committee on his/her own initiative or upon the motion of a member of the Nominations and Remunerations Committee or upon the motion of the Chairperson the Supervisory Board. Meetings of the Nominations and Remunerations Committee take place as the need arises. The Head of the Nominations and Remunerations Committee may invite members of the Supervisory Board not being members of the Nominations and Remunerations Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company, including an expert auditor, to the meetings. The Head of the Nominations and Remunerations Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board.

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

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

The Nominations and Remunerations Committee's tasks are:

1) recommending the Supervisory Board a recruitment procedure for the positions of members of the Company Management Board's,
2) assessing candidacy for members of the Management Board as well submitting an opinion in this scope to the Supervisory Board,
3) recommending the Supervisory Board form and content of agreements reached with members of the Management Board,
4) recommending the Supervisory Board remuneration and bonus system of the members of the Management Board,
5) recommending the Supervisory Board the need to suspend a member of the Management Board due to material reasons,
6) recommending the Supervisory Board the need to delegate a member of the Supervisory Board to temporarily perform the duties of members of the Management Board who cannot perform their duties together with a suggestion of remuneration.

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

SIGNATURES OF THE MEMBERS OF TAURON POLSKA ENERGIA S.A. MANAGEMENT BOARD:

Katowice, on 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	....