



Annual report of
TAURON Polska Energia S.A.
for the year 2011

19 March 2012

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

Ladies and Gentlemen,

For the second time, as the President of the Management Board of a public company, I have the pleasure to present to you the Annual Report of TAURON Polska Energia S.A. The summary of activities refers to the year 2011 – the first full year of operations of our business as the company listed at the stock exchange. It was certainly a very interesting year for business, but it was also a period of intensive work in many areas of operations of the company and the Group. It was a difficult year at capital markets – problems of Greece, vision of recession in countries of the European Union, or the announced economic slowdown in Poland – this is only some pessimistic information that has dominated the public debate in Poland and in Europe. Thus, I am even more satisfied to state that TAURON Polska Energia may consider this year as successful.

Referring to our presence at the capital market, assessment of our Group performed by analysts of brokerage houses and investment banks is worth attention. In 2011 they issued, in total, 24 recommendations for TAURON shares, most of which were the “buy” recommendations. For the first time, as a listed company, we shared the generated profit with shareholders. For payment of the dividend for 2010 we allocated almost PLN 263 million. Shares of TAURON are currently included in all key stock exchange indices, i.e., among others, WIG, WIG20, WIG-Poland, WIG-Energia, MSCI Poland Standard Index or CECE Index – the index of the Vienna Stock Exchange covering the biggest companies of Central and Eastern Europe.

Due to the necessity to adjust the corporate strategy binding so far to the changing market conditions and the new business model of the Group, in April 2011 the Management Board and the Supervisory Board of TAURON Polska Energia adopted its updated version. In the document, we focus more on mitigation of risks connected with exposure to carbon dioxide emission as well as on enhancement of discipline within implementation of investment projects. Under the updated strategy, until 2020 we want to build generating units in various technologies, of the total power of about 2400 MW, with substantial share of low emission technologies. One of important elements of the updated strategy is to take advantage of market opportunities to take over attractive assets. And this has already started. In December we completed the process of acquisition of 99.98% of shares of Górnośląski Zakład Elektroenergetyczny from Vattenfall AB. We have gained the assets which perfectly fit into our business, not only geographically but also in terms of operations. We have already started integration of these assets, by including all the Vattenfall companies taken over in the TAURON Group.

In 2011 we continued the construction of new and modernisation of existing generating units. Within the investment programme, we implement projects of construction of energy generating units based on hard coal, natural gas and renewable energy sources. Activities are advanced in relation to selection of the contractor for the 400 MW_g/240 MW_t gas and steam unit at Stalowa Wola, executed together with PGNiG. At ZEC Bielsko-Biała, the 50 MW_g/182 MW_t heat generating unit is under development. What is important, this investment – like the construction of the 50 MW_g/45 MW_t biomass burning boiler at Elektrownia Jaworzno III – is co-financed from resources acquired from the European Investment Bank. The Bank has granted us two preferential loans of the total value of PLN 510 million. In the Group, investment projects are implemented for construction and reconstruction of biomass boilers as well as numerous modernization tasks. We have selected the constructor of the 82 MW wind farm in Marszewo, whose works have already commenced. In addition – due to the implemented acquisitions – we have also gained new assets in the area of green energy. We have purchased the 30.75 MW wind farm in Lipniki and, owing to GZE acquisition, we have acquired the 30 MW wind farm in Zagórze near Wolin.

In 2011 TAURON Polska Energia S.A. recorded very good financial results. The Company gained revenue on sales at the level of PLN 8,845.2 million (increase by 23.1% in relation to 2010), whereas the net profit reached PLN 1,083.4 million (increase by 469%). The increased revenue on sales results from the higher volume of electric energy sales as well as higher sales prices of the electric energy. On the other hand, the level of the net profit reached, was influenced by over eight-fold increase of result on operating activity as well as the financial activity under the form of dividends received from subsidiary companies.

In 2011 we were taking advantage of the centralized financing model implemented to finance investments executed by the Group's companies. Thanks to this solution we decrease the costs of external financing and we increase financing opportunities, which consequently results in higher evaluation of the financial standing of the Group issued by rating agencies.

In December 2011 under the bond issue programme, the Company issued bonds of the total value of PLN 3.3 billion. The aim of the issue was to acquire funds for financing of GZE acquisition from Vattenfall AB.

A significant event of the year 2011 was, unquestionably, the establishment and registration of the Capital Tax Group. The agreement between the companies of the TAURON Group shall be effective from 1 January 2011 until the end of 2014. Such solution allows for tax optimisation within the TAURON Group.

At the end, it is worth mentioning that the Fitch rating agency still evaluates us at the unchanged, high level. In 2011 Fitch sustained the rating for the company in foreign and local currency at the BBB level with stable outlooks.

On behalf of the Management Board of TAURON Polska Energia I would like to extend my gratefulness to our shareholders, clients and employees for their involvement in development of the TAURON Group. I am convinced that the challenges we are facing shall mobilise us to continue working on systematic increase of the company and the TAURON Group value.

Your faithfully,

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

Dariusz Lubera

President of the Management Board

Selected financial information of TAURON Polska Energia S.A.

SELECTED FINANCIAL INFORMATION	in thousands PLN		in thousands EUR	
	2011 period from 1 January 2011 to 31 December 2011	2010 period from 1 January 2010 to 31 December 2010	2011 period from 1 January 2011 to 31 December 2011	2010 period from 1 January 2010 to 31 December 2010
Sales revenue	8 845 152	7 185 271	2 136 459	1 794 344
Operating profit	81 066	9 627	19 581	2 404
Profit before taxation	1 104 642	198 799	266 815	49 645
Net profit	1 083 429	190 478	261 692	47 567
Total comprehensive income	1 083 429	190 478	261 692	47 567
Earnings per share (in PLN/EUR) (basic and diluted)	0.62	0.12	0.15	0.03
Weighted average number of shares (in items) (basic and diluted)	1 752 549 394	1 600 730 480	1 752 549 394	1 600 730 480
Net cash flows from operations	(108 837)	(222 720)	(26 288)	(55 619)
Net cash flows from investments	(3 093 550)	(750 374)	(747 216)	(187 387)
Net cash flows from financial activity	2 977 951	845 266	719 294	211 084
Net change of cash and cash equivalents	(224 436)	(127 828)	(54 210)	(31 922)
	As at 31 December 2011	As at 31 December 2010	As at 31 December 2011	As at 31 December 2010
Non-current assets	22 230 228	17 224 617	5 033 107	4 349 321
Current assets	1 340 747	1 220 568	303 556	308 201
Total assets	23 570 975	18 445 185	5 336 663	4 657 522
Primary capital	8 762 747	15 772 945	1 983 958	3 982 765
Total equity	17 344 228	16 523 681	3 926 876	4 172 331
Long-term liabilities	4 140 154	848 392	937 365	214 224
Short-term liabilities	2 086 593	1 073 112	472 422	270 967
Total liabilities	6 226 747	1 921 504	1 409 787	485 191

The aforementioned financial information for 2011 and 2010 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 30 December 2011 – 4.4168 PLN/EUR (as of 31 December 2010 – 3.9603 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 2011 to 31 December 2011 – 4.1401 PLN/EUR (for the period from 1 January 2010 to 31 December 2010 – 4.0044 PLN/EUR).

**INDEPENDENT AUDITOR'S OPINION
ON THE FINANCIAL STATEMENTS OF
TAURON POLSKA ENERGIA S.A.
FOR THE YEAR 2011**

INDEPENDENT AUDITORS' OPINION

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

1. We have audited the attached financial statements for the year ended 31 December 2011 of TAURON Polska Energia S.A. ('the Company') located in Katowice at ks. Piotr Ściegiennego Street 3, containing statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of changes in equity, the statement of cash flow for the period from 1 January 2011 to 31 December 2011 and other explanatory notes ('the attached financial statements').
2. The truth and fairness¹ of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly² reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit of the attached financial statements in accordance with:
 - chapter 7 of the Accounting Act,
 - national auditing standards issued by the National Council of Statutory Auditors,in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

¹ Translation of the following expression in Polish: 'rzetelność i jasność'

² Translation of the following expression in Polish: 'rzetelnie i jasno'

4. In our opinion, the attached financial statements, in all material respects:
 - present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2011 to 31 December 2011, as well as its financial position³ as at 31 December 2011;
 - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
 - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.
5. We have read the 'Directors' Report for the period from 1 January 2011 to 31 December 2011 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 – with subsequent amendments).

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, 6 March 2012

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

TAURON POLSKA ENERGIA S.A.

**LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

TAURON POLSKA ENERGIA S.A.

**LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

I. GENERAL NOTES

1. Background

TAURON Polska Energia S.A. (hereinafter 'the Company') was incorporated on the basis of a Notarial Deed dated 6 December 2006 under the name Energetyka Południe S.A. Change of the name into TAURON Polska Energia S.A. was registered by the District Court on 16 November 2007. The Company's registered office is located in Katowice at ks. Piotra Ściegiennego Street 3.

On 8 January 2007 the Company was entered in the Register of Entrepreneurs of the National Court Register Entry No. KRS 0000271562.

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

The Company is the holding company of the TAURON Polska Energia S.A. capital group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Notes 8 and 32 of the explanatory notes ("the additional notes") to the audited financial statements for the year ended 31 December 2011.

The principal activities of the Company are as follows:

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

As at 31 December 2011, the Company's issued share capital amounted to 8,762,747 thousand zlotys. Equity as at that date amounted to 17,344,228 thousand zlotys.

In accordance with the information included in Note 21.2 of the additional notes to the accompanying financial statements as at 31 December 2011, the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
State Treasury	526,883,897	526,883,897	2,634,419	30.06%
KGHM Polska Miedz S.A.	182,110,566	182,110,566	910,553	10.39%
ING Open Pension Fund	88,742,929	88,742,929	443,715	5.06%
Other shareholders	954,812,002	954,812,002	4,774,060	54.49%
Total	1,752,549,394	1,752,549,394	8,762,747	100%

According to information received from the Company the following changes took place in the Company's ownership structure of the Company's issued share capital during the financial year:

- the State Treasury's percentage of issued share capital decreased from 41.96% in 2010 to 30.06% in 2011,
- the percentage of issued share capital of KGHM Polska Miedź S.A. increased from 4.67% in 2010 to 10.39% in 2011,
- the percentage of issued share capital of ING Open Pension Fund in 2010 was insignificant and increased in 2011 to 5.06%.

Movements in the issued share capital of the Company in the financial year were as follows:

	Number of shares	Par value of shares
Opening balance	1,752,549,394	15,772,945
Decrease in share capital	-	7,010,198
	-----	-----
Closing balance	1,752,549,394	8,762,747
	=====	=====

On 25 March 2011 the Company registered a decrease of the share capital to the amount of 8,762,747 thousand zlotys. According to the resolution No. 4 of the Extraordinary General Shareholders' Meeting dated 10 November 2010, the share capital was decreased by way of reduction the nominal value of each share from PLN 9 to PLN 5. As a result, the Company's share capital was decreased by 7,010,198 thousand zlotys. According to the resolution mentioned above, the resulting amount was allocated to the Company's reserve capital.

As at 6 March 2012, the Company's Management Board was composed of:

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

There were no changes in the Company's Management Board composition during the reporting period as well as from the balance sheet date to the date of the opinion.

2. Financial Statements

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

2.1 Auditors' opinion and audit of financial statements

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

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

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

Under the contract executed on 19 November 2010 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2011.

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

Based on our audit, we issued an unqualified auditors' opinion dated 6 March 2012, stating the following:

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

1. We have audited the attached financial statements for the year ended 31 December 2011 of TAURON Polska Energia S.A. ('the Company') located in Katowice at ks. Piotra Ściegiennego Street 3, containing statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of changes in equity, the statement of cash flow for the period from 1 January 2011 to 31 December 2011 and other explanatory notes ('the attached financial statements').

2. The truth and fairness¹ of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly² reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit of the attached financial statements in accordance with:
- chapter 7 of the Accounting Act,
 - national auditing standards issued by the National Council of Statutory Auditors,
- in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.
4. In our opinion, the attached financial statements, in all material respects:
- present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2011 to 31 December 2011, as well as its financial position³ as at 31 December 2011;
 - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
 - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.

¹ Translation of the following expression in Polish: '*rzetelność i jasność*'

² Translation of the following expression in Polish: '*rzetelnie i jasno*'

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

5. We have read the 'Directors' Report for the period from 1 January 2011 to 31 December 2011 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 – with subsequent amendments)."

We conducted the audit of the Company's financial statements during the period from 21 November 2011 to 6 March 2012. We were present at the Company's head office from 21 November 2011 to 25 November 2011 and from 30 January 2012 to 3 February 2012.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness⁴ of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 6 March 2012, confirming that:

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

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

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2010 were audited by Artur Żwak, key certified auditor no. 9894, acting on behalf of Ernst & Young Audit sp. z o.o. with its seats in Warsaw, Rondo ONZ 1, registered on the list of entities authorized to audit financial statements under no. 130. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2010. The Company's financial statements for the year ended 31 December 2010 were approved by the General Shareholders' Meeting on 6 May 2011, and the shareholders resolved to appropriate the 2010 net profit in the amount of 190.478 thousand zlotys to dividends for the shareholders.

The financial statements for the financial year ended 31 December 2010, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the

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

resolution on the appropriation of profit and the Directors' Report, were filed on 11 May 2011 with the National Court Register.

The statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of changes in equity, the statement of cash flow for the year ended 31 December 2010, together with the auditors' opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the appropriation of profit were published in Monitor Polski B No. 1810 on 3 October 2011.

The closing balances as at 31 December 2010 were correctly brought forward in the accounts as the opening balances at 1 January 2011.

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2009 - 2011. The ratios were calculated on the basis of financial information included in the financial statements for the year ended 31 December 2010 and 31 December 2011.

	2011	2010	2009
Total assets	23,570,975	18,445,185	14,755,018
Shareholders' equity	17,344,228	16,523,681	14,226,493
Net profit/ loss	1,083,429	190.478	184.535
Return on assets (%)	4.6%	1.0%	1.3%
$\frac{\text{Net profit} \times 100}{\text{Total assets}}$			
Return on equity (%)	6.3%	1.2%	1.3%
$\frac{\text{Net profit} \times 100}{\text{Total equity}}$			
Profit margin (%)	12.2%	2.7%	2.6%
$\frac{\text{Net profit} \times 100}{\text{Sales revenues}}$			
Liquidity I	0.6	1.1	1.1
$\frac{\text{Current assets}}{\text{Short-term liabilities}}$			
Liquidity III	0.1	0.5	0.4
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$			
Debtors days	31 days	31 days	17 days
$\frac{\text{Trade debtors} \times 365}{\text{Sales revenues}}$			

	2011	2010	2009
Creditors days	13 days	28 days	27 days
$\frac{\text{Trade creditors x 365}}{\text{Costs of sales}}$			
Stability of financing (%)	91.1%	94.2%	96.4%
$\frac{(\text{Equity} + \text{non-current liabilities}) \times 100}{\text{Total equity and liabilities}}$			
Debt ratio (%)	26.4%	10.4%	3.6%
$\frac{\text{Total liabilities} \times 100}{\text{Total assets}}$			
Rate of inflation:			
yearly average	4.3%	2.6%	3.5%
December to December	4.6%	3.1%	3.5%

3.2 Comments

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

- The return on assets ratio in 2011 was 4.6% and was higher in comparison to 1.0% in 2010 and 1.3% in 2009.
- The return on equity ratio in 2011 was 6.3% and was higher in comparison to 1.2 in the years 2010 and 1.3% in 2009.
- Profit margin ratio in 2011 was 12.2% and was higher in comparison to 2.7% in 2010 and 2.6% in 2009.
- The liquidity I ratio decreased as at 31 December 2011 to the level of 0.6 in comparison to 1.1 as at 31 December 2010 and as at 31 December 2009.
- The liquidity ratio III decreased as at 31 December 2011 to the level of 0.1 in comparison to 0.5 as at 31 December 2010 and 0.4 as at 31 December 2009.
- Debtors days' ratio in 2011 was 31 days and remained at the same level as in 2010 and increased in comparison to 17 days in 2009.
- Creditors days' ratio in 2011 reached 13 days and was lower in comparison to 28 days in 2010 and 27 days in 2009.
- In the analyzed period, the Company has preserved a high level of stability of financing ratio.
- The debt ratio was 26.4% as at 31 December 2011 and was higher in comparison to 10.4% as at 31 December 2010 and 3.6% as at 31 December 2009.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2011 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 2 of the additional notes to the audited financial statements for the year ended 31 December 2011, the Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern in a foreseeable future and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Accounting System

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

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

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

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

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2011.

Verification of assets and liabilities was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2011.

3. Additional Notes

The additional notes to the financial statements for the year ended 31 December 2011 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2011 to 31 December 2011 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 – with subsequent amendments).

5. Conformity with Law and Regulations

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

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

Key certified auditor

Artur Żwak
Certified auditor No. 9894

Warsaw, 6 March 2012

TAURON POLSKA ENERGIA S.A.

**FINANCIAL STATEMENTS
PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL
REPORTING STANDARDS
FOR THE YEAR ENDED 31 DECEMBER 2011**

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STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Continuing operations			
Sale of goods for resale, finished goods and materials without elimination of excise		8 823 744	7 172 814
Excise		(15 122)	–
Sale of goods for resale, finished goods and materials		8 808 622	7 172 814
Rendering of services		36 526	12 444
Other income		4	13
Sales revenue	11.1	8 845 152	7 185 271
Cost of sales	11.4	(8 662 983)	(7 067 452)
Gross profit		182 169	117 819
Other operating income		2 520	742
Selling and distribution expenses	11.4	(22 850)	(12 493)
Administrative expenses	11.4	(79 563)	(95 789)
Other operating expenses		(1 210)	(652)
Operating profit		81 066	9 627
Dividend income	11.2	1 009 580	181 948
Other finance income	11.2	111 520	13 700
Finance costs	11.3	(97 524)	(6 476)
Profit before tax		1 104 642	198 799
Income tax expense	12	(21 213)	(8 321)
Net profit from continuing operations		1 083 429	190 478
Net profit for the period		1 083 429	190 478
Other comprehensive income		–	–
Total comprehensive income for the period		1 083 429	190 478
Earnings per share (in PLN)			
	22		
– basic, for profit for the period		0.62	0.12
– basic, for profit from continuing operations for the period		0.62	0.12
– diluted, for profit for the period		0.62	0.12
– diluted, for profit from continuing operations for the period		0.62	0.12

Accounting policies and explanatory notes are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	As at 31 December 2011	As at 31 December 2010 <i>(adjusted figures)</i>
ASSETS			
Non-current assets			
Property, plant and equipment		11 591	5 425
Intangible assets	15	15 487	7 322
Shares in unlisted and listed companies	16	21 028 076	16 353 470
Bonds, T-bills and other debt securities	33	1 137 040	848 200
Other long-term non-financial assets		830	1 686
Deferred tax asset	12	37 204	8 514
		22 230 228	17 224 617
Current assets			
Current intangible assets	15, 7.1	33 120	9 773
Inventories	17	41 028	9 238
Corporate income tax receivables		–	2 822
Trade and other receivables	18, 33	991 975	634 531
Bonds, T-bills and other debt securities	33	13 003	383
Other financial assets	33	2	257
Other current non-financial assets	20	3 581	36 553
Cash and cash equivalents	19	258 038	527 011
		1 340 747	1 220 568
Non-current assets classified as held for sale			
		–	–
TOTAL ASSETS		23 570 975	18 445 185

Accounting policies and explanatory notes are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011 – continued

	Note	As at 31 December 2011	As at 31 December 2010 <i>(adjusted figures)</i>
EQUITY AND LIABILITIES			
Equity			
Issued capital	21.1	8 762 747	15 772 945
Reserve capital	21.3	7 412 882	475 088
Retained earnings/Accumulated losses	21.4	1 168 599	275 648
Total equity		17 344 228	16 523 681
Non-current liabilities			
Interest-bearing loans and borrowings	26, 33	4 136 112	845 650
Finance lease and hire purchase commitments	25.2, 33	990	136
Long-term provisions and employee benefits	23	3 052	2 606
		4 140 154	848 392
Current liabilities			
Trade and other payables	33	325 928	540 702
Current portion of interest-bearing loans and borrowings	26, 33	1 468 066	461 627
Income tax payable		33 687	–
Current portion of finance lease and hire purchase commitments	25.2, 33	627	906
Other current liabilities	30	84 778	26 094
Accruals and government grants	31	8 175	6 719
Short-term provisions and employee benefits	23, 24	165 332	37 064
		2 086 593	1 073 112
Total liabilities		6 226 747	1 921 504
TOTAL EQUITY AND LIABILITIES		23 570 975	18 445 185

Accounting policies and explanatory notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Issued capital	Reserve capital	Retained earnings/ Accumulated losses	Total equity
As at 1 January 2011		15 772 945	475 088	275 648	16 523 681
Profit for the period		–	–	1 083 429	1 083 429
Other comprehensive income		–	–	–	–
Total comprehensive income for the period		–	–	1 083 429	1 083 429
Appropriation of prior year profits		–	–	–	–
Issue of shares		–	–	–	–
Payment from profit		–	–	–	–
Dividends	14	–	(72 404)	(190 478)	(262 882)
Decrease in issued capital through a reduction of the nominal value of shares	21.1	(7 010 198)	7 010 198	–	–
As at 31 December 2011		8 762 747	7 412 882	1 168 599	17 344 228

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

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

Accounting policies and explanatory notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Cash flows from operating activities			
Profit/(loss) before taxation		1 104 642	198 799
Adjustments for:			
Depreciation and amortization		5 105	3 224
(Gain)/loss on foreign exchange differences		61	44
Interest and dividends, net		(1 009 815)	(181 801)
(Gain)/loss on investing activities		(477)	(259)
(Increase)/decrease in receivables		(141 168)	(273 492)
(Increase)/decrease in inventories		(31 790)	(9 129)
Increase/(decrease) in payables excluding loans and borrowings		(163 160)	44 140
Change in other non-current and current assets		10 987	(37 960)
Change in deferred income, government grants and accruals		1 456	2 700
Change in provisions		128 715	38 183
Income tax paid		(13 393)	(7 206)
Other		-	37
Net cash from (used in) operating activities		(108 837)	(222 720)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		192	11
Purchase of property, plant and equipment and intangible assets		(14 069)	(6 970)
Proceeds from sale of bonds, T-bills, other debt securities and investment fund units		134 460	-
Purchase of bonds, T-bills, other debt securities and investment fund units		(433 302)	(848 200)
Purchase of shares in unlisted and listed companies		(3 623 031)	(80 711)
Dividends received		967 409	181 948
Interest received		54 800	-
Repayment of loans granted		168 000	-
Loans granted		(348 009)	-
Other		-	3 548
Net cash from (used in) investing activities		(3 093 550)	(750 374)
Cash flows from financing activities			
Acquisition of treasury shares		-	(245)
Payment of finance lease liabilities		(926)	(811)
Issue of debt securities		3 300 000	848 200
Dividends paid		(262 882)	-
Interest paid		(45 506)	(178)
Commissions paid		(12 735)	(1 700)
Net cash from (used in) financing activities		2 977 951	845 266
Net increase/(decrease) in cash and cash equivalents		(224 436)	(127 828)
Net foreign exchange difference		(61)	(44)
Cash and cash equivalents at the beginning of the period		85 574	213 402
Cash and cash equivalents at the end of the period, of which:	19	(138 862)	85 574
restricted cash		161 649	154 589

Accounting policies and explanatory notes are an integral part of these financial statements.

EXPLANATORY NOTES

1. General information

The financial statements have been prepared by TAURON Polska Energia Spółka Akcyjna ("the Company") with its registered office in Katowice at ul. ks. Piotra Ściegiennego 3, whose shares are in public trading. The financial statements of the Company cover the year ended 31 December 2011 and include comparative data for the year ended 31 December 2010.

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

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

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

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

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

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

2. Basis of preparation of financial statements

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

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

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

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

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

These financial statements for the year ended 31 December 2011 were authorized for issue on 6 March 2012.

The Company also prepared consolidated financial statements for the year ended 31 December 2011, which were authorized for issue on 6 March 2012.

3. New standards and interpretations issued but not yet effective

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

- Phase 1 of IFRS 9 *Financial Instruments: Classification and Measurement* – applicable to annual periods beginning on or after 1 January 2015 – 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 application of Phase 1 of IFRS 9 will have an impact on the classification and measurement of the Company's financial assets. The Company will assess this impact in correspondence with the other phases of the project once they have been issued, in order to provide a consistent,
- Amendment to IFRS 7 *Financial Instruments: Disclosures: Transfer of Financial Assets* – applicable to annual periods beginning on or after 1 July 2011,
- Amendments to IAS 12 *Income Taxes: Deferred Tax: Recovery of Underlying Assets* – applicable to 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* – applicable to annual periods beginning on or after 1 July 2011 – not endorsed by the EU until the date of authorization of these financial statements,

- IFRS 10 *Consolidated Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 11 *Joint Arrangements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 13 *Fair Value Measurement* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IAS 19 *Employee Benefits* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements. The most important amendment to IAS 19 from the Company's perspective is the liquidation of the "corridor approach" and the requirement to recognize actuarial gains and losses retrospectively in other comprehensive income. The impact of those amendments on the Company is discussed in detail in Note 23.
- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* – applicable to annual periods beginning on or after 1 July 2012 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRIC 20 *Stripping Cost of the Production Phase of a Surface Mine* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IFRS 7 *Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IAS 32 *Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2014 – not endorsed by the EU as at the date of authorization of these financial statements.

Apart from the impact of the amendment to IAS 19 involving the liquidation of the corridor approach, the Company's Management Board has not determined whether or not and to what extent the introduction of the other aforementioned standards and interpretations may affect the Company's accounting policies.

4. Changes in accounting policies

The accounting policies applied to these financial statements are consistent with those applied to the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2010, except for the application of the following amendments to standards and new interpretations applicable to annual periods beginning on 1 January 2011:

- Amendments to IAS 32 *Financial instruments: Presentation: Classification of Rights Issues* – applicable to annual periods beginning on or after 1 February 2010. The application of these amendments had no impact on the financial position or results reported by the Company as there were no events to which they applied.
- IAS 24 *Related Party Disclosures* (revised in November 2009) – applicable to annual periods beginning on or after 1 January 2011. The revised IAS 24 is applied by the Company retrospectively to annual periods beginning 1 January 2011.
- Amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of Minimum Funding Requirements* – applicable to annual periods beginning on or after 1 January 2011. The application of these amendments had no impact on the financial position or results reported by the Company as there were no events to which they applied.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* – applicable to annual periods beginning on or after 1 July 2010. The application of this interpretation had no impact on the financial position or results reported by the Company.
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* – applicable to annual periods beginning on or after 1 July 2010. The application of these amendments had no significant impact on the financial position or results reported by the Company.
- Improvements to IFRSs (issued in May 2010) – some improvements are applicable to annual periods beginning on or after 1 July 2010, while the rest is applicable to annual periods beginning on or after 1 January 2011. The application of these amendments had no significant impact on the financial position or results reported by the Company.

The Company has not decided to early apply any standard, interpretation or amendment that has already been issued but is not yet effective.

5. Summary of significant accounting policies

These financial statements were prepared using the standards and interpretations effective for annual periods beginning on 1 January 2011.

The latest published annual financial statements of the Company were the financial statements for the year ended 31 December 2010, prepared in accordance with IFRS and authorized for issue on 1 March 2011.

5.1. Foreign currency translation

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

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

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

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

The following exchange rates were used for valuation purposes:

Currency	31 December 2011	31 December 2010
EUR	4.4168	3.9603
CZK	0.1711	0.1580

5.2. Property, plant and equipment

Property, plant and equipment are fixed assets which:

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

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

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

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

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

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

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

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

5.3. Intangible assets

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

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

Intangible assets also include:

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

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

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

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

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

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

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

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

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

Development activities include:

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

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

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

5.4. Impairment of non-financial long-term assets

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

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

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

5.5. Borrowing costs

Borrowing costs are capitalized as part of the cost of property, plant and equipment and intangible assets (qualifying assets). Borrowing costs comprise interest calculated using the effective interest rate method, finance charges in respect of finance leases and exchange gains or losses arising from borrowings to the extent that they are regarded as an adjustment to interest costs.

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

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

These may include:

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

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

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

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

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

5.6. Financial assets

Financial assets are classified into one of the following categories:

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

Financial assets held to maturity

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

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

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

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

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

Available-for-sale financial assets

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

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

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

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

5.7. Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

Financial assets carried at cost

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

Available-for-sale financial assets

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

5.8. Shares in subsidiaries, associates and joint ventures

Shares in subsidiaries, associates and joint ventures are stated at historical cost less any impairment allowances.

5.9. Derivative financial instruments

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

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

5.10. Hedge accounting

The Company has a hedge accounting policy which determines the hedge accounting principles and types of hedges applied as well as the accounting treatment of hedging instruments and hedged items. In accordance with its policy, the Company applies cash flow hedge

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

A cash flow hedge is accounted for as follows:

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

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

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

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

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

The documentation should include 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 an ongoing basis to check if the hedge is highly effective throughout all financial reporting periods for which it was designated.

The Company did not enter into any transactions falling under the hedge accounting policy.

5.11. Other non-financial assets

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

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

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

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

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

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

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

Other non-financial assets include in particular receivables from the state budget (except for CIT receivables which are presented as a separate item in the statement of financial position), the excess of Social Fund assets over Social Fund liabilities and advance payments for future purchases of property, plant and equipment, intangible assets and inventories. Advance payments are presented consistent

with the nature of the related assets i.e. under non-current or current assets, as appropriate. Advance payments are not subject to discounting as they represent non-monetary assets.

5.12. Short-term intangible assets

Short-term intangible assets include renewable energy and cogeneration certificates which are intended to be used for internal purposes and have been acquired for cancellation due to sale of electricity to final users. On initial recognition, energy certificates are measured at acquisition cost.

5.13. Inventories

Inventories include assets:

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

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

Inventories are initially recognized at cost.

At the balance sheet date inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. If the cost of inventories is higher than the net realizable value, the Company recognizes an appropriate write-down.

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

5.14. 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.

5.15. Cash and cash equivalents

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

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

5.16. Issued capital

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

5.17. Provisions

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

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

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

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

In particular, the Company has recognized the following provisions:

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

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

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

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

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

- *provision for obligation to submit energy certificates*

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

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

The provision is charged to operating expenses.

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

5.18. 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.

5.19. Loans, borrowings and debt securities

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

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

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

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

5.20. Trade and other payables

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

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis, or (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy, or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

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

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

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

5.21. 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.

5.22. Social Fund

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

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

5.23. Leases

Company as lessee

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

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

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

5.24. Taxes

Current income tax

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

Deferred income tax

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

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

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

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

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

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

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

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

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

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

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

Value added tax

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

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

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

5.25. Revenue

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

Revenue from sale of goods for resale and finished goods

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

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

5.26. Costs

Costs 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.

5.27. 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.

5.28. Finance income and finance costs

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

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

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

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

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

5.29. 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.

5.30. Statement of cash flows

Statement of cash flows is prepared using the indirect method.

6. Significant judgments and estimates

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

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

Impairment of assets

As a result of the analyses conducted as at 31 December 2011, the Company identified an existence of an external factor that could indicate a potential impairment of assets, which consists in the carrying amount of the Company's net assets exceeding their market capitalization. As a result, the Company analyzed cash flows generated by the particular operating segments of its subsidiaries. However, these cash flows were not found to be lower than the book values of the particular segments. The Company believes that the results of the above-mentioned analysis show that low market capitalization is not a sufficient basis for conducting impairment tests. For this reason, the Company did not conduct such tests at the balance sheet date. In accordance with IAS 36, the Company carried out impairment tests for the operating segments that include goodwill in the consolidated financial statements.

Depreciation and amortization rates

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

Valuation of provisions for employee benefits

Provisions for employee benefits (provision for retirement and disability benefits, provision for transfers to the Social Fund for future pensioners, provision for special electricity rates and charges granted to employees) were determined using actuarial valuations. The assumptions made are presented in note 23.

Deferred tax assets

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

Classification of financial instruments

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

The intercompany debentures issued in 2011 by subsidiaries and acquired by TAURON Polska Energia S.A., with a total nominal value of PLN 1,137,040 thousand and maturity date up to one year, have been classified as long-term instruments. Such a classification reflects the nature of the financing being part of the intercompany debentures issue program, under which funds are managed in a mid-term and long-term horizon. The intercompany debentures issued on 28 March 2011 by the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., with a nominal value of PLN 10,000 thousand and maturity date of 20 March 2012, have been classified as short-term instruments. The subsidiary issued debentures in order to cover liabilities arising from the redemption of its shares held by Katowicki Holding Węglowy S.A. and KWK Kazimierz Juliusz Sp. z o.o. and intends to redeem those debentures at their maturity date.

Fair value of financial instruments

The fair value of financial instruments for which no active market exists is assessed by means of appropriate valuation techniques. The Company applies professional judgment in selecting appropriate methods and assumptions. The methods used for measuring the fair value of the individual financial instruments are presented in Note 33.

Allowances for doubtful debts

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

7. Changes in presentation and estimates

7.1. Changes in presentation

To date, property rights arising from energy generated using renewable sources (renewable energy certificates) and certificates of electricity generated using cogeneration or sources fuelled with natural gas which were acquired by the Company for the purpose of cancellation due to sale of electricity to final users have been recognized under non-current assets as intangibles. The Company decided to change the presentation of such property rights (energy certificates) in the statement of financial position as, in the opinion of the Company's management, an intangible asset in the form of an energy certificate meets the definition of a current asset due to the expected timing of its realization through cancellation in the year immediately following the end of a given financial year. Management believe that this change better reflects the Company's intentions and the nature of its assets. As a result, as at 31 December 2011 the Company presents energy certificates under current assets, as short-term intangible assets. Comparative figures as at 31 December 2010 have been restated accordingly, as presented in the table below.

	As at 31 December 2010 (approved figures)	Presentation change relating to property rights arising from energy certificates	As at 31 December 2010 (restated figures)
Non-current assets	170 234 390	(9 773)	170 224 617
Intangible assets	17 095	(9 773)	7 322
Current assets	1 210 795	9 773	1 220 568
Current intangible assets	–	9 773	9 773

7.2. Changes in estimates

In the period covered by these financial statements, there were no significant changes in estimates which affected the amounts presented in the financial statements.

8. Shares in unlisted and listed related entities

As at 31 December 2011, TAURON Polska Energia S.A. held, either directly or indirectly, shares in the following significant subsidiaries:

No.	Name of the entity	Address	Principal business activities	% held by TAURON in the entity's share capital	Holder of shares as at 31 December 2011	% held by TAURON in the entity's governing body	Holder of shares as at 31 December 2011
1.	TAURON Wytwarzanie S.A. ¹ (formerly: Południowy Koncern Energetyczny S.A.)	40-389 Katowice; ul. Lwowska 23	Generation, transmission and distribution of electricity and heat	99.72%	TAURON Polska Energia S.A. - 99.72%	99.72%	TAURON Polska Energia S.A. - 99.72%
2.	TAURON Dystrybucja S.A. ¹ (formerly: EnergiaPro S.A.)	30-390 Kraków; ul. Zawila 65 L	Distribution of electricity	99.38%	TAURON Polska Energia S.A. - 99.38%	99.51%	TAURON Polska Energia S.A. - 99.51%
3.	TAURON Sprzedaż Sp. z o.o.	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%
4.	TAURON Obsługa Klienta Sp. z o.o.	53-128 Wrocław; ul. Sudecka 95-97	Customer services	100.00%	TAURON Polska Energia S.A. - 100.00%	100.00%	TAURON Polska Energia S.A. - 100.00%
5.	TAURON Ekoenergia Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity, trading in electricity	100.00%	TAURON Polska Energia S.A. - 100.00%	100.00%	TAURON Polska Energia S.A. - 100.00%
6.	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%	99.05%	TAURON Polska Energia S.A. - 99.05%
7.	Kopalnia Wapienia Czatkowice Sp. z o.o. ²	32-063 Krzeszowice 3; os. Czatkowice 248	Quarrying, crushing and breaking of limestone, quarrying of stone for construction industry	99.72%	TAURON Wytwarzanie S.A. - 100.00%	99.72%	TAURON Wytwarzanie S.A. - 100.00%
8.	Południowy Koncern Węglowy S.A. ²	43-600 Jaworzno; ul. Grunwaldzka 37	Hard coal mining	52.33%	TAURON Wytwarzanie S.A. - 52.48%	67.82%	TAURON Wytwarzanie S.A. - 68.01%
9.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	40-389 Katowice; ul. Lwowska 23	Trading in electricity	100.00%	TAURON Polska Energia S.A. - 100.00%	100.00%	TAURON Polska Energia S.A. - 100.00%
10.	TAURON Ciepło S.A. ¹ (formerly: Przedsiębiorstwo Energetyki Ciepłej Katowice S.A.)	40-126 Katowice; ul. Grażyńskiego 49	Heat production and distribution	90.06%	TAURON Polska Energia S.A. - 90.06%	91.76%	TAURON Polska Energia S.A. - 91.76%
11.	Elektrociepłownia EC Nowa Sp. z o.o.	41-308 Dąbrowa Górnicza; al. J. Piłsudskiego 92	Generation of electricity, production of heat and of technical gases	84.00%	TAURON Polska Energia S.A. - 84.00%;	84.00%	TAURON Polska Energia S.A. - 84.00%;
12.	TAURON Czech Energy s.r.o.	720 00 Ostrava; Na Rovince 879/C Czech Republic	Trading in electricity	100.00%	TAURON Polska Energia S.A. - 100.00%	100.00%	TAURON Polska Energia S.A. - 100.00%
13.	BELS INVESTMENT Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. - 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. - 100.00%
14.	MEGAWAT MARSZEWO Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. - 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. - 100.00%
15.	Lipniki Sp. z o.o.	52-420 Wrocław; ul. Tadeusza Mikulskiego 5	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. - 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. - 100.00%

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 2011	% held by TAURON in the entity's governing body	Holder of shares as at 31 December 2011
16.	Górnosiąski Zakład Elektroenergetyczny S.A.	44-100 Gliwice; ul. Barlickiego 2	Activities of financial head offices and holdings	99.98%	TAURON Polska Energia S.A. – 99.98%;	99.98%	TAURON Polska Energia S.A. – 99.98%;
17.	Vattenfall Distribution Poland S.A. ³	44-100 Gliwice; ul. Portowa 14a	Distribution of electricity	99.98%	Górnosiąski Zakład Elektroenergetyczny S.A. – 100%	99.98%	Górnosiąski Zakład Elektroenergetyczny S.A. – 100%
18.	Vattenfall Sales Poland Sp. z o.o. ⁴	44-100 Gliwice; ul. Barlickiego 2a	Trading in electricity	99.98%	Górnosiąski Zakład Elektroenergetyczny S.A. – 99.998%, Vattenfall Network Services Poland Sp. z o.o. – 0.002%	99.98%	Górnosiąski Zakład Elektroenergetyczny S.A. – 99.998%, Vattenfall Network Services Poland Sp. z o.o. – 0.002%
19.	Vattenfall Network Services Poland Sp. z o.o. ⁵	44-100 Gliwice; ul. Mysliwska 6	Repair and maintenance of machinery and electrical equipment, electrical installations, construction of power lines	99.98%	Górnosiąski Zakład Elektroenergetyczny S.A. – 99.8%, Vattenfall Sales Poland Sp. z o.o. – 0.2%	99.98%	Górnosiąski Zakład Elektroenergetyczny S.A. – 99.8%, Vattenfall Sales Poland Sp. z o.o. – 0.2%
20.	Vattenfall Wolin-North Sp. z o.o. ⁶	44-100 Gliwice; ul. Barlickiego 2	Generation of electricity	99.98%	Górnosiąski Zakład Elektroenergetyczny S.A. – 100%	99.98%	Górnosiąski Zakład Elektroenergetyczny S.A. – 100%
21.	Vattenfall Business Services Poland Sp. z o.o. ⁷	44-100 Gliwice; ul. Wybrzeże Armii Krajowej 19b	Services	99.98%	Górnosiąski Zakład Elektroenergetyczny S.A. – 100%	99.98%	Górnosiąski Zakład Elektroenergetyczny S.A. – 100%

¹ In the third quarter of 2011 mergers of certain subsidiaries took place, as described below. Południowy Koncern Energetyczny S.A. acquired Elektrownia Stalowa Wola S.A. and changed its name to TAURON Wytwarzanie S.A., EnergiaPro S.A. acquired ENION S.A. and changed its name to TAURON Dystrybucja S.A., Przedsiębiorstwo Energetyki Ciepłej Katowice S.A. acquired Przedsiębiorstwo Energetyki Ciepłej w Dąbrowie Górniczej S.A. and changed its name to TAURON Ciepło S.A.

² TAURON Polska Energia S.A. is the usufructuary of shares owned by TAURON Wytwarzanie S.A. Under agreements for the usufruct of shares, TAURON Polska Energia S.A. holds 100% interests in the share capital and in the governing body of the company Kopalnia Wapienia Czatkowice Sp. z o.o. and a 52.48% interest in the share capital of Południowy Koncern Węglowy S.A., giving it 68.01% of votes at the company's General Shareholders' Meeting.

³ On 20 February 2012, the District Court entered the change of the company's name from Vattenfall Distribution Poland S.A. to TAURON Dystrybucja GZE S.A. in the National Court Register.

⁴ On 21 February 2012, the company's Shareholders' Meeting resolved to change the company's name from Vattenfall Sales Poland Sp. z o.o. to TAURON Sprzedaż GZE Sp. z o.o.

⁵ On 15 February 2012, the District Court entered the change of the company's name from Vattenfall Network Services Poland Sp. z o.o. to TAURON Serwis GZE Sp. z o.o. in the National Court Register.

⁶ On 27 February 2012, the District Court entered the change of the company's name from Vattenfall Wolin-North Sp. z o.o. to TAURON Ekoenergia GZE Sp. z o.o. in the National Court Register.

⁷ On 24 January 2012, the company's Shareholders' Meeting resolved to change the company's name from Vattenfall Business Services Poland Sp. z o.o. to TAURON Obsługa Klienta GZE Sp. z o.o.

Merger of subsidiaries

Due to the reorganization of the Group's structure significant mergers of subsidiaries took place in the third quarter of 2011.

On 31 August 2011, merger of Południowy Koncern Energetyczny S.A. (acquirer) and Elektrownia Stalowa Wola S.A. (acquiree) was registered with the National Court Register. On 1 September 2011, Południowy Koncern Energetyczny S.A. changed its name to TAURON Wytwarzanie S.A.

On 1 September 2011, merger of EnergiaPro S.A. (acquirer) and ENION S.A. (acquiree) was registered with the National Court Register. At the same time, EnergiaPro S.A. changed its name to TAURON Dystrybucja S.A.

On 1 September 2011, merger of Przedsiębiorstwo Energetyki Ciepłej Katowice S.A. (acquirer) and Przedsiębiorstwo Energetyki Ciepłej w Dąbrowie Górniczej S.A. (acquiree) was registered with the National Court Register. At the same time, Przedsiębiorstwo Energetyki Ciepłej Katowice S.A. changed its name to TAURON Ciepło S.A.

The above-mentioned business combinations were effected through merger by acquisition i.e. in accordance with Article 492 § 1 point 1 of the Code of Commercial Companies, by the transfer of all assets and liabilities of the acquired company (acquiree) to the acquiring company (acquirer) in exchange for shares which the acquirer issues to the shareholders of the acquiree. As a result, the acquired companies were dissolved without liquidation.

Acquisition of shares in Górnśląski Zakład Elektroenergetyczny S.A.

On the basis of a preliminary purchase agreement with Vattenfall AB dated 23 August 2011 and after acquiring unconditional consent of the President of the Competition and Consumers Protection Office (UOKiK) for acquisition of control over Górnśląski Zakład Elektroenergetyczny S.A. (GZE S.A.), on 13 December 2011 TAURON Polska Energia S.A. purchased 1,249,693 shares in GZE S.A.'s share capital, with a nominal value of PLN 100 each and a total nominal value of PLN 124,969 thousand, representing 99.98% of the share capital of that company.

As a result of acquisition of GZE S.A.'s shares, TAURON Polska Energia S.A. became an indirect owner of shares in the following significant subsidiaries of GZE S.A.: Vattenfall Distribution Poland S.A., Vattenfall Sales Poland Sp. z o.o., Vattenfall Network Services Poland Sp. z o.o., Vattenfall Wolin-North Sp. z o.o., and Vattenfall Business Services Poland Sp. z o.o.

The transaction relating to purchase of GZE S.A.'s shares is described in detail in Note 16.

Increase of interest in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

In March 2011, Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. signed contracts for the purchase of 200 of its own shares with a total nominal value of PLN 1,200 thousand from the shareholders of Katowicki Holding Węglowy S.A. and KWK Kazimierz Juliusz Sp. z o.o.

The purchase of shares for the purpose of redeeming them using the net profit was made based on the resolution of the Extraordinary Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. dated 30 December 2010. The consideration for the shares was paid to both of the existing shareholders until the end of March 2011. On 21 April 2011 the District Court in Katowice registered redemption of shares of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

As a result of this transaction, the direct interest of TAURON Polska Energia S.A. in the share capital of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. increased from 10% to 12.50% (in the governing body: – from 27.78% to 31.25% votes), while the direct interest of Południowy Koncern Energetyczny S.A. – from 70% to 87.50% (in the governing body – from 61.11% to 68.75% of votes).

On 26 July 2011, Południowy Koncern Energetyczny S.A. (currently TAURON Wytwarzanie S.A.) signed an agreement with TAURON Polska Energia S.A. for the disposal of shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in lieu of fulfilling part of Południowy Koncern Energetyczny S.A.'s liability to pay a dividend due to TAURON Polska Energia S.A. for the financial year ended 31 December 2010. Południowy Koncern Energetyczny S.A. disposed of all of its shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., i.e. 700 shares with a total nominal value of PLN 4,200 thousand, for a total of PLN 42,170 thousand. The value of the acquired shares was determined based on the valuation dated 20 June 2011. On 26 July 2011 the shares were transferred to the Company. As a result of this transaction TAURON Polska Energia S.A. increased its direct interest in the company's capital and governing body to 100%.

Acquisition of shares in subsidiaries

Due to the agreements for the purchase of shares in Południowy Koncern Energetyczny S.A. (currently TAURON Wytwarzanie S.A.) and ENION S.A. (currently TAURON Dystrybucja S.A.) held by minority shareholders, which were signed in August 2011, the Company purchased 9,447 shares of Południowy Koncern Energetyczny S.A. with a nominal value of PLN 10 each, representing 0.0061% of the company's share capital, for the price of PLN 235 thousand, and 6,149,541 shares of ENION S.A. with a nominal value of PLN 0.01 each, representing 0.0245% of the company's share capital, for the price of PLN 676 thousand. Consideration for the acquired shares was paid in August 2011.

9. Composition of the Board of Directors

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.

On 24 February 2011, the Supervisory Board elected the existing Board of Directors for the next term of office and the composition of this Board of Directors did not change in 2011.

As at 31 December 2011, the Board of Directors consisted of:

Dariusz Lubera – President,

Joanna Schmid – Vice President,

Dariusz Stolarczyk – Vice President,

Krzysztof Zamasz – Vice President,

Krzysztof Zawadzki – Vice President.

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

10. Segment information

10.1. Operating segment

The Company's operations are presented in the following two segments: the "Sale of Electricity and Other Energy Market Products" segment and the "Holding activity" segment.

Assets of the "Holding activity" segment comprise shares in subsidiaries, debentures acquired from subsidiaries and cash pool loan receivables including the cash pool deposit. Segment liabilities mainly comprise debentures issued by TAURON Polska Energia S.A., cash pool loan liabilities and a liability arising from the purchase of long-term investments, representing Vattenfall AB's debt to GZE S.A. and its subsidiaries, which was taken over by the Company as a part of the purchase of GZE S.A. Finance income and costs comprise dividend income and net interest income and costs generated and incurred by the Company due to the Group's central financing model.

In the first quarter of 2011, the Company decided to change the method of unallocated expenses analysis and to include administrative expenses under this item. Administrative expenses are incurred for the whole Group and they cannot be allocated directly to a single segment.

The change in the method of analyzing unallocated expenses affected the presentation of the note relating to operating segments. In prior periods, administrative expenses were presented within the "Sale of Electricity and Other Energy Market Products" segment. The note for the comparable period has been restated according to the amended principles of presentation of unallocated expenses as a result of the change in the method of analyzing segments by the Group.

TAURON Polska Energia S.A.
Financial statements for the year ended 31 December 2011
(in PLN thousand)

Year ended 31 December 2011	Sales of electricity and other energy market products	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	1 914 509	–	–	1 914 509
Sales within the Group	6 930 643	–	–	6 930 643
Segment revenue	8 845 152	–	–	8 845 152
Profit/(loss) of the segment				
Unallocated expenses	–	–	(79 563)	(79 563)
Profit/(loss) from continuing operations before tax and net finance income (costs)	160 629	–	(79 563)	81 066
Net finance income/(costs)	–	1 020 941	2 635	1 023 576
Profit/(loss) before income tax	160 629	1 020 941	(76 928)	1 104 642
Income tax expense	–	–	(21 213)	(21 213)
Net profit/(loss) for the period	160 629	1 020 941	(98 141)	1 083 429
Assets and liabilities				
Segment assets	1 119 556	22 233 775	–	23 353 331
Unallocated assets	–	–	217 644	217 644
Total assets	1 119 556	22 233 775	217 644	23 570 975
Segment liabilities	579 317	5 609 678	–	6 188 995
Unallocated liabilities	–	–	37 752	37 752
Total liabilities	579 317	5 609 678	37 752	6 226 747
Other segment information				
Capital expenditure*	19 655	–	–	19 655
Depreciation/amortization	(5 105)	–	–	(5 105)

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

In the year ended 31 December 2011, the Company's revenue from its main client, amounting to the total of PLN 5,532,478 thousand, accounted for 63% of the Company's total revenue in the "Sale of electricity and other energy market products" segment.

In the year ended 31 December 2010, the Company's revenue from its two main clients, amounting to the total of PLN 5,986,877 thousand, accounted for 83% of the Company's total revenue in the "Sale of electricity and other energy market products" segment.

Year ended 31 December 2010	Sales of electricity and other energy market products	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	498 535	–	–	498 535
Sales within the Group	6 686 736	–	–	6 686 736
Segment revenue	7 185 271	–	–	7 185 271
Profit/(loss) of the segment				
Unallocated expenses	–	–	(95 789)	(95 789)
Profit/(loss) from continuing operations before tax and net finance income (costs)	105 416	–	(95 789)	9 627
Net finance income (costs)	–	181 948	7 224	189 172
Profit/(loss) before income tax	105 416	181 948	(88 565)	198 799
Income tax expense	–	–	(8 321)	(8 321)
Net profit/(loss) for the period	105 416	181 948	(96 886)	190 478
Assets and liabilities				
Segment assets	1 211 720	17 221 872	–	18 433 592
Unallocated assets	–	–	11 593	11 593
Total assets	1 211 720	17 221 872	11 593	18 445 185
Segment liabilities	609 217	1 307 303	–	1 916 520
Unallocated liabilities	–	–	4 984	4 984
Total liabilities	609 217	1 307 303	4 984	1 921 504
Other segment information				
Capital expenditure*	6 441	–	–	6 441
Depreciation/amortization	(3 224)	–	–	(3 224)

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

10.2. Operations by geographical areas

The Company's operations are mainly conducted on the territory of Poland. Sales to overseas customers in the years ended 31 December 2011 and 31 December 2010 amounted to PLN 472,710 thousand and PLN 158,776 thousand, respectively.

11. Revenues and expenses

11.1. Sales revenue

	Year ended 31 December 2011	Year ended 31 December 2010
Sale of goods for resale, finished goods and materials, of which:	8 808 622	7 172 814
Electricity	8 354 930	6 981 780
Property rights arising from energy certificates	284	–
Emission allowances	436 503	184 286
Other	16 905	6 748
Rendering of services, of which:	36 526	12 444
Trading income	28 385	9 716
Other	8 141	2 728
Other income, of which:	4	13
Rental income	4	13
Total sales revenue	8 845 152	7 185 271

Due to the commencement of sales to final users, beginning from 1 January 2011 the Company is subject to tax obligation in respect of excise. Since the beginning of the year, each quantity of electricity delivered to users who have no concession for the production, transmission, distribution or trading in electricity is subject to excise. The amount of excise that was deducted from revenue from sale of electricity in 2011 is PLN 15,122 thousand.

11.2. Finance income

	Year ended 31 December 2011	Year ended 31 December 2010
Income from financial instruments, of which:	1 119 854	195 582
Interest income	109 390	13 186
Dividends	1 009 580	181 948
Foreign exchange differences	884	–
Remeasurement of derivative instruments	–	257
Net income from realized derivative instruments	–	78
Other finance income	–	113
Other finance income	1 246	66
Income from granted collaterals, guarantees, funding commitments and similar items	1 246	66
Total finance income	1 121 100	195 648

The increase in finance income in 2011 compared with 2010 is mainly due to higher income from dividends due from the subsidiaries for 2010 compared with income from dividends for 2009. In 2011, dividend income amounted to PLN 1,009,580 thousand, while in 2010 it was PLN 181,948 thousand.

In addition, the increase in finance income results from the launching of the cash pool service in the second quarter of 2010 as well as the implementation of the debentures issue program in order to refinance debt within the Group, which started in December 2010. The implementation of the cash pool service and the debentures issue program also resulted in the increase of finance costs compared with the comparative period.

11.3. Finance costs

	Year ended 31 December 2011	Year ended 31 December 2010
Financial instrument costs, of which:	(96 953)	(6 096)
Interest costs	(92 245)	(4 855)
Foreign exchange losses	–	(544)
Remeasurement of derivative instruments	(337)	–
Net costs from realized derivative instruments	(926)	–
Commissions	(3 445)	(697)
Other finance costs, of which:	(571)	(380)
Interest on employee benefits	(201)	(135)
Interest on amounts due to the state budget	(31)	(231)
Other finance costs	(339)	(14)
Total finance costs	(97 524)	(6 476)

11.4. Costs by type

	Year ended 31 December 2011	Year ended 31 December 2010
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(5 105)	(3 224)
Impairment of property, plant and equipment and intangible assets	(10 399)	–
Materials and energy	(2 391)	(935)
Maintenance and repair services	(49)	(42)
Consultancy services	(10 680)	(12 790)
Other external services	(12 180)	(16 666)
Taxes and charges	(13 680)	(9 695)
Employee benefits expense	(58 287)	(45 224)
Inventory write-downs	205	(205)
Allowance for doubtful debts	–	(11)
Distribution services	(1 913)	(1 487)
Advertising expenses	(15 720)	(15 630)
Other	(2 239)	(2 260)
Total costs by type	(132 438)	(108 169)
Change in inventories, prepayments, accruals and deferred income	2 255	(2 533)
Cost of goods produced for internal purposes	143	229
Selling and distribution expenses	22 850	12 493
Administrative expenses	79 563	95 789
Cost of goods for resale and materials sold	(8 635 356)	(7 065 261)
Cost of sales	(8 662 983)	(7 067 452)

11.5. Employee benefits expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Wages and salaries	(45 367)	(33 515)
Social security costs	(5 325)	(3 988)
Jubilee bonuses	(413)	(1 442)
Transfers to the Social Fund	(631)	(593)
Post-employment benefits expenses, of which:	(3 199)	(2 432)
Retirement, disability and similar benefits	(196)	(167)
Special electricity rates and charges	(73)	(145)
Social Fund	(24)	(45)
Costs of employee retirement plans	(2 906)	(2 075)
Other employee benefits expenses	(3 352)	(3 254)
Employee benefits expenses, of which:	(58 287)	(45 224)
Items included in cost of sales	(8 314)	(3 622)
Items included in selling and distribution expenses	(7 353)	(7 100)
Movement in stocks of finished goods	(2 844)	(1 894)
Items included in administrative expenses	(39 776)	(32 608)

12. Income tax

12.1. Tax expense in the statement of comprehensive income

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

	Year ended 31 December 2011	Year ended 31 December 2010
Current income tax	(49 902)	(13 480)
Current income tax expense	(50 255)	(13 480)
Adjustments to current income tax from previous years	353	-
Deferred tax	28 689	5 159
Income tax expense in the statement of comprehensive income	(21 213)	(8 321)

12.2. Reconciliation of the effective income tax rate

	As at 31 December 2011	As at 31 December 2010
Profit/(loss) before tax from continuing operations	1 104 642	198 799
Profit/(loss) before tax	1 104 642	198 799
Tax at Poland's statutory tax rate of 19%	(209 882)	(37 772)
Adjustments to income tax from previous years	353	-
Tax resulting from tax non-deductible costs, of which:	(3 956)	(5 072)
National Disabled Persons Rehabilitation Fund (PFRON)	(42)	(34)
Donations	(51)	(53)
Costs relating to IPO	-	(3 246)
Other	(3 863)	(1 739)
Tax resulting from income not included in taxable profit, of which:	192 272	34 570
Dividends	191 820	34 570
Reversal of non-tax provisions and write-downs	452	-
Other	-	(47)
Tax at the effective tax rate of 1.9% (2010: 4.2%)	(21 213)	(8 321)
Income tax expense in the statement of comprehensive income	(21 213)	(8 321)

12.3. Deferred income tax

Deferred income tax relates to the following:

	As at 31 December 2011	As at 31 December 2010
Deferred tax liability		
– difference between tax base and carrying amount of fixed and intangible assets	1 211	691
– difference between tax base and carrying amount of financial assets	613	174
– other	37	99
Deferred tax liability	1 861	964
	As at 31 December 2011	As at 31 December 2010
Deferred tax assets		
– provisions for the obligation to surrender energy certificates	31 323	6 991
– other provisions	2 210	1 869
– difference between tax base and carrying amount of fixed and intangible assets	2 150	27
– difference between tax base and carrying amount of financial liabilities	2 734	–
– other accrued expenses	597	299
– other	51	292
Deferred tax assets	39 065	9 478
After the offsetting of the balances, deferred tax is presented as a deferred tax asset in the statement of financial position	37 204	8 514

12.4. Tax Capital Group

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

TAURON Polska Energia S.A., as the Company Representing the Tax Capital Group, is responsible for paying monthly advances in respect of the corporate income tax of the Tax Capital Group, in accordance with the provisions of the Corporate Income Tax Act. The share of each company of the Tax Capital Group in the monthly advance for the corporate income tax is determined based on the percentage share of the tax base reported by the given company in the tax base reported by the Tax Capital Group, excluding the companies reporting tax losses. Where the final amount of a given company's share is lower than the initial amount transferred by that company to the Company Representing the Tax Capital Group, the latter returns the difference to that company immediately. The ultimate share of each company in the corporate income tax of the Tax Capital Group is calculated by the 15th day of the fourth month following the fiscal year, based on the percentage share of the tax base reported by a given company in the tax base reported by the Tax Capital Group.

13. Social assets, Social Fund liabilities

The transfer to the Social Fund amounted to PLN 631 thousand in the year ended 31 December 2011 and PLN 593 thousand in the year ended 31 December 2010.

14. Dividends paid and proposed

On 6 May 2011, the Ordinary General Shareholders' Meeting resolved to distribute an amount of PLN 262,882 thousand for dividends to the Company's shareholders, which gives PLN 0.15 per share. This amount is composed of the Company's net profit for 2010 in the amount of PLN 190,478 thousand and utilization of the Company's reserve capital of PLN 72,404 thousand, which represents part of the Company's net profit for 2009 allocated to the reserve capital. The dividend payment date was 20 July 2011.

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

15. Intangible assets

Long-term intangible assets, year ended 31 December 2011

	Software	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST				
Opening balance	8 044	617	505	9 166
Direct purchase	–	–	10 434	10 434
Allocation of intangible assets not made available for use	10 173	146	(10 319)	–
Liquidation	(42)	–	–	(42)
Other	–	(39)	–	(39)
Closing balance	18 175	724	620	19 519
ACCUMULATED AMORTIZATION				
Opening balance	(1 583)	(261)	–	(1 844)
Amortization for the period	(2 069)	(151)	–	(2 220)
Liquidation	32	–	–	32
Other	–	–	–	–
Closing balance	(3 620)	(412)	–	(4 032)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	6 461	356	505	7 322
NET CARRYING AMOUNT AT THE END OF THE PERIOD	14 555	312	620	15 487

Long-term intangible assets, year ended 31 December 2010

	Software	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST				
Opening balance	3 727	375	657	4 759
Direct purchase	–	–	4 391	4 391
Allocation of intangible assets not made available for use	4 301	242	(4 543)	–
Other	16	–	–	16
Closing balance	8 044	617	505	9 166
ACCUMULATED AMORTIZATION				
Opening balance	(690)	(130)	–	(820)
Amortization for the period	(878)	(131)	–	(1 009)
Other	(15)	–	–	(15)
Closing balance	(1 583)	(261)	–	(1 844)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	3 037	245	657	3 939
NET CARRYING AMOUNT AT THE END OF THE PERIOD	6 461	356	505	7 322

Short-term intangible assets, year ended 31 December 2011

	Energy certificates
COST	
Opening balance	9 773
Direct purchase	41 384
Cancellation of energy certificates	(7 638)
Closing balance	43 519
ACCUMULATED AMORTIZATION	
Opening balance	-
Increase of impairment allowance	(10 399)
Closing balance	(10 399)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	9 773
NET CARRYING AMOUNT AT THE END OF THE PERIOD	33 120

Short-term intangible assets, year ended 31 December 2010

	Energy certificates
COST	
Opening balance	-
Direct purchase	9 773
Cancellation of energy certificates	-
Closing balance	9 773
ACCUMULATED AMORTIZATION	
Opening balance	-
Increase of impairment allowance	-
Closing balance	-
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	-
NET CARRYING AMOUNT AT THE END OF THE PERIOD	9 773

16. Shares in unlisted and listed companies

The tables below present movements in long-term investments in the period from 1 January 2011 to 31 December 2011 and in the comparative period from 1 January 2010 to 31 December 2010.

Changes in the balance of long-term investments in the period from 1 January to 31 December 2011

No.	Company	Opening balance	Increases	Decreases	Closing balance
1.	TAURON Wytwarzanie S.A.	7 562 250	555 932	–	8 118 182
2.	ENION S.A.	3 356 415	–	(3 356 415)	–
3.	TAURON Dystrybucja S.A.	2 557 110	3 357 091	–	5 914 201
4.	Elektrownia Stalowa Wola S.A.	555 697	–	(555 697)	–
5.	Elektrociepłownia Tychy S.A.	40 862	–	–	40 862
6.	TAURON Ciepło S.A.	345 285	162 595	–	507 880
7.	TAURON Obsługa Klienta Sp. z o.o.	345 015	–	(318 707)	26 308
8.	TAURON Ekoenergia Sp. z o.o.	897 069	–	–	897 069
9.	Energetyka Ciepła w Kamiennej Górze Sp. z o.o.,	6 959	–	–	6 959
10.	Elektrociepłownia EC Nowa Sp. z o.o.	217 413	–	–	217 413
11.	TAURON Sprzedaż Sp. z o.o.	294 798	318 707	–	613 505
12.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	6 886	42 170	–	49 056
13.	Zespół Elektrowni Wodnych Rożnów Sp. z o.o.	931	–	–	931
14.	Przedsiębiorstwo Energetyki Ciepłej w Dąbrowie Górniczej S.A.	162 557	–	(162 557)	–
15.	TAURON Czech Energy s.r.o.	4 223	–	–	4 223
16.	Energopower Sp. z o.o.	–	5	–	5
17.	Enpower service Sp. z o.o.	–	5	–	5
18.	Enpower Sp. z o.o.	–	5	–	5
19.	Poen Sp. z o.o.	–	5	–	5
20.	Górnośląski Zakład Elektroenergetyczny S.A.	–	4 631 455	–	4 631 455
21.	CC Poland Plus Sp. z o.o.	–	12	–	12
Total		16 353 470	9 067 982	(4 393 376)	21 028 076

Acquisition of shares in GZE S.A.

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

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

As a result of acquisition of GZE S.A.'s shares, TAURON Polska Energia S.A. became an indirect owner of shares in the following significant subsidiaries of GZE S.A.: Vattenfall Distribution Poland S.A., Vattenfall Sales Poland Sp. z o.o., Vattenfall Network Services Poland Sp. z o.o., Vattenfall Wolin-North Sp. z o.o., and Vattenfall Business Services Poland Sp. z o.o.

Mergers of subsidiaries

The decrease in TAURON Polska Energia S.A.'s investments in:

- ENION S.A. by PLN 3,356,415 thousand,
- Elektrownia Stalowa Wola S.A. by PLN 555,697 thousand and
- Przedsiębiorstwo Energetyki Ciepłej w Dąbrowie Górniczej S.A. by PLN 162,557 thousand

results from mergers of subsidiaries that took place during the reporting period, as discussed in detail in Note 8.

Investments in the following companies: TAURON Dystrybucja S.A., TAURON Wytwarzanie S.A and TAURON Ciepło S.A. have increased by the same amounts, respectively.

Due to merger of Przedsiębiorstwo Energetyki Ciepłej Katowice S.A. with Przedsiębiorstwo Energetyki Ciepłej w Dąbrowie Górniczej S.A., TAURON Polska Energia S.A. made additional payments to the share capital of TAURON Ciepło S.A. amounting to PLN 38 thousand.

Acquisition of shares in subsidiaries

The Company's investment in TAURON Wytwarzanie S.A. has increased by PLN 235 thousand and the investment in TAURON Dystrybucja S.A. by PLN 676 thousand due to TAURON Polska Energia S.A.'s acquisition of shares from non-controlling interests in August 2011, as discussed in detail in Note 8.

Division of TAURON Obsługa Klienta Sp. z o.o.

In the reporting period, the division of TAURON Obsługa Klienta Sp. z o.o. took place by way of acquisition by TAURON Sprzedaż Sp. z o.o. of part of TAURON Obsługa Klienta Sp. z o.o.'s assets representing an organized part of the enterprise and comprising tangible and intangible assets and liabilities related to sale of electricity. The division was effected pursuant to art. 529 § 1 point 4 of the CCC.

On 3 January 2011, the District Court in Kraków registered an increase of the share capital of TAURON Sprzedaż Sp. z o.o. resulting from its acquisition of part of TAURON Obsługa Klienta Sp. z o.o.'s assets. As a result of the above, the Company reallocated the value of shares between TAURON Obsługa Klienta Sp. z o.o. and TAURON Sprzedaż Sp. z o.o., by dividing the value of the shares in TAURON Obsługa Klienta Sp. z o.o. in proportion to the relation of the value of assets transferred to TAURON Sprzedaż Sp. z o.o. (as determined for the purposes of the division) to the value of total assets of TAURON Obsługa Klienta Sp. z o.o. determined for the purposes of the division.

Increase of investment in PE PKH Sp. z o.o.

The PLN 42,170 thousand increase of the investment in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. results from the Company's receipt of shares from Południowy Koncern Energetyczny S.A., currently TAURON Wytwarzanie S.A., in lieu of fulfilling part of the liability to pay the dividend due to TAURON Polska Energia S.A., as discussed in detail in Note 8.

Other changes

On 8 July 2011, TAURON Polska Energia S.A. as one of the shareholders signed the deed of association of CC Poland Plus Sp. z o.o., which provides the basis for the functioning of the Polish knowledge node of the Knowledge and Innovation Community KIC InnoEnergy. The primary objective of the Polish knowledge node is conducting research and coordinating activities in the area of the so-called clean coal technologies. These will also be the primary objectives of the newly founded company. On 23 December 2011, the Company made a payment for its stake in the share capital of CC Poland Plus Sp. z o.o. amounting to PLN 12 thousand.

Long-term investments also include shares in four newly founded companies: Energopower Sp. z o.o., Enpower service Sp. z o.o., Enpower Sp. z o.o. and Poen Sp. z o.o., each of them with a share capital of PLN 5 thousand.

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

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

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

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

On 17 May 2010, the Company signed an agreement with Południowy Koncern Energetyczny S.A. (currently: TAURON Wytwarzanie S.A.) for the usufruct of shares, under which as at 31 December 2010 TAURON Polska Energia S.A. was the usufructuary of the shares of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. Under this agreement, the Company disposed 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. (currently TAURON Wytwarzanie S.A.) signed agreements for the usufruct of shares in Kopalnia Wapienia Czatkowice Sp. z o.o. and Południowy Koncern Węglowy S.A., owned by Południowy Koncern Energetyczny S.A. In consequence, TAURON Polska Energia S.A. disposes of a 100% interest in the share capital and in the governing body of Kopalnia Wapienia Czatkowice Sp. z o.o. and a 52.48% interest in the share capital of Południowy Koncern Węglowy S.A., giving 68.01% votes at the company's General Shareholders' Meeting.

17. Inventories

	As at 31 December 2011	As at 31 December 2010
Historical cost		
Property rights arising from energy certificates	39 396	4 779
CO ₂ emission allowances	–	4 664
Merchandise	1 451	–
Materials	181	–
Total	41 028	9 443
Write-downs to net realizable value		
CO ₂ emission allowances	–	(205)
Total	–	(205)
Net realizable value		
Property rights arising from energy certificates	39 396	4 779
CO ₂ emission allowances	–	4 459
Merchandise	1 451	–
Materials	181	–
Total	41 028	9 238

18. Trade and other receivables

As at 31 December 2011, the balance of trade and other receivables amounted to PLN 991,975 thousand, including PLN 742,730 thousand of trade receivables, PLN 180,438 thousand of receivables from a loan granted to an affiliate, PLN 55,656 thousand of cash pool loan receivables and PLN 13,151 thousand of other financial receivables. The largest balance of other financial receivables related to collaterals paid by the Company in the amount of PLN 12,995 thousand.

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

As at 31 December 2011, the largest balance of trade receivables are the receivables from TAURON Sprzedaż Sp. z o.o. amounting to PLN 405,960 thousand. The decrease of receivables from TAURON Obsługa Klienta Sp. z o.o. as at 31 December 2011 results from the take-over of operations relating to sale of electricity by TAURON Sprzedaż Sp. z o.o. from TAURON Obsługa Klienta Sp. z o.o.

The loan of PLN 180,438 thousand results from the agreement dated 20 December 2011 under which TAURON Polska Energia S.A. purchased 5,859,673 units of CO₂ emission allowances from TAURON Wytwarzanie S.A. at an agreed price of 30.72 PLN/EUA, for the total amount of PLN 180,009 thousand. At the same time, the Company committed to sell back the same amount of allowances on 20 March 2012 at an agreed price of 31.46 PLN/EUA. Due to the nature of this transaction, it was recognized as a loan (purchase with a commitment to sell back), as, in the Company's opinion, the related risks and rewards, including the risk of changes in fair value, had not been transferred to the Company. At the balance sheet date, interest accrued on this loan amounted to PLN 429 thousand.

Expenditures for the purchase of CO₂ emission allowances under the above-mentioned transaction are presented as part of loans granted under investing activities in the cash flow statement. In addition, in 2011 the cash flow statement items related to the granting and repayment of loans as part of investing activities include cash flows related to the buy-sell back transaction of 22 December 2010 involving purchase of 3,000,000 CO₂ emission allowances from Południowy Koncern Energetyczny S.A. (currently: TAURON Wytwarzanie S.A.) for the total amount of PLN 168,000 thousand with a commitment to sell them back.

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

As at 31 December 2010, the largest balances of trade receivables were the receivables from TAURON Sprzedaż Sp. z o.o. amounting to PLN 261,939 thousand and from TAURON Obsługa Klienta Sp. z o.o. amounting to PLN 227,728 thousand.

Related party transactions and balances are presented in Note 32.

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

Trade and other financial receivables as at 31 December 2011

	Not past due	Past due				Total	
		< 30 days	30–90 days	90–180 days	180–360 days		> 360 days
Value of item before allowance/write-down							
Trade and other financial receivables	755 881	–	–	–	–	306	756 187
Cash Pool	55 656	–	–	–	–	–	55 656
Other loans	180 438	–	–	–	–	–	180 438
Total	991 975	–	–	–	–	306	992 281
Allowance/write-down							
Trade and other financial receivables	–	–	–	–	–	(306)	(306)
Cash Pool	–	–	–	–	–	–	–
Other loans	–	–	–	–	–	–	–
Total	–	–	–	–	–	(306)	(306)
Value of item net of allowance (carrying amount)							
Trade and other financial receivables	755 881	–	–	–	–	–	755 881
Cash Pool	55 656	–	–	–	–	–	55 656
Other loans	180 438	–	–	–	–	–	180 438
Total	991 975	–	–	–	–	–	991 975

Trade and other financial receivables as at 31 December 2010

	Not past due	Past due				Total	
		< 30 days	30–90 days	90–180 days	180–360 days		> 360 days
Value of item before allowance/write-down							
Trade and other financial receivables	614 694	18	5	–	–	301	615 018
Cash Pool	19 819	–	–	–	–	–	19 819
Other loans	–	–	–	–	–	–	–
Total	634 513	18	5	–	–	301	634 837
Allowance/write-down							
Trade and other financial receivables	–	–	(5)	–	–	(301)	(306)
Cash Pool	–	–	–	–	–	–	–
Other loans	–	–	–	–	–	–	–
Total	–	–	(5)	–	–	(301)	(306)
Value of item net of allowance (carrying amount)							
Trade and other financial receivables	614 694	18	–	–	–	–	614 712
Cash Pool	19 819	–	–	–	–	–	19 819
Other loans	–	–	–	–	–	–	–
Total	634 513	18	–	–	–	–	634 531

19. Cash and cash equivalents

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

	As at 31 December 2011	As at 31 December 2010
Cash at bank and in hand	215 033	321 942
Short-term deposits (up to 3 months)	2 005	205 069
Cash in transit	41 000	–
Total cash and cash equivalents presented in the statement of financial position, of which:	258 038	527 011
– restricted cash	161 649	154 589
Cash pool	(396 976)	(441 451)
Foreign exchange and other differences	76	14
Total cash and cash equivalents presented in the statement of cash flows	(138 862)	85 574

Restricted cash consists of cash held in the settlement account for trading in electricity at Towarowa Giełda Energii S.A. (Commodities Exchange), amounting to PLN 150,775 thousand, and cash held in the special purpose account for trading in electricity at the POEE energy exchange, amounting to PLN 10,874 thousand.

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

The details of cash pool balances are presented in Note 26 hereto.

20. Other current non-financial assets

	As at 31 December 2011	As at 31 December 2010
Other deferred costs	2 067	1 408
Prepayments for deliveries	–	250
Receivables from input VAT	1 363	34 883
Other current assets	151	12
Total	3 581	36 553

21. Issued capital and other items of equity

21.1. Issued capital

Issued capital as at 31 December 2011

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	5	7 947 194	cash/in-kind contribution
BB	registered shares	–	163 110 632	5	815 553	in-kind contribution
		Total	1 752 549 394		8 762 747	

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	

On 25 March 2011, the District Court in Katowice registered a decrease of the Company's share capital effected by way of reduction of the nominal value of shares. The share capital decreased from PLN 15,772,945 thousand to PLN 8,762,747 thousand, due to the reduction of the nominal value of each share from PLN 9 to PLN 5. The resulting amount of PLN 7,010,198 thousand was allocated to the Company's reserve capital. The decrease of the share capital was made in order to restructure the Company's equity.

21.2. Shareholders with significant interest

Shareholding structure as at 31 December 2011 (to the best knowledge of the Company)

Shareholder	Value of shares	% of issued capital	% of total vote
State Treasury (notification of 29 March 2011)	2 634 419	30.06%	30.06%
KGHM Polska Miedź S.A. (notification of 23 March 2011)	910 553	10.39%	10.39%
ING Otwarty Fundusz Emerytalny (notification of 28 December 2011)	443 715	5.06%	5.06%
Other shareholders	4 774 060	54.49%	54.49%
Total	8 762 747	100.00%	100.00%

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

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

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

21.3. Reserve capital

Changes in the reserve capital in 2011 included the following:

- In accordance with the resolution of the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. dated 6 May 2011, described in detail in Note 14 to these financial statements, part of the Company's reserve capital in the amount of PLN 72,404 thousand resulting from the Company's net profit for 2009 was allocated for the payment of dividend to the Company's shareholders;
- As a result of registration of the decrease of the Company's share capital by way of reduction of the nominal value of shares with the District Court in Katowice on 25 March 2011, as described in detail in Note 21.1 to these financial statements, an amount of PLN 7,010,198 thousand was allocated to the Company's reserve capital.

21.4. Retained earnings and restrictions on distribution

Changes in retained earnings in 2011 included:

- The net profit for the period of PLN 1,083,429 thousand,
- In accordance with the resolution of the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. dated 6 May 2011, described in detail in Note 14 to these financial statements, an amount of PLN 190,478 thousand resulting from the Company's profit for 2010 was allocated for the payment of dividend to the Company's shareholders.

	As at 31 December 2011	As at 31 December 2010
Non-distributable amounts included in retained earnings:	85 138	85 138
– 8% of statutory net profit of the Company allocated to reserve capital under the Commercial Companies Code	–	–
– retained earnings from merger with subsidiaries	85 138	85 138
Retained earnings of the Company eligible for distribution	1 083 461	190 510

As a result of registration, on 25 March 2011, of the decrease of the Company's share capital effected by the resolution of the Extraordinary Shareholders' Meeting of TAURON Polska Energia S.A. dated 10 November 2010 (described in detail in Note 21.1) with the District Court in Katowice, the Company will not be required to allocate 8% of the statutory net profit for the year 2011 to the reserve capital for absorption of losses.

22. Earnings per share

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

	Year ended 31 December 2011	Year ended 31 December 2010
Net profit from continuing operations	1 083 429	190 478
Net profit from discontinued operations	–	–
Net profit	1 083 429	190 478
Net profit attributable to ordinary shareholders, used in calculation of diluted earnings per share	1 083 429	190 478
Number of ordinary shares, used in calculation of basic earnings per share	1 752 549 394	1 600 730 480
Number of ordinary shares, used in calculation of diluted earnings per share	1 752 549 394	1 600 730 480

23. Employee benefits

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

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

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

Movement in provisions for employee benefits, year ended 31 December 2011

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	387	315	98	2 075	2 875
Current service costs	187	66	24	924	1 201
Actuarial gains and losses	9	7	–	(511)	(495)
Benefits paid	(8)	–	–	(430)	(438)
Interest expense	38	28	7	128	201
Closing balance	613	416	129	2 186	3 344
CURRENT	78	4	2	208	292
NON-CURRENT	535	412	127	1 978	3 052

Provisions for employee benefits under corridor approach, year ended 31 December 2011

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provisions, total
Present value of liability at the end of the period	708	494	129	1 331
Unrecognized liability, of which:	(95)	(78)	–	(173)
Unrecognized actuarial gains/losses	(95)	(78)	–	(173)
Net liability at the end of period	613	416	129	1 158
Present value of the liability at the beginning of period	594	469	117	1 180
Net cumulative unrecognized actuarial gains/(losses) at the beginning of period	(207)	(154)	(19)	(380)
Corridor limits	59	47	12	118
Exceeded	(148)	(107)	(7)	(262)
Actuarial gain (loss) to be recognized	(9)	(7)	–	(16)
Actuarial gain (loss) for the period	103	69	19	191
Unrecognized actuarial gains/(losses) at the end of period	(95)	(78)	–	(173)

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

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

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

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

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

	Year ended 31 December 2011	Year ended 31 December 2010
Discount rate (%)	5.75%	5.50%
Estimated inflation rate (%)	2.52%	2.50%
Employee rotation rate (%)	3.46%	2.85%
Estimated salary increase rate (%)	2.52%	2.50%
Estimated electricity price increase rate (%)	3.48%	2.80%
Estimated increase rate for contribution to the Social Fund (%)	5.00%	4.20%
Remaining average employment period	14.16	16.30

The International Accounting Standards Board made amendments to IAS 19 *Employee benefits*, applicable to annual periods beginning on or after 1 January 2013. The most important changes from the Company's perspective include liquidation of the "corridor approach" as an allowed treatment of actuarial gains and losses and the introduction of the requirement to present the effects of remeasurement in other comprehensive income. In accordance with its accounting policy, the Company applies the corridor approach in determining the defined benefit obligation and recognizing actuarial gains and losses in profit or loss. Elimination of this approach will result in the requirement to immediately recognize all actuarial gains and losses in other comprehensive income as well as in the increase of the provision for future employee benefits recognized in the statement of financial position up to the present value of the obligation as per actuarial valuation. The revised IAS 19 is to be applied retrospectively. At the date of authorization of these financial statements, amendments to IAS 19 *Employee benefits* have not been endorsed by the EU.

24. Provisions

Due to the sale of electricity to final users, the Company is required to surrender for cancellation a certain amount of certificates of electricity generated using renewable sources, gas-fired plants and cogeneration. As at 31 December 2011, the Company recognized a short-term provision for the obligation to surrender energy certificates for cancellation, amounting to PLN 164,856 thousand.

As at 31 December 2010, the Company recognized a short-term provision for the obligation to surrender energy certificates for cancellation, amounting to PLN 36,795 thousand. The increase of the balance of this provision as at 31 December 2011 results from the increase in sales of electricity to final users.

25. Leases

25.1. Operating lease commitments

As at 31 December 2011, the Company rents, under two lease agreements, a real estate located in Katowice at ul. Lwowska 23, with a surface of 4,474.03 m². The lessor of this property is TAURON Wytwarzanie S.A. Monthly rentals amount to PLN 344 thousand net. The lease agreements were concluded in 2008 for an undefined period of time.

In addition, the Company rents, under a long-term lease agreement, three cars from TAURON Obsluga Klienta Sp. z o.o. and one car from PUH ETRANS Sp. z o.o. Monthly rentals for each of those cars amount to PLN 2.5 thousand net.

25.2. Finance lease and hire purchase commitments

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

	As at 31 December 2011		As at 31 December 2010	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
Within 1 year	705	627	987	906
Within 1 to 5 years	1 047	990	143	136
More than 5 years	–	–	–	–
Minimum lease payments, total	1 752	1 617	1 130	1 042
Less amounts representing finance charges	(135)	–	(88)	–
Present value of minimum lease payments, of which:	1 617	1 617	1 042	1 042
current	627	627	906	906
non-current	990	990	136	136

26. Interest-bearing loans and borrowings (including issued debentures)

As at 31 December 2011, the Company's liabilities under loans taken out and issued debentures related to:

- debentures issued under the debenture issue program:
 - on 29 December 2010 – Tranche A,
 - on 12 December 2011 – Tranche B and Tranche C;
- loans taken out from affiliates under the "Agreement for the Provision of Cash Pool Services";
- liabilities related to acquisition of long-term investments.

Interest-bearing loans and borrowings, including issued debentures, as at 31 December 2011 and 31 December 2010 are presented in the table below.

Interest-bearing loans and borrowings (including issued debentures)

	As at 31 December 2011	As at 31 December 2010
Non-current portion of loans and borrowings, including issued debentures:		
Issued debentures	4 136 112	845 650
Total	4 136 112	845 650
Current portion of loans and borrowings, including issued debentures:		
Issued debentures	11 062	357
Cash pool loans received, including accrued interest	452 632	461 270
Liabilities arising from acquisition of long-term investments	1 004 372	–
Total	1 468 066	461 627

Issue of debentures

On 16 December 2010, agreements were signed between the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and 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. Under these agreements, the Company was entitled to issue bonds in two tranches A and B.

Under Tranche A, on 29 December 2010, in order to refinance the existing debt of Południowy Koncern Energetyczny S.A. (currently TAURON Wytwarzanie S.A.), ENION S.A. (currently TAURON Dystrybucja 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.

On 28 October 2011, annexes to the agreements dated 16 December 2010 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. and Nordea Bank AB under which the value of the debenture issue program was increased by Tranche C with a value of PLN 3,000,000 thousand, up to the total amount of PLN 4,300,000 thousand. The purpose of this increase was to acquire funds for the purchase of Górnśląski Zakład Elektroenergetyczny S.A. or implementation of investments in the TAURON Group.

On 12 December 2011, the Company issued debentures with a total value of PLN 3,300,000 thousand. Debentures were issued in two tranches (B and C). Tranche B included debentures with a total nominal value of PLN 300,000 thousand and maturity of 12 December 2015. Tranche C included debentures with a total nominal value of PLN 3,000,000 thousand and maturity of 12 December 2016.

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

The agreements signed by the Company with banks include covenants which are commonly used in such transactions. As at 31 December 2011, none of these covenants has been breached.

The tables below present the balances of the Company's liability under issued debentures, together with accrued interest, as at 31 December 2011 and 31 December 2010.

Issued debentures as at 31 December 2011

Interest rate	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)						
		Accrued interest	Principal at amortized cost	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years	
Tranche A	floating	PLN	412	846 106	-	-	-	-	846 106	-
Tranche B	floating	PLN	968	298 920	-	-	-	-	298 920	-
Tranche C	floating	PLN	9 682	2 991 086	-	-	-	-	2 991 086	-
Total debentures			11 062	4 136 112	-	-	-	-	4 136 112	-

Issued debentures as at 31 December 2010

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

Cash pool

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

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

	As at 31 December 2011	As at 31 December 2010
Loans granted under cash pool agreement	55 549	19 700
Interest receivable on loans granted under cash pool agreement	107	119
Total	55 656	19 819

	As at 31 December 2011	As at 31 December 2010
Loans received under cash pool agreement	451 086	460 051
Interest payable on loans received under cash pool agreement	1 546	1 219
Total	452 632	461 270
Balance of cash pool	396 976	441 451

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

Under the cash pool agreement the Company may use external funding amounting to PLN 100,000 thousand by 31 December 2011. Starting from 1 January 2012, the Company may use external funding amounting to PLN 300,000 thousand.

Liabilities arising from acquisition of long-term investments

The Company has a liability arising from acquisition of long-term investments amounting to PLN 1 004 372 thousand, which represents Vattenfall AB's debt towards GZE S.A. and its subsidiaries that has been taken over by the Company as part of the purchase of GZE S.A.'s shares, as discussed in detail in Note 16.

Loans from the European Investment Bank

TAURON Polska Energia S.A. acquired two preferential loans from the European Investment Bank, for a total amount of PLN 510,000 thousand. The respective loan agreements were signed on 24 October 2011. The funds acquired under these loans will be used for the implementation of two investment projects in the area of production.

The Company acquired two loans:

- PLN 300,000 thousand to be used for the conversion and transfer for use of a high efficiency cogeneration unit with the accompanying infrastructure in the Bielsko-Biala CHP Plant. Those funds will be used by the TAURON Group to replace the current unit with a unit of a higher efficiency amounting to 50 MWe and 182 MWt. Construction of this unit started in August 2010 and will last until mid 2013;
- PLN 210,000 thousand to be used for the construction and start-up of a new 50 MWe and 45 MWt biomass boiler in the Jaworzno III Power Plant, which is planned to be made available for use in 2012, and the repair of a steam turbine.

As at the balance sheet date, the Company has not applied for the payment of funds under any of the aforementioned loans.

27. Capital commitments

As at 31 December 2011, the Company had capital commitments of PLN 768 thousand, which resulted from the agreement for the implementation of the electronic WorkFlow system relating to purchase invoices and development of the functionalities of the ERP system used by the Company.

As at 31 December 2010, the Company had capital commitments of PLN 1,126 thousand, which resulted from the contract signed for the implementation of the SAP integrated system. As at 31 December 2011, this investment has been completed.

28. Contingent liabilities

Guarantees issued by the Company as at 31 December 2011 amounted to PLN 7,839 thousand and included the following:

- A guarantee of EUR 1,000 thousand (PLN 4,417 thousand) granted in favor of TAURON Czech Energy s.r.o. in connection with the EFET framework agreement for sale of electricity, for the benefit of CEZ a.s. The guarantee is valid for the period from 1 April 2010 to 31 December 2011; as of 1 January 2012 it was reduced to EUR 500 thousand;
- A bank guarantee for OTE a.s. amounting to CZK 20,000 thousand (PLN 3,422 thousand), granted in favor of TAURON Czech Energy s.r.o. for the benefit of UniCredit Bank Czech Republik a.s. The guarantee is valid for the period from 9 June 2011 to 8 June 2012.

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

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

In December 2010, the Company issued two blank promissory notes with a maturity date of 15 December 2022, for a total amount of PLN 40,000 thousand, for the benefit of the Voivodship Fund for Environmental Protection and Water Management in Katowice (*Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej w Katowicach*), in order to secure the loan granted by the Fund to its subsidiary, Południowy Koncern Energetyczny S.A., currently TAURON Wytwarzanie S.A.

In January 2011, TAURON Polska Energia S.A. guaranteed a blank promissory note issued by Elektrownia Stalowa Wola S.A., currently TAURON Wytwarzanie S.A., for the benefit of Polskie Sieci Elektroenergetyczne Operator S.A., for an amount of PLN 4,000 thousand.

In September 2011, the Company issued blank promissory notes together with an attached promissory note agreement for a total amount of PLN 30,000 thousand to the Voivodship Fund for Environmental Protection and Water Management in Katowice in order to secure performance of a loan agreement concluded between the Fund and the Elektrociepłownia Tychy S.A. subsidiary. The security will last until Elektrociepłownia Tychy S.A. fulfils all of its obligations under the loan agreement towards the Voivodship Fund for Environmental Protection and Water Management.

On 25 February 2011, TAURON Polska Energia S.A. declared to provide a financial support in the amount of PLN 87,040 thousand to its subsidiary Elektrociepłownia Tychy S.A., in order to cover the costs of the project relating to "Construction of a biomass power plant and modernization of the fluidized OF-135 boiler in Elektrociepłownia Tychy S.A.". Costs of the investment project amounting to PLN 30,000 thousand will be funded by a loan granted by the Voivodship Fund for Environmental Protection and Water Management in Katowice.

Due to the application of the subsidiary TAURON Wytwarzanie S.A. for funding of an investment project relating to "Construction of a biomass boiler in PKE S.A. Elektrownia Jaworzno III – Elektrownia II" under the Infrastructure and Environment Operational Programme, Priority IX "Environmentally friendly energy infrastructure and energy efficiency", Activity 9.4. "Energy production from renewable sources", and to ensure the coverage of the remaining costs of this project, TAURON Polska Energia S.A. committed to submit a declaration to provide project funding in the amount of PLN 200,000 thousand by 31 December 2012. The application is addressed to the Ministry of Economy.

In addition, TAURON Polska Energia S.A. granted collaterals in respect of the following companies acquired in December 2011:

- collateral in respect of Vattenfall Network Services Poland Sp. z o.o. – a suretyship issued to Nordea Bank Polska S.A. in connection with a guarantee granted by the bank for an amount of PLN 672 thousand, valid until 31 March 2014,
- collateral in respect of Vattenfall Sales Poland Sp. z o.o. – a suretyship issued to Nordea Bank Polska S.A. in connection with a guarantee granted by the bank for an amount up to PLN 4,000 thousand. This guarantee expired on 31 December 2011.

29. Assets pledged as security

Under the debentures issue program the Company provided a declaration of submission to enforcement:

- up to the amount of PLN 1,560,000 thousand – valid until 31 December 2016,
- up to the amount of PLN 3,600,000 thousand – valid until 31 December 2018.

In order to secure two agreements concerning bank guarantees from PKO Bank Polski S.A., TAURON Polska Energia S.A. provided a declaration of submission to enforcement under art. 97 of the Banking Law up to the amount of PLN 48,000 thousand and up to the amount of PLN 62,000 thousand, valid until 31 December 2012 and 31 December 2015, respectively.

In order to secure the transactions made by the Company on electricity markets through Towarowa Giełda Energii S.A. and its participation in the system securing the liquidity of settlements, restrictions were placed on the EUAs of TAURON Wytwarzanie S.A. entered in the National Register of Emission Allowances (KRUE). In addition, TAURON Wytwarzanie S.A. issued a suretyship to Izba Rozliczeniowa Giełd Towarowych S.A. (IRGIT S.A.) for the settlement of the Company's future transactions up to the amount of PLN 145,000 thousand. It was agreed that the Company would pay a consideration to TAURON Wytwarzanie S.A. for setting up collateral in the form of a suretyship.

In addition, on 28 December 2011, TAURON Polska Energia S.A. entered into a collateral transfer of ownership agreement with IRGIT S.A., under which restrictions were placed on 6,000,000 EUAs of TAURON Polska Energia S.A. in order to secure transactions made by the Company on Towarowa Gielda Energii S.A. The agreement came into force on 29 December 2011 i.e. the date of registration of additional emission allowances subject to the transfer of ownership, and it is valid until 16 March 2012. The collateral was established on the emission allowances purchased from the subsidiary, TAURON Wytwarzanie S.A., with a commitment to sell them back on 20 March 2012 (a loan granted with a commitment to sell back, as described in detail in Note 18).

Liabilities secured on the assets of TAURON Polska Energia S.A. include lease agreements, which are secured by pledges on the vehicles leased by the Company. The carrying amount of vehicles leased by the Company amounted to PLN 2,039 thousand as at 31 December 2011 and PLN 1,576 thousand as at 31 December 2010.

30. Other current non-financial liabilities

	As at 31 December 2011	As at 31 December 2010
Taxes, customs, social security and other payables, of which:	84 778	25 432
Excise tax	1 406	–
VAT	80 455	22 904
Social security	1 845	1 619
Personal Income Tax	1 052	894
Other	20	15
Other non-financial liabilities:	–	662
Supply advances received from clients	–	662
Total	84 778	26 094

31. Deferred income and government grants

	As at 31 December 2011	As at 31 December 2010
Unused holidays	1 377	1 050
Bonuses	6 638	5 489
Audit fees	70	70
Other accrued expenses	8	7
Other deferred income	82	103
Total, of which:	8 175	6 719
non-current	–	–
current	8 175	6 719

32. Related party disclosures

32.1. Transactions with related companies and State Treasury companies

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

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

Revenues and expenses

	Year ended 31 December 2011	Year ended 31 December 2010 <i>(adjusted figures)</i>
Revenue from related companies, of which:	8 002 258	6 869 937
Revenue from operating activities	6 930 643	6 687 400
Dividends	1 008 705	181 126
Finance income	62 897	1 270
Other income	13	141
Revenue from State Treasury companies	992 155	294 459
Costs from related companies, of which:	(866 449)	(3 845 812)
Costs of operating activities	(829 837)	(3 841 480)
Finance costs	(36 612)	(4 332)
Costs from State Treasury companies	(194 164)	(827 605)

Receivables and payables

	As at 31 December 2011	As at 31 December 2010 <i>(adjusted figures)</i>
Loans granted to related companies and receivables from related companies, of which:	1 929 450	1 412 053
Trade receivables	543 313	543 651
Debentures	1 150 043	848 583
Loans granted under cash pool agreement	55 656	19 819
Other loans	180 438	–
Receivables from State Treasury companies	141 658	53 563
Payables to related companies, of which:	589 395	811 964
Trade payables	136 763	350 694
Loans received under cash pool agreement	452 632	461 270
Liabilities arising from acquisition of investments	–	–
Payables to State Treasury companies	10 867	45 605

Among the State Treasury companies, the largest contractors of TAURON Polska Energia S.A. in the year ended 31 December 2011 as regards sales revenue included Kompania Węglowa S.A. and KHGM Polska Miedź S.A. Revenue from those companies accounted for 81% of total revenue from transactions with State Treasury companies. The largest costs were incurred as a result of purchases from Zespół Elektrowni Pątnów Adamów Konin S.A. and PSE Operator S.A., representing 95% of total costs incurred as a result of purchases from State Treasury companies.

The Company enters into significant transactions in the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. As this entity only deals with organization of commodities exchange trading, the Company does not consider purchase and sale transactions made through this entity as related party transactions. The comparative figures for 2010 have been restated

32.2. Compensation of key management personnel

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

The amount of compensation and other benefits of the Board of Directors, Supervisory Board and other key management personnel of the Company for the year ended 31 December 2011 and 31 December 2010 is presented in the table below.

	Year ended 31 December 2011	Year ended 31 December 2010
Board of Directors	8 862	5 967
Short-term employee benefits (salaries and surcharges)	7 933	5 200
Other	929	767
Supervisory Board	812	329
Short-term employee benefits (salaries and surcharges)	812	329
Total	9 674	6 296
Other members of key management personnel	7 163	5 745
Short-term employee benefits (salaries and surcharges)	6 245	5 079
Other	918	666

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

33. Financial instruments

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

The fair values of the financial instruments held by the Company as at 31 December 2011 and 31 December 2010 did not significantly differ from their values presented in the financial statements for the particular periods, due to the following reasons:

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

The carrying amounts and fair values of the particular classes and categories of financial instruments as at 31 December 2011 and 31 December 2010 are presented in the tables below.

Categories and classes of financial assets	Carrying amount	
	As at 31 December 2011	As at 31 December 2010
1 Assets at fair value through profit or loss	2	257
2 Financial assets available for sale	7 922	7 890
3 Financial assets held to maturity	–	–
4 Loans and receivables	2 142 018	1 483 114
Trade receivables	742 730	605 425
Bonds, T-bills and other debt securities	1 150 043	848 583
Loans granted	236 094	19 819
Other	13 151	9 287
5 Financial assets excluded from the scope of IAS 39	21 020 154	16 345 580
6 Cash and cash equivalents	258 038	527 011

Categories and classes of financial liabilities	Carrying amount	
	As at 31 December 2011	As at 31 December 2010
1 Financial liabilities at fair value through profit or loss	80	–
2 Financial liabilities measured at amortized cost	5 930 026	1 847 979
Arm's length loans, of which:	1 457 004	461 270
Liabilities arising from acquisition of long-term investments	1 004 372	–
Issued debentures	4 147 174	846 007
Trade payables	311 986	533 969
Other financial liabilities	6 035	3 969
Commitments resulting from purchases of fixed and intangible assets	5 594	803
Salaries and wages	2 233	1 961
Insurance contracts	–	–
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	1 617	1 042
Obligations under finance leases and hire purchase contracts	1 617	1 042

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

Bonds, treasury bills and other debt securities in the category of loans and receivables, amounting to PLN 1,150,043 thousand, and issued debentures amounting to PLN 4,147,174 thousand relate to the program of issue of external and intercompany debentures which was launched in December 2010.

In the period from 1 January 2011 to 31 December 2011, the Company acquired debentures issued by the following subsidiaries: Elektrownia Stalowa Wola S.A. (currently TAURON Wytwarzanie S.A.), Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., Elektrociepłownia Tychy S.A., ENION S.A. (currently TAURON Dystrybucja S.A.), TAURON Ekoenergia Sp. z o.o., TAURON Dystrybucja S.A. and TAURON Wytwarzanie S.A. On 29 December 2011, the subsidiaries: TAURON Dystrybucja S.A., TAURON Wytwarzanie S.A. and Południowy Koncern Węglowy S.A. redeemed the debentures purchased by the Company on 29 December 2010. At the same time, TAURON Dystrybucja S.A. and TAURON Wytwarzanie S.A. issued intercompany debentures at the amount of the debentures redeemed.

The increase in the balance of liabilities under issued debentures is due to the new issue of debentures Tranches B and C with a nominal value of PLN 3,300,000 thousand on 12 December 2011, as discussed in detail in Note 26.

Under loans granted, the Company included receivables arising from the buy-sell back of CO₂ emission allowances amounting to PLN 180,438 thousand, as discussed in detail in Note 18, and cash pool loans amounting to PLN 55,656 thousand.

Loans granted to the Company at an arm's length, amounting to PLN 1,457,004 thousand, include an amount of PLN 452,632 thousand relating to intercompany cash pool service transactions and PLN 1,004,372 thousand representing Vattenfall AB's debt towards GZE S.A. and its subsidiaries, including accrued interest of PLN 1,934 thousand, which has been taken over by the Company as part of the purchase of GZE S.A.'s shares, as discussed in detail in Note 16. The balances resulting from cash pool service transactions and the issue of debentures are described in Note 26.

Under financial assets excluded from the scope of IAS 39, the Company shows shares held in subsidiaries, associates and joint ventures. The increase in the balance of financial assets excluded from the scope of IAS 39 mainly results from the purchase of shares in Górnośląski Zakład Elektroenergetyczny S.A. as well as other transactions relating to the purchase of shares from non-controlling interests and restructuring in the TAURON Group, as discussed in detail in Note 16.

The decrease in the balance of cash and cash equivalents in the period from 1 January 2011 to 31 December 2011 mainly results from the PLN 200,074 thousand decrease in the balance of cash pool deposits.

Financial assets available for sale, amounting to PLN 7,922 thousand, include shares in Zespół Elektrowni Wodnych Rożnów Sp. z o.o. and Energetyka Ciepła w Kamiennej Górze Sp. z o.o., which were acquired as a result of the Company's merger with its subsidiaries, Energomix Servis Sp. z o.o. and ENION Zarządzanie Aktywami Sp. z o.o., in 2010, four new companies founded in 2011: Energopower Sp. z o.o., Enpower service Sp. z o.o., Enpower Sp. z o.o., Poen Sp. z o.o., and shares purchased in the company CC Poland Plus Sp. z o.o., as described in Note 16.

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

Year ended 31 December 2011

	Assets at fair value through profit or loss	Financial assets available for sale	Financial assets held to maturity	Loans and receivables	Financial assets excluded from the scope of IAS 39	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Total
Dividends and shares in profits	-	875	-	-	1 008 705	-	-	-	1 009 580
Interest income/(expense)	45 687	-	-	62 237	1 466	-	(92 172)	(73)	17 145
Commissions	-	-	-	-	-	-	(3 445)	-	(3 445)
Exchange differences	360	-	-	7 766	-	-	(7 242)	-	884
Reversal of impairment losses/"upwards" revaluation	-	-	-	-	-	-	-	-	-
Recognition of impairment losses/"downwards" revaluation	-	-	-	-	-	(337)	-	-	(337)
Other	-	-	-	-	-	(926)	-	-	(926)
Net profit/(loss)	46 047	875	-	70 003	1 010 171	(1 263)	(102 859)	(73)	1 022 901

Year ended 31 December 2010

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

34. Financial risk management objectives and policies

The Company manages financial risk, understood as currency risk and interest rate risk, in a mindful and responsible manner, based on the adopted Specific Financial Risk Management Policy, which includes a set of principles and standards consistent with best practices in this respect. Due to correlation between the risk incurred and the level of income that can be earned, financial risk management is applied in order to keep the exposures within the pre-agreed and authorized safety levels rather than to fully eliminate them. The primary objective of financial risk management is to manage the risk so as to reduce as much as possible the sensitivity of the Company's cash flows to financial risks and to minimize finance costs and hedging expenses incurred under derivative transactions. The above-mentioned policy also implements hedge accounting policies, which define the principles and types of hedge accounting and the accounting treatment of hedging instruments and hedged items to be applied as part of hedge accounting under IFRS. The Company has not applied hedge accounting to date. However, in accordance with its financial risk management policy, TAURON Polska Energia S.A. plans to make use of derivative instruments which, due to their nature, will enable it to apply hedge accounting in the future.

The Specific Financial Risk Management Policy is discussed in detail in Note 38 to the Consolidated Financial Statements for the year ended 31 December 2011.

34.1. Interest rate risk

The Company is exposed to the risk of changes in interest rates due to acquiring funding subject to variable interest rates as well as holding available cash subject to variable interest rates. The Company has no liabilities with fixed interest rates.

The tables below present the carrying amounts of the Company's financial instruments exposed to the interest rate risk, analyzed by maturity as at 31 December 2011 and 31 December 2010.

Interest rate risk as at 31 December 2011 – variable interest rates

	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Bonds, T-bills and other debt securities	2 984	–	–	1 137 040	–	1 140 024
Loans granted	55 656	–	–	–	–	55 656
Cash and cash equivalents	258 038	–	–	–	–	258 038
Total	316 678	–	–	1 137 040	–	1 453 718
Financial liabilities						
Arm's length loans	1 457 004	–	–	–	–	1 457 004
Issued debentures and other debt securities	11 062	–	–	4 136 112	–	4 147 174
Total	1 468 066	–	–	4 136 112	–	5 604 178

As at 31 December 2011, the Company had the following financial assets with fixed interest rates: short-term debentures amounting to PLN 10,019 thousand and a loan with a commitment to sell back amounting to PLN 180,438 thousand, as described in detail in Note 18. All intercompany debentures are issued by the Group companies for the period of one year with fixed interest rates; however, due to the intention to roll over the debentures and the ability to change the interest rate in each case, the remaining intercompany debentures amounting to PLN 1,140,024 thousand (included in the table above) have been classified as long-term financial instruments with variable interest rates.

Interest rate risk as at 31 December 2010 – variable interest rates

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

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

34.2. Currency risk

In 2011, TAURON Polska Energia S.A. used currency forward contracts in the management of currency risk. The aim of such transactions is to hedge the Company against the currency risk arising in the course of the trading activity of the TAURON Group. The Company did not apply hedge accounting.

The tables below present the Company's exposure to currency risk, analyzed by the particular classes of financial instruments as at 31 December 2011 and 31 December 2010.

Currency position as at 31 December 2011

	Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN
Financial assets					
Trade receivables and other financial receivables	755 881	6 209	27 425	13 672	2 340
Cash and cash equivalents	258 038	4 624	20 422	–	–
Total	1 013 919	10 833	47 847	13 672	2 340
Financial liabilities					
Trade payables	311 986	10 818	47 781	–	–
Commitments resulting from purchases of fixed and intangible assets	5 594	256	1 129	–	–
Total	311 986	10 818	47 781	–	–
Net currency position		15	66	13 672	2 340

Currency position as at 31 December 2010

	Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN
Financial assets					
Trade receivables and other financial receivables	614 712	1 048	4 151	12 214	1 930
Cash and cash equivalents	527 011	2 115	8 376	2 681	424
Total	1 141 723	3 163	12 527	14 895	2 354
Financial liabilities					
Trade payables	533 969	1 393	5 518	–	–
Commitments resulting from purchases of fixed and intangible assets	803	–	–	–	–
Total	533 969	1 393	5 518	–	–
Net currency position		1 770	7 009	14 895	2 354

34.3. Commodity price risk

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

Fuel type	Unit	2011		2010	
		Volume	Purchase cost	Volume	Purchase cost
Electricity	MWh	40 471 436	8 025 133	35 543 625	6 815 339
Total		40 471 436	8 025 133	35 543 625	6 815 339

34.4. Credit risk

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

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

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

- core activities – credit risk arises mainly from sales of electricity;
- investment activities – credit risk arises from transactions resulting from the implementation of investment projects, where it is a common practice to make prepayments;
- business activities (market risk management) – credit risk arises from possible default of the counterparty in a derivative transaction if the fair value of the derivative transaction is positive for the Company;
- investing available cash – credit risk arises from investing available cash (mainly in bank deposits).

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

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

There is no significant concentration of credit risk within the Company's core activities, except as listed in Note 18.

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

34.5. Liquidity risk

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

Financial liabilities as at 31 December 2011

	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years	Total
Interest-bearing loans and borrowings (including issued debentures)	1 457 004	242 129	238 522	238 522	4 539 200	–	6 715 377
Trade payables	311 986	–	–	–	–	–	311 986
Commitments to purchase fixed and intangible assets	5 594	–	–	–	–	–	5 594
Other financial liabilities	8 268	–	–	–	–	–	8 268
Finance lease and hire purchase commitments	185	442	510	480	–	–	1 617
Guarantees granted and similar items	81 839	–	–	–	–	–	81 839
Total	1 864 876	242 571	239 032	239 002	4 539 200	–	7 124 681

Financial liabilities as at 31 December 2010

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

34.6. Market risk – sensitivity analysis

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

- interest rate risk,
- currency risk,
- electricity price risk,
- risk of changes in the prices of CO₂ emission allowances and energy certificates.

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

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

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

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

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

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

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

34.6.1. Currency risk sensitivity analysis

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

Year ended 31 December 2011

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

Classes of financial instruments	31 December 2011		Sensitivity analysis for currency risk as at 31 December 2011			
	Carrying amount	Value at Risk	EUR/PLN		CZK/PLN	
			exchange rate EUR/PLN +14.05%	exchange rate EUR/PLN -14.05%	exchange rate CZK/PLN +11.33%	exchange rate CZK/PLN -11.33%
	In PLN thousand	In PLN thousand	Profit/(Loss)		Profit/(Loss)	
Trade receivables and other financial receivables	755 881	29 765	3 853	(3 853)	265	(265)
Cash and cash equivalents	258 038	20 422	2 869	(2 869)	–	–
Trade payables	311 986	47 781	(6 713)	6 713	–	–
Commitments resulting from purchases of fixed and intangible assets	5 594	1 129	(159)	159	–	–
Total			(150)	150	265	(265)

Year ended 31 December 2010

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

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

34.6.2. Interest rate risk sensitivity analysis

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

Year ended 31 December 2011

Classes of financial instruments	31 December 2011		Sensitivity analysis for interest rate risk as at 31 December 2011			
	Carrying amount	Value at Risk	WIBOR		EURIBOR	
			WIBOR +84 bp	WIBOR -84 bp	EURIBOR +72 bp	EURIBOR -72 bp
	In PLN thousand	In PLN thousand	Profit/(loss)		Profit/(loss)	
Bonds, T-bills and other debt securities	1 150 043	1 140 024	9 576	(9 576)	–	–
Loans granted	236 094	55 656	468	(468)	–	–
Cash and cash equivalents	258 038	258 038	1 996	(1 996)	147	(147)
Arm's length loans	1 457 004	1 457 004	(12 239)	12 239	–	–
Issued debentures and debt securities	4 147 174	4 147 174	(34 836)	34 836	–	–
Total			(35 035)	35 035	147	(147)

Year ended 31 December 2010

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

35. Capital management

Capital management takes place at the level of the TAURON Polska Energia S.A. Group. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group monitors the level of its equity using the leverage ratio, which has been presented in the consolidated financial statements for the year ended 31 December 2011.

TAURON Polska Energia S.A. makes use of a cash pool service, the purpose of which is to ensure the most effective management of the cash held, efficient funding of day-to-day working capital requirements of the Group companies, improvement of financial liquidity and optimization of finance income and finance costs of the individual Group companies participating in the agreement as well as of the entire TAURON Polska Energia S.A. Group.

In addition, in 2010 the TAURON Group implemented a central financing model which, among others, results in the reduction of borrowing costs and increases the opportunities for acquiring funding, reduces the number of covenants in agreements and reduces the need to secure assets as collateral. As part of its central finance management model, the TAURON Group launched an intercompany debentures issue program which provides a framework for management of cash in a medium- and long-term horizon.

In addition, the Group's finance management system is supported by the following instruments that were implemented in 2011: financial liquidity management policy, central financial risk management policy and central insurance policy.

36. Employment structure

	Year ended 31 December 2011	Year ended 31 December 2010
Management	5	5
Administration	202	165
Sales department	63	66
Total	270	236

37. Auditor's fees

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

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

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

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

	Year ended 31 December 2011	Year ended 31 December 2010
Statutory audit	70	64
Other assurance services	30	–
Audit services relating to IPO	–	1 469
Other services (including training)	103	86
Total	203	1 619

38. Events after the balance sheet date

On 19 January 2012, the Company filed an application for payment of a tranche of PLN 210,000 thousand of the loan granted by the European Investment Bank under the agreement dated 24 October 2011 (as described in detail in Note 26). The purpose of this loan is to provide funding for the construction and start-up of a new biomass boiler in the Jaworzno III Power Plant. The loan will be repaid in ten equal annual installments, the last one payable on 15 December 2021. The funds were received by the Company into its bank account on 30 January 2012.

In addition, on 30 January 2012 the Company issued 1,500 Tranche B debentures with an issue price and nominal value of the debenture equal to PLN 100 thousand, i.e. the total value of the debentures equal to PLN 150,000 thousand. The maturity date of those debentures is 30 January 2015, and interest is payable on a semi-annual basis. At the date of authorization of these financial statements, the total nominal value of the Company's debt under issued debentures (without accrued interest) is PLN 4,298,200 thousand, including PLN 848,200 thousand under tranche A, PLN 450,000 thousand under tranche B and PLN 3,000,000 thousand under tranche C.

Board of Directors of the Company

Katowice, 6 March 2012

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

**REPORT OF THE MANAGEMENT BOARD
ON OPERATIONS OF
TAURON POLSKA ENERGIA S.A.
FOR THE FINANCIAL YEAR 2011**

MARCH 2012

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1. ORGANISATION OF TAURON POLSKA ENERGIA S.A.

1.1. Basic Information on TAURON Capital Group and the Company

TAURON Polska Energia Spółka Akcyjna (TAURON, Company) was established on 6 December 2006 under the implementation of the *Programme for Power Engineering*. The founders of the Company included: State Treasury represented by the Minister of Treasury, EnergiaPro S.A. (EnergiaPro) with the seat in Wrocław, ENION S.A. (ENION), with the seat in Kraków and Elektrownia Stalowa Wola S.A. (ESW) with the seat in Stalowa Wola. The Company was registered in the National Court Register on 8 January 2007 under the name of enterprise Energetyka Południe S.A. Change of the company business name to the present one, i.e. TAURON Polska Energia S.A. was registered on 16 November 2007.

General information

Name (business name):	TAURON Polska Energia Spółka Akcyjna;
Legal form:	spółka akcyjna (joint stock company);
Seat:	Katowice;
Website:	www.tauron-pe.pl;
National Court Register:	District Court Katowice–Wschód in Katowice;
NCR No.:	0000271562;
Tax Identification Number NIP:	9542583988;
National Official Business Register REGON:	240524697;

The main areas of activity of TAURON Polska Energia S.A. are:

- 1) Activities of head offices and holding companies, excluding financial holding companies (PKD (Polish Classification of Activities) 70.10 Z),
- 2) Trade in electricity (PKD 35.14 Z).

Share capital at 31 December 2011 (paid): PLN 8 762 746 970,00.

Number of shares: 1 752 549 394 shares, including: series AA (bearer shares) 1 589 438 762 shares, series BB (ordinary registered shares) 163 110 632 shares;

Nominal value of one share: PLN 5.

The Company does not have branches (plants).

Structure of TAURON Capital Group

Key companies of TAURON Capital Group, besides the parent company, TAURON Polska Energia S.A. (hereinafter referred to as the Company or TAURON) also include 21 subsidiaries covered by consolidation.

Moreover, the Capital Group consists of 27 other subsidiaries as well as 14 affiliates with the capital interest between 50%–20% and 31 companies with the capital interest below 20%. It should be mentioned that the value of shares in these companies constitutes about 0.5% of assets of TAURON Capital Group.

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

- 1) TAURON Wytwarzanie S.A. (TAURON Wytwarzanie) – dealing with generation of power from conventional sources and biomass co-burning,
- 2) TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA) – dealing with generation of power from renewable sources,
- 3) TAURON Dystrybucja S.A. (TAURON Dystrybucja) – providing electric energy distribution services,
- 4) TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż) – dealing with supply of electric energy to retail customers,
- 5) TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta) – dealing with customer service,
- 6) TAURON Ciepło S.A. (TAURON Ciepło) – dealing with heat generation, distribution and sales,
- 7) Południowy Koncern Węglowy S.A. (PKW) – dealing with hard coal mining.

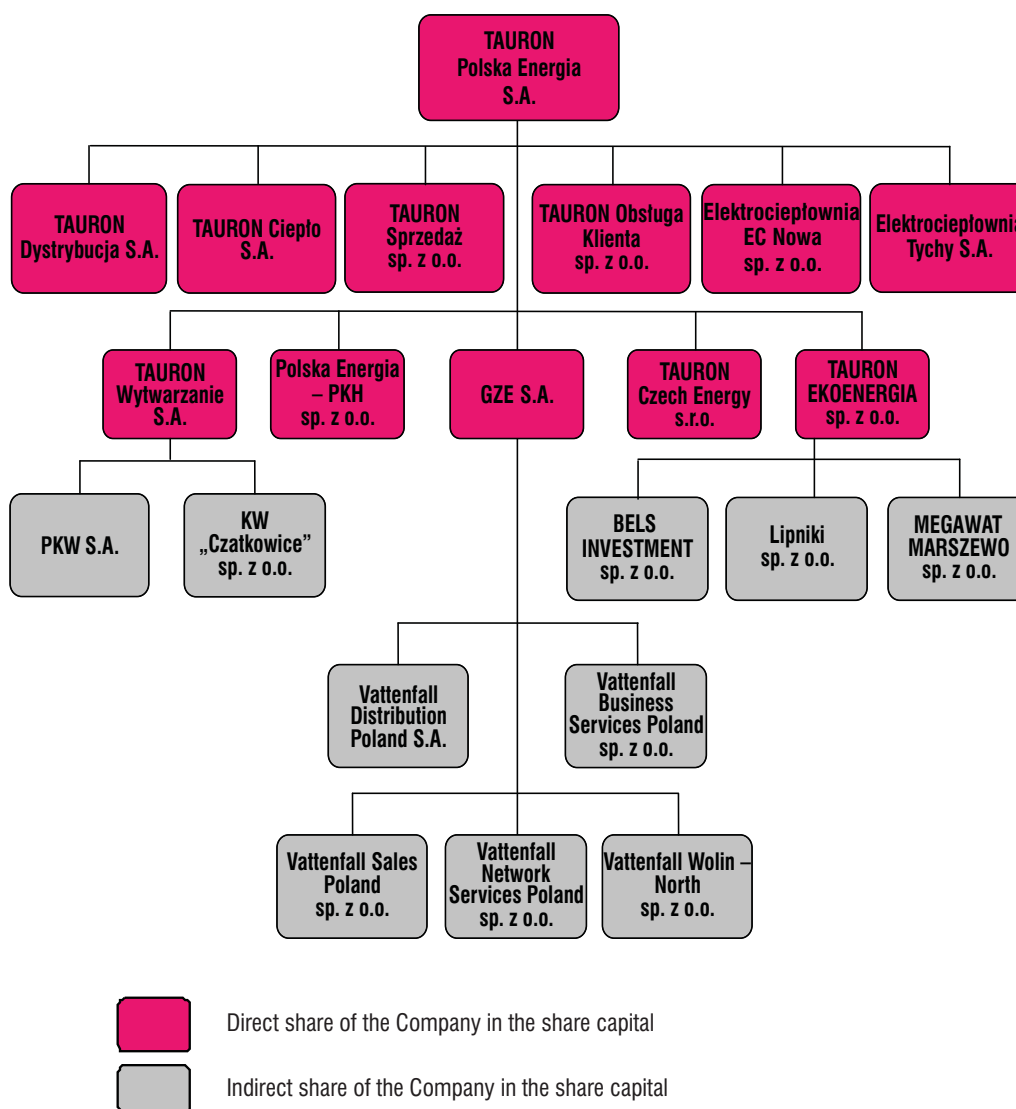
The consolidation covered also the company Górnośląski Zakład Elektroenergetyczny S.A. (GZE) and its subsidiaries which have become the indirect subsidiaries of the Company as of the day the agreement on sales of shares of GZE by Vattenfall AB in favour of TAURON was concluded, i.e. as of 13 December 2011:

- 1) Vattenfall Distribution Poland S.A. (Vattenfall Distribution Poland)¹ – providing electric energy distribution services,
- 2) Vattenfall Network Services Poland sp. z o.o. (Vattenfall Network Services Poland)² – dealing with maintenance of facilities included in the distribution grid of Vattenfall Distribution Poland,
- 3) Vattenfall Wolin-North sp. z o.o. (Vattenfall Wolin-North)³ – dealing with generation of power from renewable sources,
- 4) Vattenfall Sales Poland sp. z o.o. (Vattenfall Sales Poland) – dealing with sales of electric energy,
- 5) Vattenfall Business Services Poland sp. z o.o. (Vattenfall Business Services Poland) – dealing with customer service.

Moreover, TAURON Capital Group consists of eight other subsidiaries, subject to consolidation, involved, among others, in generation of electric energy and heat, trade of electricity and heat, extraction of limestone and stone for construction purposes.

The chart below presents the structure of TAURON Capital Group, including companies subject to consolidation, as of 31 December 2011 and as of the day of this report.

Figure No. 1 Structure of TAURON Capital Group – status as of 31 December 2011 and as of the date of this report



Information concerning the level of capital interest in the share capital and in the governing body of individual companies is included in item 1.3 of this report.

¹ On 20 February 2012, the District Court in Gliwice registered the change of company name to TAURON Dystrybucja GZE S.A. in KRS.

² On 15 February 2012, the District Court in Gliwice registered the change of company name to TAURON Service GZE sp. z o.o. in KRS.

³ On 27 February 2012, the District Court in Gliwice registered the change of company name to TAURON Ekoenergia GZE sp. z o.o. in KRS.

1.2. TAURON and TAURON Capital Group management concept

1.2.1. TAURON and TAURON Capital Group management principles

TAURON management principles

In accordance with the provisions of TAURON Polska Energia S.A. By-laws (Bylaws), the Company is managed directly by the Management Board of the Company as well as by proxies, Directors of Departments, attorneys.

The President of the Board – Chief Executive Officer, manages business as usual of the Company and takes decisions on all issues concerning the Company, which are not subject to decisions of the Management Board or other governing bodies of the Company, and supervises the performance of the division which reports to him directly. In particular, the President of the Management Board:

- 1) manages the internal business of the Company and represents it within the external contacts,
- 2) coordinates all the issues connected with the performance of the Management Board,
- 3) acts as the employer within the meaning of labour law regulations,
- 4) supervises the performance of the division which reports to him directly,
- 5) issues the internal regulatory acts and intra-corporate regulatory acts in accordance with the binding regulations,
- 6) takes decisions related to managing of the Company business as usual,
- 7) performs all the real functions and legal acts, taking into consideration implementation of the Company's goals and targets,
- 8) undertakes any other activities providing for effective and efficient performance of the Company.

Vice-Presidents of the Management Board:

- 1) manage the internal business of the Company and represent it within the external contacts,
- 2) manage the current business operations of the Company within the scope delegated as well as supervise the performance of the divisions which report to them directly,
- 3) take decisions on issues which are not subject to decisions of the Management Board, within the functions delegated to the subordinated business units as well as other decisions within the powers of attorney and authorisations granted to them by the Management Board or the President of the Board,
- 4) perform all the real functions and legal acts, taking into consideration implementation of the Company's goals and targets,
- 5) undertake any other activities providing for effective and efficient performance of the Company.

Directors of Departments:

- 1) manage the departments which report to them, being responsible for their performance results,
- 2) determine the goals, targets and tasks of individual business units included in the department they manage, within their subjective competence,
- 3) coordinate the structures subordinated to them, in accordance with the Company's interest and in compliance with the legal regulations,
- 4) implement the guidelines and recommendations of the Management Board Members and keep them informed of the performance of the subordinated department,
- 5) undertake any other necessary activities providing for effective and efficient performance of the subordinated department.

“TAURON Group” management principles

In 2011, the development of the management process of “TAURON Group”, understood as consolidated economic body consisting of autonomous commercial law companies, led by the Company, established by the Management Board was continued.

The main internal regulatory act of “TAURON Group” is the Code of TAURON Group (Code) adopted by the Management Board of the Company, which regulates its operations, providing for implementation of the goals through the particular tailored solutions in the area of management of “TAURON Group” entities, including, in particular, determining of the operating objectives of the companies, providing for achievement of the adopted effects.

Simultaneously, in 2011, within “TAURON Group”, Business Areas were operating, established by the Company Management Board based on the Code, comprising the companies of “TAURON Group” as well as the established Management Areas within which the relevant cooperation rules are implemented.

The table below presents the list of companies included in “TAURON Group” as of 31 December 2011.

Table No. 1 List of companies of TAURON Capital Group included in “TAURON Group” as of 31 December 2011

No.	Company enterprise
1.	TAURON Polska Energia S.A. (parent company)
2.	TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż)
3.	TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta)
4.	TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA)
5.	TAURON Wytwarzanie S.A. (TAURON Wytwarzanie)
6.	Elektrociepłownia EC Nowa sp. z o.o. (EC Nowa)
7.	TAURON Czech Energy s.r.o. (TAURON Czech Energy)
8.	Elektrociepłownia Tychy S.A. (EC Tychy)
9.	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. (PEPKH)
10.	TAURON Dystrybucja S.A. (TAURON Dystrybucja)
11.	TAURON Ciepło S.A. (TAURON Ciepło)
12.	Kopalnia Wapienia Czatkowice sp. z o.o. (KW Czatkowice)
13.	Południowy Koncern Węglowy S.A. (PKW)

Due to acquisition of shares of GZE company, described in detail in item 1.4.1 of this report, and taking of indirect control over the GZE subsidiaries by the Company, including:

- 1) Vattenfall Distribution Poland,
- 2) Vattenfall Business Services Poland,
- 3) Vattenfall Generation Poland,
- 4) Vattenfall Network Services Poland,
- 5) Vattenfall Sales Poland,
- 6) Vattenfall Wolin-North,

actions have been undertaken aimed at incorporation of the aforementioned GZE subsidiaries to “TAURON Group”. This occurred on 18 January 2012 when the Management Board of the Company passed the resolution on including of the above companies in “TAURON Group”. The companies listed above received the status of “TAURON Group” member as of 24 January 2012, i.e. at the moment the General Meeting adopted the resolution on entering of the aforementioned companies to “TAURON Group”. Within the aforementioned meetings, amendments to the Articles of Association and Agreements of the above companies were also introduced, in connection with their entering to “TAURON Group”.

Owing to the adoption of the Code, the next key element providing for taking of operating decisions within the “TAURON Group” was the establishment of four Committees of “TAURON Group”:

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

The Committees were established to provide for performance of “TAURON Group” in accordance with the principles of operating coherence, in accordance with law and the common interest of “TAURON Group” and its stakeholders. The Committees, among others, play the opinion-making and decision-making role for the Management Board of the Company.

The underlying task of the committees is to supervise implementation of the adopted coherent actions by all the participants of “TAURON Group”, compliant with the Code and for the common interest of “TAURON Group” members. The specific functions of the Committees have been specified in the by-laws of their operations adopted by the Company Management Board.

Due to the implementation of the “TAURON Group” management model, the management agreements were terminated, concluded with individual subsidiaries of TAURON Capital Group, within the meaning of art. 7 of the Act of 15 September 2000: *Code of Commercial Companies* (this process was concluded on 12 April 2011).

1.2.2. Changes in TAURON and TAURON Capital Group management principles

Changes in TAURON management principles

In the financial year 2011, changes in the Company management rules and in the Company organisational structure, provided in the by-laws, were introduced, covering, in particular:

- 1) adjustment of names of divisions and positions of the President of the Management Board and Vice-Presidents of the Management Board, in accordance with resolutions of the Supervisory Board of the Company, as well as execution of changes in reference numbers of business units,
- 2) modification of tasks executed by members of the Management Board through specification of operations related to supervision, coordination, creating and management in accordance with the scope indicated by the Supervisory Board during the recruitment procedure,
- 3) regulating of issues connected with preparation, publication and archiving of intra-corporate regulatory acts, issued based on the Code, binding both in the Company and in companies – members of the “TAURON Group” (competence of the President of the Management Board was supplemented by adding the powers to issue the intra-corporate regulatory acts other than Cooperation Rules in the Management Areas),
- 4) establishment of Reorganisation Department in the division supervised by the Vice-President of the Management Board for Corporate Affairs (with simultaneous extension of competence of the Reorganisation Department previously operating within the division supervised by the Vice-President of the Management Board for Strategy and Business Development by issues related to reorganisation of TAURON Capital Group), as well as rearrangement of the organisational structure of the Division of Vice-President of the Board for Commercial Affairs, in accordance with the process model (Department of Sales and Customer Service, Department of Energy Trading, Department of Fuel – *Front Office*, Department of Portfolio Management – *Middle Office*, Department of Market Operator and Trading Service – *Back Office*).

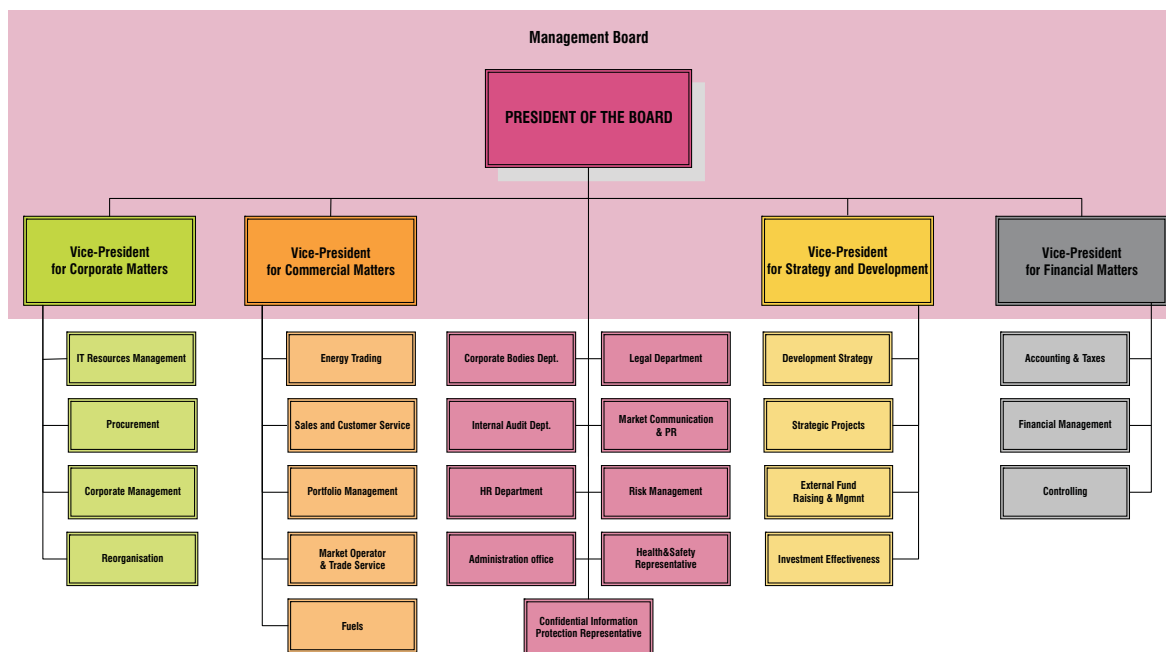
Amendments to the By-laws were adopted by the resolution of the Supervisory Board of 28 April 2011.

The organisational chart below presents the structure of divisions reporting to Board members, to the level of business units – offices reporting directly to the members of the Management Board, effective as of 31 December 2011.

**Figure No. 2 Organisational Chart of TAURON Polska Energia S.A.
as of 31 December 2011**



Organisational Chart of TAURON Polska Energia S.A.



Since 31 December 2011 until the day of this report, no amendments or modifications have been introduced to the aforementioned organisational structure of the Company.

Changes in "TAURON Group" management principles

Changes in Business Areas and allocation of the companies to the specific Business Area.

Considering the changes in organisation of the TAURON Capital Group, in 2011, the Management Board of the Company updated the allocation of membership of "TAURON Group" companies to particular Business Area or Business Areas. It should be indicated that the aforementioned update was also performed in January 2012, in connection with incorporation of GZE subsidiaries to "TAURON Group", and the resulting need to determine their allocation to particular Business Areas.

Development and implementation of Cooperation Rules in Management Areas

In connection with implementation of the Code, in 2011 the process of development and implementation of Cooperation Rules in Management Areas was performed in the companies of "TAURON Group", as a result of which the Cooperation Rules have been implemented in the following Management Areas:

- 1) designing of strategy and development methods;
- 2) trading of fuel, energy and related products;
- 3) strategic investment projects;
- 4) management of stock exchange information and investor relations;
- 5) international cooperation;
- 6) research and development projects, including projects in the area of new technologies and environmental protection;
- 7) external and internal communication;
- 8) management of information and communication technology systems;
- 9) financial management;
- 10) controlling and management reporting;
- 11) accounting and taxes;
- 12) image marketing;
- 13) management of project implementation;
- 14) proceedings, legal counselling and internal regulations.

1.3. Organisational or capital relationships

As of 31 December 2011, the Company held shares and stocks directly in the following significant subsidiaries:

Table No. 2 List of significant subsidiaries in which the Company holds direct share

No.	Company name	Address	Core business area	Direct share in the company equity	Entity holding stocks/shares as of 31 December 2011	Direct share in the company governing body	Entity holding stocks/shares as of 31 December 2011
1.	TAURON Wytwarzanie	40-389 Katowice ul. Lwowska 23	Generation, transmission and distribution of electric energy and heat	99.72%	Company – 99.72%	99.72%	Company – 99.72%
2.	TAURON Dystrybucja	30-390 Kraków ul. Zawila 65 L	Distribution of electric energy	99.38%	Company – 99.38%	99.51%	Company – 99.51%
3.	TAURON Sales	30-417 Kraków ul. Łagiewnicka 60	Sales of electric energy	100.00%	Company – 100.00%	100.00%	Company – 100.00%
4.	TAURON Customer Service	53-128 Wrocław ul. Sudecka 95-97	Services (customer service)	100.00%	Company – 100.00%	100.00%	Company – 100.00%
5.	TAURON EKOENERGIA	58-500 Jelenia Góra ul. Obrońców Pokoju 2B	Generation and trading of electric energy	100.00%	Company – 100.00%	100.00%	Company – 100.00%
6.	EC Tychy	43-100 Tychy ul. Przemysłowa 47	Generation of electric energy, production and distribution of heat	95.47%	Company – 95.47%	99.05%	Company – 99.05%

No.	Company name	Address	Core business area	Direct share in the company equity	Entity holding stocks/shares as of 31 December 2011	Direct share in the company governing body	Entity holding stocks/shares as of 31 December 2011
7.	PEPKH	40-389 Katowice ul. Lwowska 23	Electric energy trading	100.00%	Company – 100.00%	100.00%	Company – 100.00%
8.	TAURON Heat	40-126 Katowice ul. Grażyńskiego 49	Production and distribution of heat	90.06%	Company – 90.06%	91.76%	Company – 91.76%
9.	EC Nowa	41-308 Dąbrowa Górnicza al. J. Piłsudskiego 92	Generation of electric energy, production of heat and technical gases	84.00%	Company – 84.00%	84.00%	Company – 84.00%
10.	TAURON Czech Energy	720 00 Ostrava Na Rovince 879/C Czech Republic	Electric energy trading	100.00%	Company – 100.00%	100.00%	Company – 100.00%
11.	GZE	44-100 Gliwice ul. Barlickiego 2	Activity of financial holdings	99.98%	Company – 99.98%	99.98%	Company – 99.98%

As of 31 December 2011, the Company indirectly held shares and stocks in the following significant subsidiaries covered by consolidation:

Table No. 3 List of significant subsidiaries in which the Company holds indirect share

No.	Company name	Address	Core business area	Indirect share in the company equity	Entity holding stocks/shares as of 31 December 2011	Indirect share in the company governing body	Entity holding stocks/shares as of 31 December 2011
1.	KW Czatkowice ¹	32-063 Krzeszowice 3 os. Czatkowice 248	Mining, crushing and granulation of limestone rocks and stone mining for construction needs	99.72%	TAURON Wytwarzanie – 100.00%	99.72%	TAURON Wytwarzanie – 100.00%
2.	PKW ¹	43-600 Jaworzno ul. Grunwaldzka 37	Hard coal mining	52.33%	TAURON Wytwarzanie – 52.48%	67.82%	TAURON Wytwarzanie – 68.01%
3.	(BELS INVESTMENT)	58-500 Jelenia Góra ul. Obrońców Pokoju 2B	Generation of electric energy	100.00%	TAURON EKOENERGIA – 100.00%	100.00%	TAURON EKOENERGIA – 100.00%
4.	MEGAWAT MARSZEWO	58-500 Jelenia Góra ul. Obrońców Pokoju 2B	Generation of electric energy	100.00%	TAURON EKOENERGIA – 100.00%	100.00%	TAURON EKOENERGIA – 100.00%
5.	Lipniki	52-420 Wrocław ul. Tadeusza Mikulskiego 5	Generation of electric energy	100.00%	TAURON EKOENERGIA – 100.00%	100.00%	TAURON EKOENERGIA – 100.00%
6.	Vattenfall Distribution Poland	44-100 Gliwice ul. Portowa 14a	Distribution of electric energy	99.98%	GZE – 100%	99.98%	GZE – 100%
7.	Vattenfall Sales Poland	44-100 Gliwice ul. Barlickiego 2a	Electric energy trading	99.98%	GZE – 99.998%, Vattenfall Network Services Poland – 0.002%	99.98%	GZE – 99.998% Vattenfall Network Services Poland – 0.002%
8.	Vattenfall Network Services Poland	44-100 Gliwice ul. Myśliwska 6	Repairs and maintenance of machines and electric equipment, electric installations, construction of electric power lines	99.98%	GZE – 99.8%, Vattenfall Sales Poland – 0.2%	99.98%	GZE – 99.8%, Vattenfall Sales Poland – 0.2%
9.	Vattenfall Wolin-North	44-100 Gliwice ul. Barlickiego 2	Generation of electric energy	99.98%	GZE – 100%	99.98%	GZE – 100%
10.	Vattenfall Business Services Poland	44-100 Gliwice ul. Wybrzeże Armii Krajowej 19b	Services	99.98%	GZE – 100%	99.98%	GZE – 100%

¹ The Company the user of shares/stocks owned by TAURON Wytwarzanie. As a result of signing of agreements on shares usufruct, the Company holds 100% of share in the share capital and the governing body of KW Czatkowice as well as 52.48% of share in the share capital of PKW company, providing 68.01% of votes at GM.

1.4. Major domestic and foreign investment

1.4.1. Purchase of shareholding securities

In the area of purchase of shares and stocks in companies, the main investment included:

Purchase of GZE stocks

Based on preliminary purchase contract of 23 August 2011 concluded with Vattenfall AB and following the unconditional approval of the President of UOKiK (Office of Competition and Consumer Protection) on taking the control over GZE, on 13 December 2011 the Company purchased 1,249,693 stocks in the GZE share capital at the par value of PLN 100.00 each and the total par value of PLN 124,969.3 thousand, constituting 99.98% of the GZE share capital. The total value of the transaction amounted to PLN 4,625,955 thousand, whereas the amount of PLN 3,623,517 thousand was paid on the day the transaction was concluded (the amount includes the deposit of PLN 120,000 thousand transferred to Vattenfall AB based on the preliminary purchase agreement, including the accrued interest) while the amount of PLN 1,002,438 thousand constitutes Vattenfall AB debt towards GZE and its subsidiaries, taken over by the Company under the transaction.

As a result of acquisition of GZE shares, the Company has indirectly become the owner of shares or stocks, respectively, of the following significant GZE subsidiaries: Vattenfall Distribution Poland, Vattenfall Sales Poland, Vattenfall Network Services Poland, Vattenfall Wolin-North and Vattenfall Business Services Poland.

Increase of share in PEPKH company

On 26 July 2011 the contract was concluded between Południowy Koncern Energetyczny S.A. (PKE) and the Company concerning disposal of shares of the PEPKH company, as the benefit to fulfil part of the liability of PKE to disburse the dividend payable to the Company for the financial year ended on 31 December 2010. PKE disposed all the shares held in PEPKH, i.e. 700 shares at total par value of PLN 4,200, for the total amount of PLN 42,170 thousand. On 26 July 2011 the transfer of shares to the Company was performed. As a result of this transaction, the Company increased its direct share in the capital and governing body of PEPKH to 100%.

1.4.2. Purchase of debt securities and other securities

The Company, acting on the basis of the implemented model of central financing as well as in accordance with the conditions of the operating programme of issue of internal bonds, in 2011 the Company was purchasing bonds issued by TAURON Capital Group. The major objective of bond issue was acquisition of funds by companies of TAURON Capital Group for implementation of the investment programme, refinancing of the hitherto debt or purchase of shares/stocks. The total value of issues taken over in 2011 amounted to PLN 1,147,040.

The table below shows the value of issues taken over, divided into individual companies of TAURON Capital Group (issuers) as of 31 December 2011.

Table No. 4 Value of issues taken over, divided into individual companies of TAURON Capital Group (issuers)

No.	Company name (issuer)	Value of issues taken over, in PLN thousand
1.	EC Tychy	45,300
2.	PEPKH	10,000
3.	TAURON Dystrybucja	65,800
4.	TAURON Ekoenergia	150,000
5.	TAURON Wytwarzanie	875,940
TOTAL		1,147,040

In addition, in 2011, the Company was investing available funds acquired within the cash pooling operating in the Company, exclusively in safe money market instruments, i.e. bank deposits and participation units of investment funds of the money market. At the end of the year, the total cash surplus was invested only in bank deposits (the participation units of investment funds of the money market were purchased and redeemed in the third quarter of 2011).

2. OPERATIONS OF TAURON POLSKA ENERGIA S.A.

2.1. Timeline of key events

The below timeline of key events presents the most important events related to operations of the Company which occurred in 2011.

Table No. 5 Timeline of key events

Month	Events
January	<ul style="list-style-type: none"> Incorporation of PKW and KW Czatkowice to "TAURON Group" established by the Management Board of the Company based on the Code.
February	<ul style="list-style-type: none"> Appointment of members of the Management Board for the third term by the Supervisory Board.
March	<ul style="list-style-type: none"> Signing of Agreements by the Company concerning the project of construction of the steam and gas fired unit in Stalowa Wola (on operations of the EC Stalowa Wola, sales of electric energy, supply of gas fuel). Registration of the decrease in share capital of the Company by the District Court Katowice–Wschód in Katowice, 8th Commercial Division of the National Court Register performed through decrease in par value of the shares in order to restructure the equity of the Company.
April	<ul style="list-style-type: none"> Signing of agreement by the Company, based on which the decision has been taken that further construction works of the unit of 800–910 MW in Elektrownia Blachownia in Kędzierzyn-Koźle will be conducted based on the assumption of selection of the gas fuel. Adoption of update for TAURON Group Corporate Strategy for the years 2011–2015 with a view to 2020 (Corporate Strategy).
May	<ul style="list-style-type: none"> Appointment of Members of the Supervisory Board for the third term by the GM. Convening of Ordinary General Meeting for the financial year 2010.
June	<ul style="list-style-type: none"> Withdrawal of Kompania Węglowa from the Agreement on Joint Venture of 8 April 2010, based on which the Company and Kompania Węglowa S.A. (Kompania Węglowa) undertook the commitment to commence actions aimed at contribution of the enterprise KWK "Bolesław Śmiały" by Kompania Węglowa to the special purpose vehicle and, subsequently, contribution of shares in this special purpose vehicle as well as all PKW shares held by Kompania Węglowa to the Company, in exchange for new in-kind contribution of stocks at the increased share capital of the Company addressed to Kompania Węglowa.
July	<ul style="list-style-type: none"> Confirmation of the long-term foreign and local currency ratings for the Company at BBB level, with stable outlooks by the Fitch Rating Agency. Signing of agreement of CC Poland Plus sp. z o.o. (CC Poland Plus) by the Company, in order to conduct research and coordinate activities in the area of the so-called clean coal technologies. Signing of agreement on purchase of PEPKH shares by the Company.
August	<ul style="list-style-type: none"> Signing of a preliminary agreement by the Company to purchase shares in GZE. Confirmation of maintenance of the long-term foreign and local currency ratings for the Company at BBB level, with stable outlooks by the Fitch Rating Agency, in connection with GZE acquisition from Vattenfall AB.
September	<ul style="list-style-type: none"> Signing of agreement on establishment of Capital Tax Group.
October	<ul style="list-style-type: none"> Signing of the agreement by the Company, on the basis of which the value of bond programme of the Company was increased by tranche C at the value of PLN 3,000,000 thousand, i.e. to the total amount of PLN 4,300,000 thousand. Entering of the Company into the agreement on cooperation under the form of the special purpose vehicle holding the name of Pierwiastki i Surowce Krytyczne sp. z o.o. providing the platform for cooperation in the scope of research on optimum technology for production of solar panels.
November	<ul style="list-style-type: none"> Registering of PGK by the Tax Office in Sosnowiec. Registration of significant amendment to the Subject of Company Operations by the District Court Katowice–Wschód in Katowice, 8th Commercial Division of the National Court Register.
December	<ul style="list-style-type: none"> Issue of bonds by the Company at the total value of PLN 3,300,000 thousand. Signing of agreement on sales of GZE stocks in favour of the Company.

2.2. Basic products, goods, services

The following table presents the statement of comprehensive income for the financial year 2011 broken down into basic activities.

Table No. 6 Statement of comprehensive income for the financial year 2011 by type of activity (data in PLN thousands)

Financial year ended 31 December 2011	Total activities	Sales of electrical energy and other products of the energy market	Holding activities	Not assigned items
Revenues				
Sales to external customers	1,914,509	1,914,509		
Sales in the Group	6,930,643	6,930,643		
Total revenue in this segment	8,845,152	8,845,152		
Profit/(loss) of the segment	160,629	160,629		
Unallocated expenses	(79,563)			(79,563)
Profit/(loss) from continued operations before taxes and financial revenues (costs)	81,066	160,629		(79,563)
Income (expense) net	1,023,576		1,020,941	2,635
Profit/(loss) before taxation	1,104,642	160,629	1,020,941	(76,928)
Income Tax	(21,213)			(21,213)
Net profit/(loss) for the period	1,083,429	160,629	1,020,941	(98,141)

The core business of the Company, in addition to management of the holding company, is a wholesale energy trading and wholesale trade of certificates of origin for electricity and CO₂ emissions.

The Company focuses on purchasing and selling of electricity for securing purchase and sales positions of the TAURON Capital Group entities and wholesale of electricity. The main direction of electricity sales realized by the Company in financial year 2011 was TAURON Sprzedaż. Additionally, the Company, under contract for managing the portfolio, sells electricity to cover losses in TAURON Dystrybucja distribution network.

An important element of business is sale to external end users, carried out both in TAURON Sprzedaż, as well as in the Company. The company manages sales to customers of strategic importance (characterized by a high consumption of electricity – more than 100 GWh). Therefore, it is necessary to market the certificates of origin for electricity from renewable sources and co-generation units (gas and coal) for the fulfilment of the obligation to redeem the above-mentioned certificates.

The Company participates in a coordinated cross-border exchange auctions, implementing annual, monthly and daily auctions, organized by the Central Allocation Office auction portal, within the area of Central and Eastern Europe, on the German and Czech-Slovak market, based on agreements signed with the transmission system operators: 50Hertz Transmission GmbH and TenneT TSO GmbH. Furthermore the Company carries out import and export of electricity with the use of the 110 kV line (Boguszów-Porici, Trzinec-Tryniec), on the basis of agreements with TAURON Czech Energy.

Since 2009, the Company is a member of the German-French exchange EPEX SPOT, with its seat in Paris, where turnover is realized in the day-hour market for Germany, France, Austria and Switzerland. Since 2011, the company is a member of the EEX Exchange with its seat in Leipzig, where marketing of futures for the area of Germany and France is performed.

Another important area of business activity is the management of CO₂ Installation Group for the needs of TAURON Capital Group production companies, which aims to reduce the cost of redemption of CO₂ emission level of the TAURON Capital Group and obtain additional margin in relation to turnover. Furthermore, the Company, under the current agreements provides portfolio management services on CO₂ emission allowances for external clients, consisting in the purchase and sale of CO₂ emission allowances to the client.

Trade in CO₂ emissions takes place on the futures market, and SPOT, mainly through the Paris exchange BlueNext and on the OTC market. Primarily traded are instruments such as the EUA (European Union Allowances) and CER (Certified Emission Reduction), occasionally ERU (Emission Reduction Unit). The market for CO₂ allowances is the European market, developed and relatively smooth, allowing efficient emission portfolio management within the TAURON Group.

As part of activities related to the wholesale trade in fuels, with the beginning of 2012, the Company has taken actions related to commencement of trade in biomass (sales directed to companies of TAURON Capital Group: TAURON Wytwarzanie and EC Tychy).

2.3. Potential customers market and sources of supply

In 2011, the structure of the wholesale energy trading was affected by the changes resulting from amendments to the Act of 10 April 1997, *Energy Law*, which enforces the requirement on the generating entity to sell electricity through an open tender on the internet trading platform in the regulated market or on the commodity exchanges. The main beneficiary of the Act and place of the highest

concentration of demand and supply has become a Towarowa Gielda Energii S.A. (TGE), where the Company purchases the majority of the energy entering into transactions on both the futures and SPOT market. The company bought 29.1 TWh on the TGE in 2011, which accounted for nearly 72% of the total purchase. In connection with the above described amendment to the energy law, from manufacturing companies belonging to the TAURON Group purchased power volume was significantly less than in the previous year. The volume of purchases of electricity is presented in the following table.

Table No. 7 The volume of purchases of electricity (data in TWh)

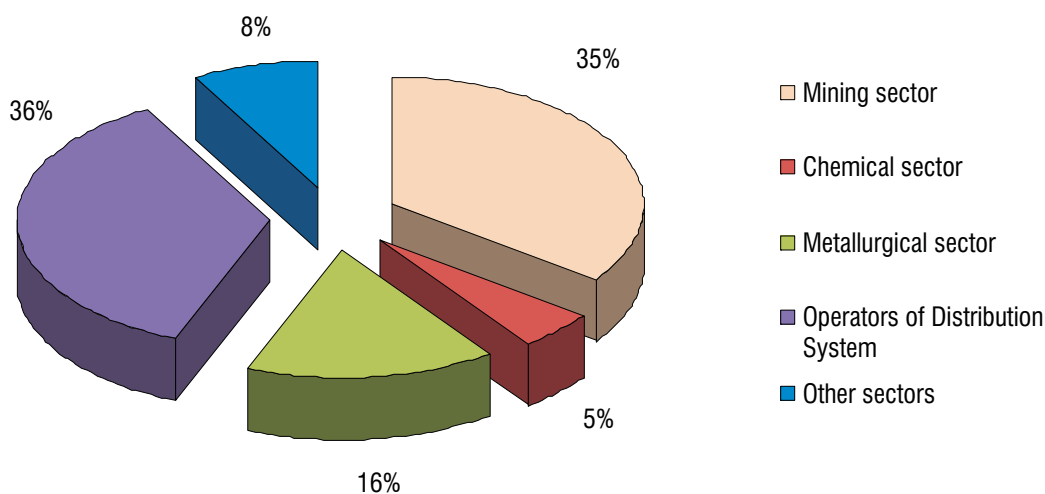
Specification	Year 2011	Year 2010	Dynamics (2011/2010)
The total volume of electricity purchased	40.5	35.6	113.8%
Purchase from manufacturers (TAURON Capital Group and outside TAURON Capital Group)	2.3	20.2	11.4%
Purchase from trading companies (outside of the TAURON Group) and energy exchange	37.0	14.1	262.4%
Purchase on the balancing market	1.0	1.2	83.3%
Other purchase (imports)	0.2	0.1	200.0%

In financial year 2011 the Company sold 40.5 TWh of electricity, which constituted an increase by 13.8% compared to sales in fiscal year 2010. Sales growth in 2011 resulted primarily from increased demand for electricity and attracting TPA (Third-party Access) new customers with high energy consumption. Sale was carried out based on the current market situation and on the principles of market competition.

Company's main customer for the sale of electricity remained the company of the TAURON Group: TAURON Sprzedaż, which deals on retail market – to tariff and non-tariff customers. Sales volume for TAURON Sprzedaż in 2011 amounted to 27.1 TWh, which accounted for almost 67% of total sales of the Company.

The company also continued the process of direct sales of electricity to strategic customers, most of whom are end users from various industries, for the production of such businesses and Distribution System Operators (DSO) to cover balance differences.

Figure No. 3 Structure of Sales of the Company in 2011, according to sectors



The volume of sales of electricity is presented in the following table.

Table No. 8 The volume of sales of electricity (data in TWh)

Specification	Year 2011	Year 2010	Dynamics (2011/2010)
Total sales of electric energy	40.5	35.6	113.8%
Wholesale	33.7	33.4	100.9%
Retail	4.7	1.1	427.3%
Sale on the balancing market	1.2	1.1	109.1%
Other sale	0.9	0.03	x

The Company's activities have largely been conducted on the Polish market. The value of sales to foreign customers in 2011 increased in comparison to 2010 by approximately 200% and amounted to PLN 472 710 thousand. In 2010 it was PLN 158,776.

2.4. Significant events and achievements of the company, influencing its operations

The most important events of significant impact on operations of the company, which occurred during the financial year 2011 and until the day of this report are as follows:

Appointment of the Management Board of the Company for the new term

On 24 February 2011, the Supervisory Board of the Company passed the resolution on appointment of the following persons for the third term of the Management Board of the Company: Mr. Dariusz Lubera (as the President of the Management Board), Ms. Joanna Schmid (as Vice President for Strategy and Business Development), Mr. Dariusz Stolarczyk (as Vice President of Corporate Matters), Mr. Krzysztof Zamasz (as Vice President for Commercial Matters), Mr. Krzysztof Zawadzki (as Vice-President for Economic and Financial Matters). Resolutions of the Supervisory Board to appoint the above persons to the Management Board of the Company entered into force on the day of their adoption, becoming effective as of the date of the Ordinary General Meeting of the Company approving the financial statements for the financial year 2010, i.e. as of 6 May 2011.

The Company informed of this event in the current report No. 8/2011 of 24 February 2011.

Appointment of the Supervisory Board of the Company for the new term

In connection with termination of the second joint term of office of the Supervisory Board, on 6 May 2011, the following persons were appointed as members of the Supervisory Board of the Company:

- representatives of the State Treasury, namely: Antoni Tajduś, Agnieszka Trzaskalska, Włodzimierz Luty, Marek Ściążko and Michał Michalewski were appointed under the personal authorities of the State Treasury, pursuant to § 23 item 1 item 3) of the Company's Articles of Association (the Company informed of this event in the current report current report No. 27/2011 of 5 May 2011),
- other members of the Supervisory Board, namely: Leszek Koziorowski, Jacek Kuciński and Jacek Szyke, were appointed according to the resolution of the Ordinary General Meeting of the Company (the Company informed of this event in the current report No. 29/2011 of 6 May 2011).

Reduction of the share capital and par value of the Company shares

On 25 March 2011, the District Court Katowice–Wschód in Katowice, 8th Commercial Division of the National Court Register, issued a decision on entering of reduction of the share capital of the Company by the amount of PLN 7,010,197,576.00, from the amount of PLN 15,772,944,546.00 to the amount of PLN 8,762,746,970.00 through reducing of the par value of each share by PLN 4, i.e. from the amount of PLN 9 to the amount of PLN 5. The above event was the consequence of the resolution adopted by the Extraordinary General Meeting of the Company of 10 November 2010. The reduction of the Company share capital was executed following the procedure of notifying the creditors, with the purpose of restructuring of the Company equity, through removal of discrepancies between the share capital and the supplementary capital as well as between the par value of shares and their market value.

The Company informed of this event in the current report No. 15/2011 of 29 March 2011.

Payment of dividend by the Company

In accordance with the resolution of the Ordinary General Meeting of the Company of 6 May 2011, the total amount of PLN 262,882,409.10 was allocated for payment of dividend to the shareholders for 2010. The amount of dividend allocated for one share amounted to PLN 0.15. The total number of shares covered by the dividend was 1,752,549,394 of shares. The day of dividend was established on 30 June 2011, and the day of payment of the dividend – on 20 July 2011.

The Company informed of this event in the current report No. 31/2011 of 6 May 2011.

Withdrawal of Kompania Węglowa from Contract of 8 April 2011 on the Joint Venture

On 10 June 2011 the Company received a letter from Kompania Węglowa concerning the contract on the Joint Venture, described in the prospectus of the Company of 8 April 2010. Pertaining to this agreement, the Company and Kompania Węglowa made a commitment to undertake actions aimed at contributing of the enterprise KWK "Bolesław Śmiały" by Kompania Węglowa to the special purpose vehicle, and to contribute all the shares held by Kompania Węglowa in PKW to the company, in exchange for new in-kind contribution in the increased share capital of the Company addressed to Kompania Węglowa. In the said letter, the Management Board of Kompania Węglowa stated that they did not accept the value of the organised part of the enterprise of Kompania Węglowa – Oddział KWK "Bolesław Śmiały" as well as the value of shares held by Kompania Węglowa S.A. in PKW, resulting from the performed valuation of assets. Furthermore, the Management Board of Kompania Węglowa stated that they had decided to withdraw from the Contract on the Joint Venture of 8 April 2011, with the consequent expiration of the Contract.

The Company informed of this event in the current report No. 36/2011 of 10 June 2011.

Maintenance of the BBB rating for the Company

On 1 July 2011, the Fitch rating agency informed of their decision to sustain the rating for the Company in foreign and local currency at the BBB level, with stable perspective. According to Fitch agency, the ratings reflect the strong position of the Company at the Polish electric energy market as well as its prudent financial policy. The Company informed of this event in the current report No. 40/2011 of 01 July 2011.

Issue of bonds under the adopted programme on issue of the Company bonds

On 12 December 2011, within the programme of issue of the Company bonds, tranches B and C of bonds at total value of PLN 3,300,000 thousand were issued. The issue was aimed at raising of financial resources to fund acquisition of GZE from Vattenfall AB.

The Company informed of this event in the current report No. 60/2011 of 12 December 2011.

Other

In addition, events resulting from the concluded contracts and agreements significant for the operations, described in item 2.5.1 of this report should also be considered as important events of substantial impact on operations of the Company in the financial year 2011.

Information on significant events occurring after the balance sheet day until the day of this report has also been provided in note 38 of the Financial statement of TAURON Polska Energia S.A. for the year ended on 31 December 2011.

2.5. Information on agreements concluded by the Company

2.5.1. Significant agreements for business of the Company

Company in the financial year 2011 entered into the following agreements significant for business of the Company:

Concluding of significant contracts within the project Construction of the gas and steam unit in Stalowa Wola

On 11 March 2011, due to implementation of the project: Construction of the gas and steam unit in Stalowa Wola, the following significant agreements were signed:

1. Agreement on Operations of the EC Stalowa Wola, concluded between the Company, PGNiG S.A., PGNiG Energia S.A., ESW and EC Stalowa Wola. This project specifies the procedure of preparation and execution of the investment process of construction of the gas and steam unit in Stalowa Wola as well as rules of exploitation of the unit and trading of products of this exploitation. The Agreement was concluded for 25 years following the date of commissioning of the gas and steam unit. The value of the agreement was determined at the amount of PLN 1.95 billion net.
2. The Agreement on sales of electric energy concluded between PGNiG Energia S.A., the Company and EC Stalowa Wola, concerning the many years' sales of electric energy generated by EC Stalowa Wola in the steam and gas fired unit in Stalowa Wola to the Company and to PGNiG Energia S.A. The estimated value of the agreement during its whole effective period (14 years) will amount to PLN 6.78 billion net.
3. Agreement on supply of gas fuel concluded between PGNiG S.A. and EC Stalowa Wola, the subject of which is the supply of the gas fuel. The estimated value of the agreement during its whole effective period (14 years) will amount to PLN 9.66 billion net.

The Company informed of the aforementioned events in the current reports No. 9/2011 of 11 March 2011, No. 14/2011 of 25 March 2011 and 41/2011 of 8 July 2011.

Concluding of preliminary contract with Vattenfall AB on purchase of GZE shares

On 23 August 2011, the Company and Vattenfall AB signed preliminary contract on purchase of 1,249,693 of shares of GZE company, constituting 99.98% of the share capital of GZE. Closing of the transaction has been assumed as dependable on the Company obtaining the approval of the President of UOKiK (Office of Competition and Consumer Protection) on concluding of the concentration.

The Company informed of this event in the current report No. 44/2011 of 23 August 2011.

Concluding of agreement increasing the value of the bond issue programme

On 28 October 2011, between the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Nordea Bank Polska S.A., Nordea Bank AB, the annex was concluded to the Guarantee Agreement, Agency Agreement and Deposit Agreement and the Conversion Agreement, on the basis of which the value of bond issue programme of the Company was increased within tranche C by PLN 3,000,000 thousand, i.e. to the total amount of PLN 4,300,000 thousand.

The Company informed of this event in the current report No. 53/2011 of 28 October 2011.

Concluding of agreement on establishment of PGK

On 26 September 2011 the capital tax group agreement was signed, entered by the Company as the representing entity, as well as the selected companies of TAURON Capital Group. The Agreement was concluded for the period of three fiscal years, i.e. from 1 January 2012 to 31 December 2014. The Head of the First Tax Office in Sosnowiec registered the capital tax group on 28 November 2011.

Concluding of significant agreement with Electrabel NV/SA

On 30 November 2011 between the Company and Electrabel NV/SA of the GDF SUEZ Group, the agreement was signed, the subject of which is the settlement of any transactions to be concluded between the parties in connection with the purchase, sales, supply and consumption of electric energy, including options related to purchase, sales, supply and consumption of electric energy. The agreement has been concluded for indefinite period of time. The estimated value of the agreement during the period of 5 years has been determined at PLN 2.23 billion net.

The Company informed of this event in the current report No. 58/2011 of 30 November 2011.

Purchase of GZE stocks

On 13 December 2011. ING Securities S.A., acting on account of the Company, concluded the sales disposal contract as a buyer, with Vattenfall AB as the seller, concerning sales of 1,249,693 shares in the GZE share capital at par value of PLN 100.00 each and at the total par value of PLN 124,969.3 thousand, constituting 99.98% of GZE share capital. The total value of the transaction amounted to PLN 4,625,955 thousand. Detailed information on purchase of GZE shares is included in item 1.4 of this report.

The Company informed of this event in the current report No. 61/2011 of 13 December 2011.

2.5.2. Material transactions with affiliated entities under conditions other than market conditions

All transactions of the Company with affiliated entities are concluded under market conditions.

Information on significant transactions with affiliated entities has been provided in note 32.1 of the Financial statement of TAURON Polska Energia S.A. for the financial year ended on 31 December 2011.

2.5.3. Information on agreements on credits and loans raised and terminated

On 24 October 2011 the Company concluded two financial agreements with the European Investment Bank for the period not longer than 10 years following release of each tranche of the loan, for the purpose of co-financing of investment projects implemented in:

- ZEC in Bielsko-Biała – the loan at the level of PLN 300,000 thousand to finance the construction of high performance coal-fired unit in cogeneration, with the accompanying infrastructure, and
- Elektrownia Jaworzno III – the loan at the level of PLN 210,000 thousand, allocated for construction of the new biomass-fuelled boiler of 50 MW_g and 45 MW_t as well as renovation of the steam turbine.

Interest rate of the financing acquired under the aforementioned contracts is determined on individual basis, as fixed or floating interest rate, and its ultimate level is set before the tranche is released and it will be correlated with the current market rates.

Moreover, in 2011 the hitherto agreement on overdraft facility was extended (functionally combined with the cash pooling operating in TAURON Capital Group), the maturity of which was May 2011. Under the annex concluded, the agreement was extended till 31 December 2011 and it included the credit limit of PLN 100,000 thousand, to be allocated for financing of business as usual.

Simultaneously, due to the expiring term of the aforementioned overdraft facility agreement, 31 December 2011, the public procurement procedure was performed, as a result of which, in December 2011, the Company concluded the agreement on overdraft facility at the amount of PLN 300,000 thousand, with the effective period from 1 January 2012 to 31 December 2014.

Detailed specification of loan agreements concluded in 2011, related to cash pooling, is presented in the table below:

Table No. 9 Specification of credit agreements related to cash pooling, concluded by the Company in 2011

Kind of agreement	Kind and level of interest rate	Amount of credit/loan in PLN thou.	Effective term
Overdraft	WIBOR 1M + fixed margin	100,000	28.05.2011 – 31.12.2011
Overdraft	WIBOR O/N + fixed margin	300,000	01.01.2012 – 31.12.2014

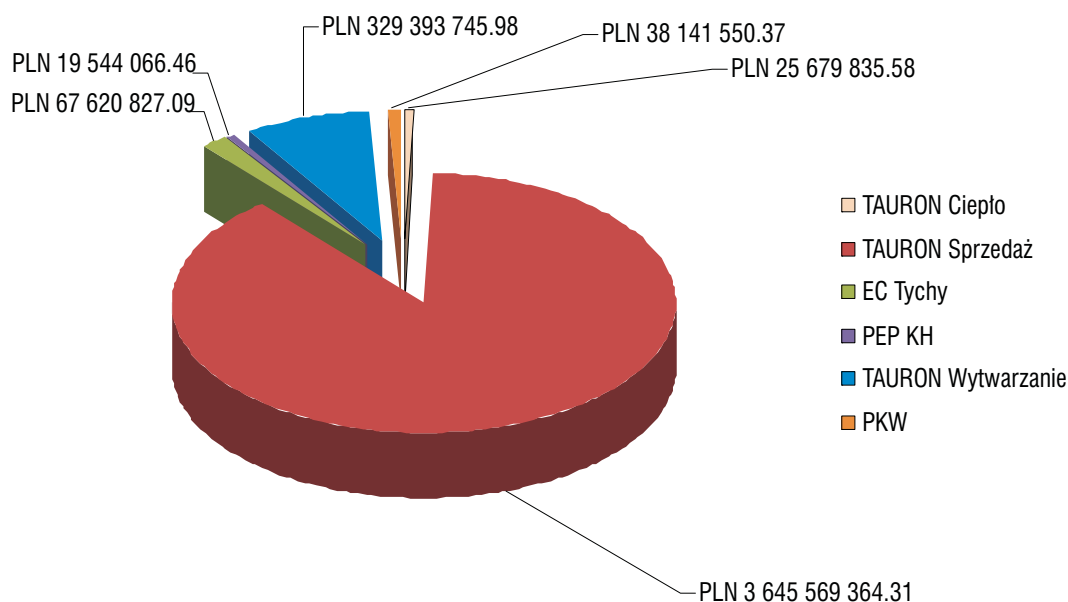
Company in the fiscal year 2011 did not terminate any credit and loans agreements.

2.5.4. Information on granted loans and sureties as well as sureties and guarantees received

In 2011 the Company continued the intra group management of financial resources through the cash pooling system implemented in 2010, whose structure is based on loans granted between its members. At the end of 2011, 12 companies of TAURON Capital Group participated in the cash pooling structure, and the Company continued to act as the entity managing its structure.

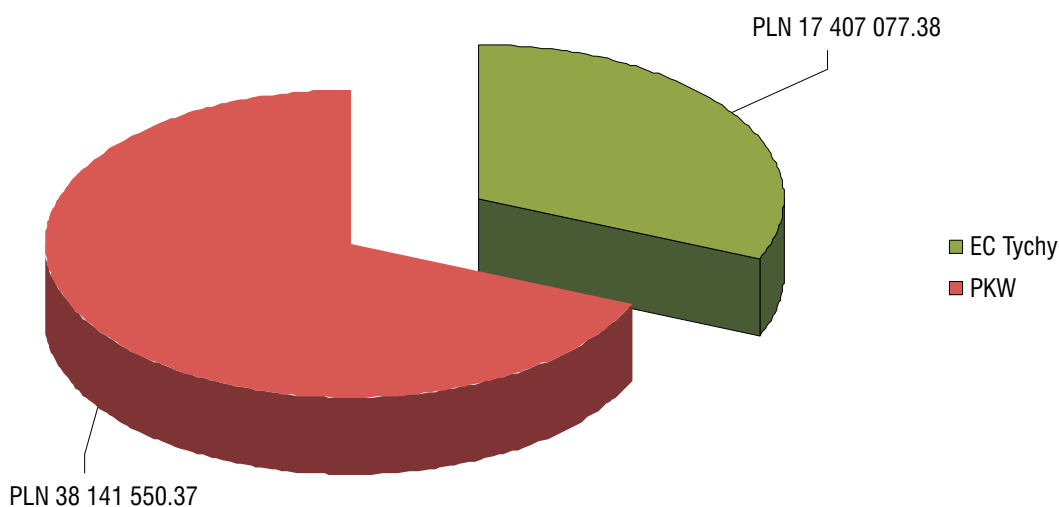
The total amounts of loans granted by the Company in 2011, within the cash pooling structure, i.e. the aggregate amount of all multiple loans granted during the year, subjected to multiple repayment – arising from the applied cash pooling model, in favour of individual companies of TAURON Capital Group, are presented in the figure below.

Figure No. 4 Total amounts of loans granted by the Company in 2011, within the cash pooling structure



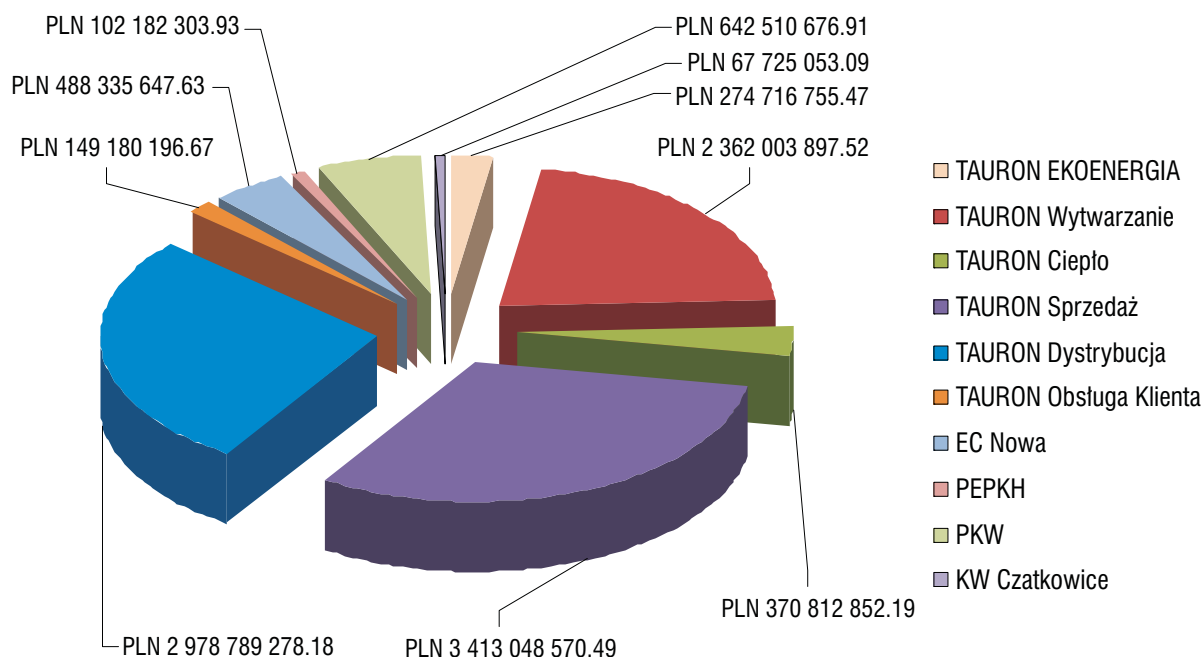
As of 31 December 2011, the balance of loans granted by the Company amounted to PLN 55,548.627.75 and it involved the companies presented in the figure below.

Figure No. 5 Balance of loans granted by the Company, as of 31 December 2011



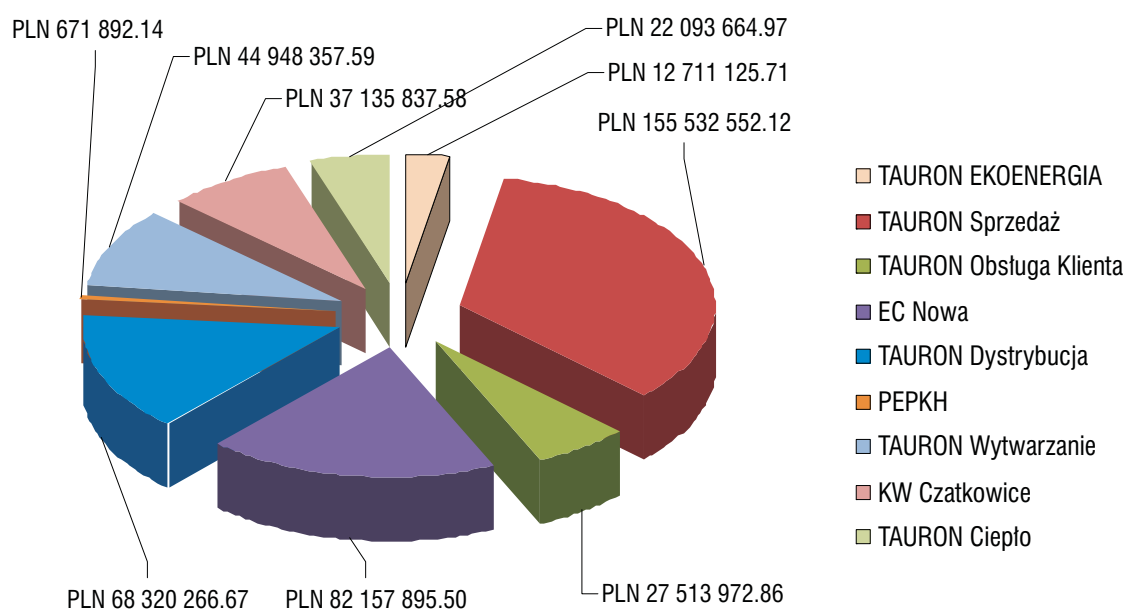
On the other hand, the total amount of loans granted to the Company by its subsidiaries, i.e. the aggregate amount of all multiple loans granted during the year, subjected to multiple repayment within the cash pooling, is presented in the figure below.

Figure No. 6 Total amounts of loans granted to the Company by the subsidiaries in 2011, within the cash pooling structure



As of 31 December 2011, the balance of loans granted to the Company by the subsidiaries within the cash pooling amounted to PLN 451,085,565.14 (interest excluded), according to the subject according to structure of entities is presented in the figure below.

Figure No. 7 Balance of loans granted to the Company by subsidiaries, as of 31 December 2011



Loans granted as a part of cash pooling are of short-term nature to be used for financing of business as usual, and at the same time, they have no defined maturity date. The loans granted are repaid automatically in case the financial resources are kept on the bank account of the company covered by the cash pooling system. The definite date for repayment of any liabilities is the maturity date of the currently binding intra group loan agreement, i.e. 31 December 2014.

Loans granted by companies of TAURON Capital Group within the cash pooling are expressed in Polish zloty and in 2011 their interest rate was based on WIBOR 1M plus the fixed margin. In 2011 companies of TAURON Capital Group did not grant any loans to entities outside TAURON Capital Group.

The guaranties, sureties and commitments granted in 2011 arise from the adopted financing model of TAURON Capital Group and they were provided on account of the conducted trading operations and as the collateral for repayment of loans granted, among others by Voivodeship Fund for Environmental Protection and Water Management (Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej – WFOŚiGW).

Detailed specification of guaranties, sureties and commitments granted by the Company in 2011 is presented in the table below:

Table No. 10 Specification of guaranties, sureties and commitments binding in 2011

No.	Beneficiary	Agreement	Party to the agreement	Amount in PLN thousand	Currency	Effective term
1.	Polskie Sieci Elektroenergetyczne Operator S.A. (PSE Operator)	Agreement on collateral	TAURON Wytwarzanie	4,000	PLN	Indefinite time
2.	WFOŚiGW	Agreement on financing commitment	EC Tychy	87,040	PLN	24.02.2012
3.	UniCredit Bank Czech Republic	Guarantee Agreement	TAURON Czech Energy	20,000	CZK	08.06.2012
4.	Ministry of Economy	Agreement on financing surety	TAURON Wytwarzanie	200,000	PLN	31.12.2012
5.	WFOŚiGW	Aval agreement	EC Tychy	30,000	PLN	15.12.2022
6.	CEZ a.s.	Guarantee Agreement (annex No. 3)*	TAURON Czech Energy	500	EUR	31.12.2012
7.	Nordea Bank Polska	Collateral Agreement	Vattenfall Network Services Poland	672.1	PLN	31.03.2014
8.	Nordea Bank Polska	Collateral Agreement	Vattenfall Sales Poland	4,000	PLN	31.12.2011

* Guarantee issued on 14.12.2011 effective from 01.01.2012

In 2011, the framework agreement on bank guarantee was effective, within the limit set up to the amount of PLN 40,000 thousand, under which the Company launched the bank guarantees for the beneficiaries listed in the table below.

Table No. 11 List of guarantees raised under the limit

No.	Beneficiary	Agreement	Guarantee amount in thousand PLN	Currency	Effective term
1.	Commodity Clearing House (Izba Rozliczeniowa Gield Towarowych S.A.) (IRGIT)	payment guarantee	40,000	PLN	11.03.2011
2.	Central Allocation Office GmbH (CAO)	payment guarantee	500	EUR	31.12.2011
3.	(PSE Operator)	bid bond	4,800	PLN	28.10.2011

In September 2011 the Company concluded the framework agreement on bank guarantee for companies of TAURON Capital Group, effective till September 2014. Under the framework agreement the Company and companies of TAURON Capital Group may apply to release bank guarantees on account of the centralised limit up to the total amount of PLN 50,000 thousand. Under the limit the guarantees specified in the table below were raised:

Table No. 12 List of guarantees raised under the limit

No.	Beneficiary	Agreement	Guarantee amount	Currency	Effective term
1.	CAO	payment guarantee*	800,000	EUR	31.12.2012

* Guarantee issued on 28.11.2011 effective from 01.01.2012

Simultaneously, within TAURON Capital Group, in order to secure transactions executed by the Company at TGE on electric energy markets and in order to participate in the system of transaction clearing liquidity, in 2011 TAURON Wytwarzanie granted the surety to the Company in favour of IRGIT due to clearing of future transactions, up to the level of PLN 145,000 thousand (the agreement was concluded on 23 February 2011).

Moreover, in connection with the tenders executed and contracts concluded, in 2011 the companies of TAURON Capital Group received bank guarantees and insurance avails as well as due performance guarantees, or defects remediation guarantees.

2.6. Information concerning employment

Information on employment in the Company and its structure is shown in the following figures:

Figure No. 8 Employment in FTEs (rounded to the full-time)

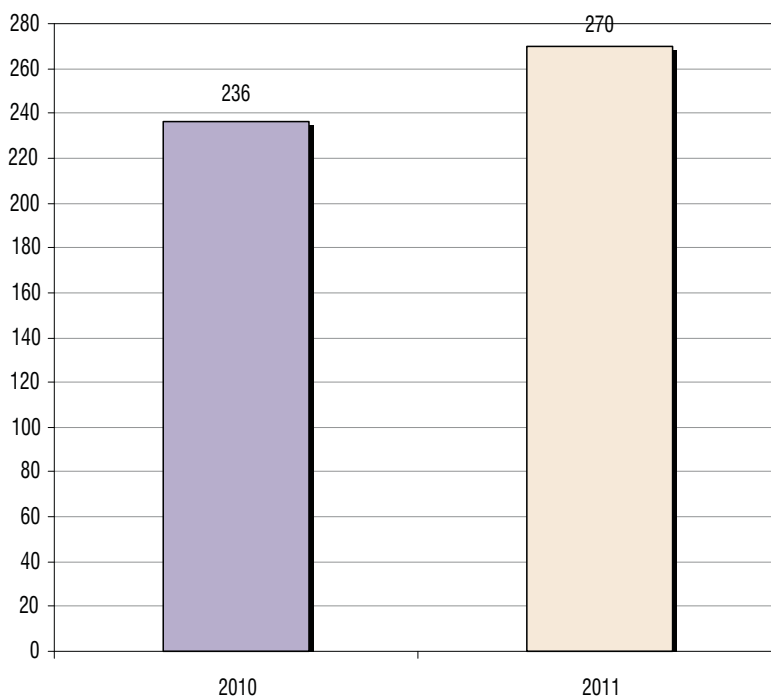


Figure No. 9 Structure of employment by education

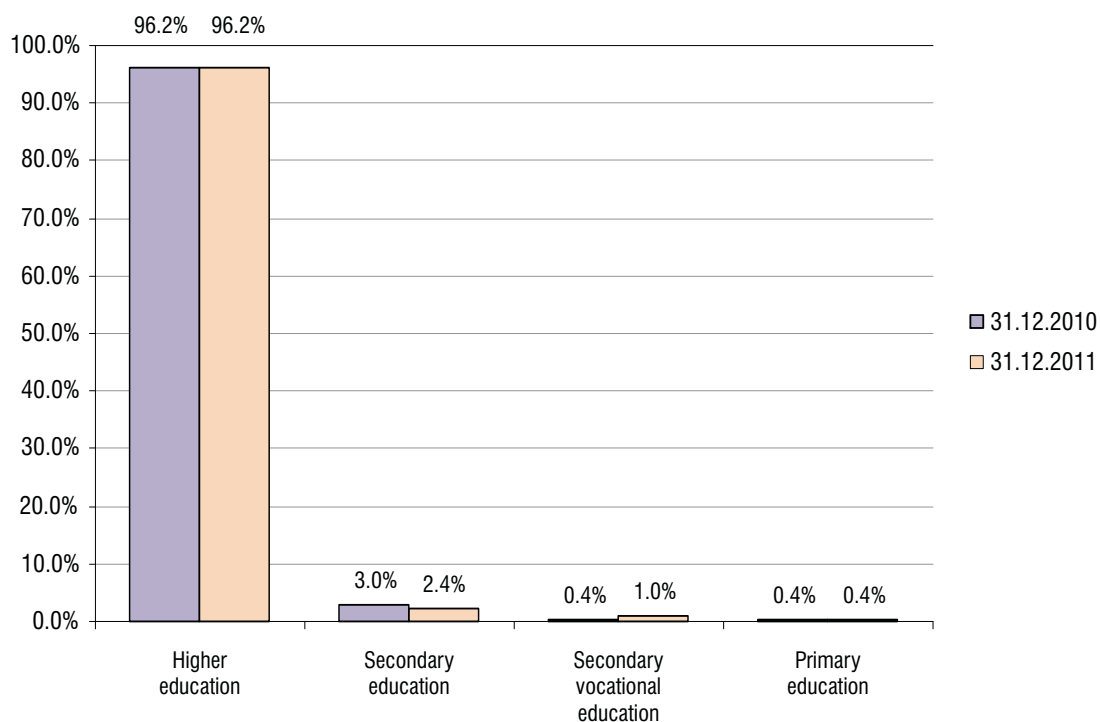


Figure No. 10 Structure of employment by age

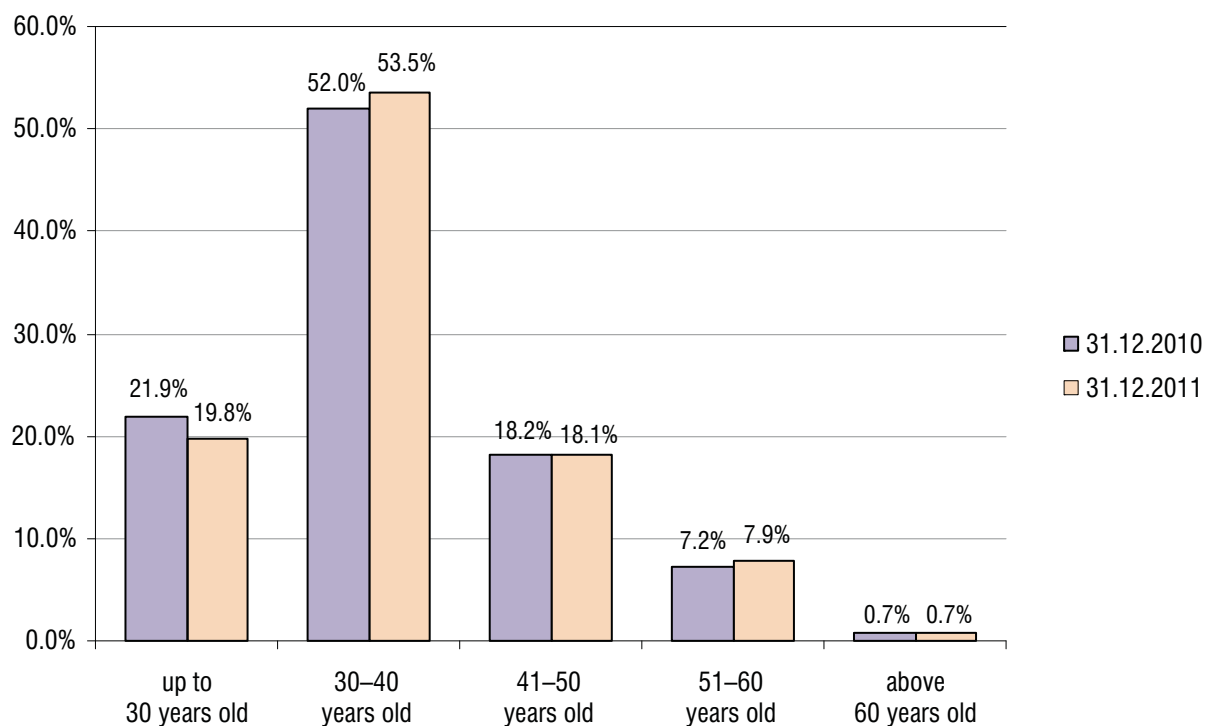
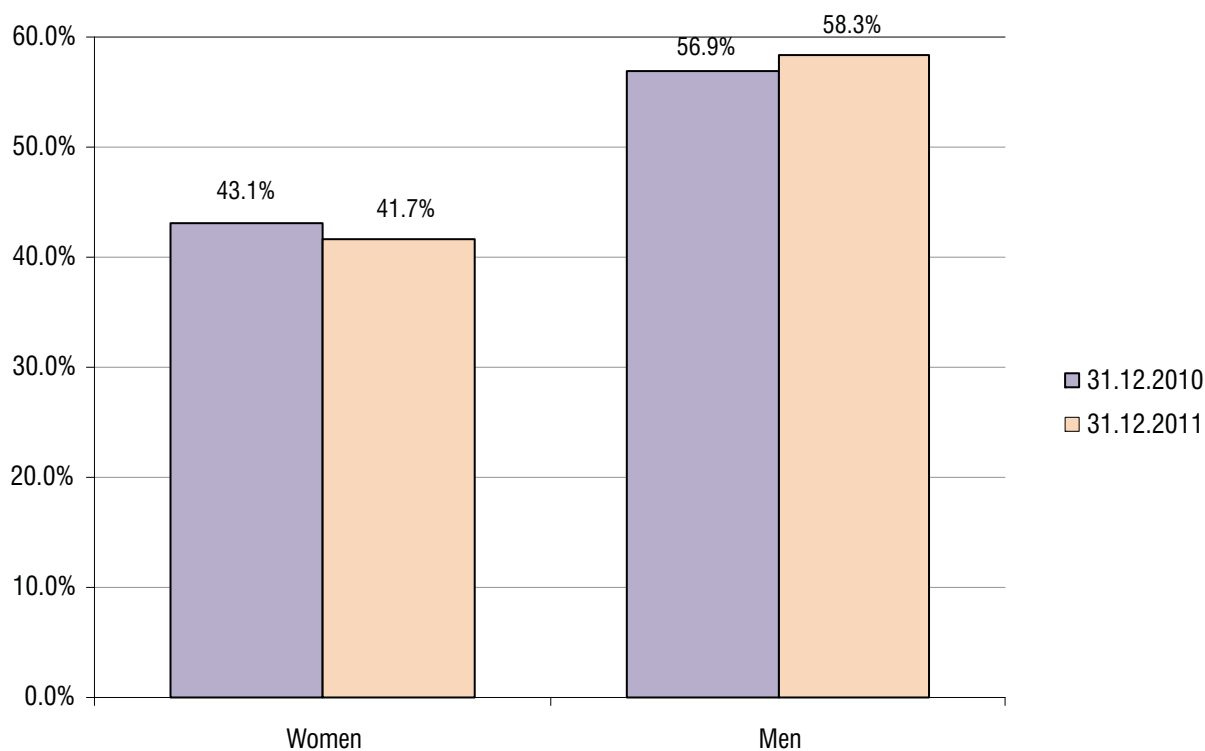


Figure No. 11 Structure of employment by gender

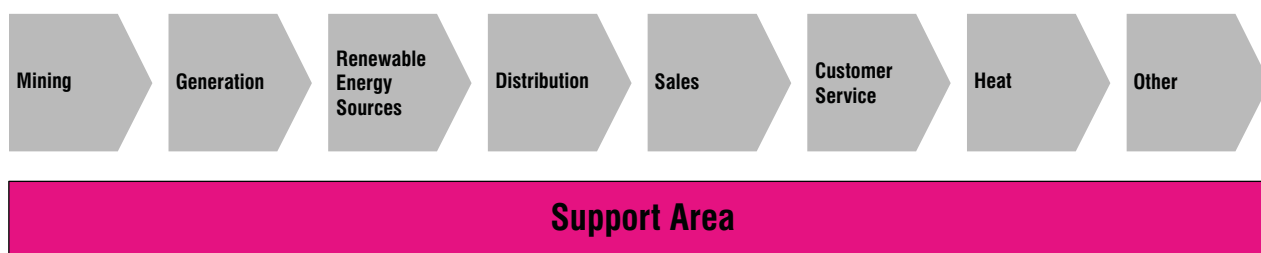


2.7. Development policy of the Company

2.7.1. Planned Structure of TAURON Capital Group

The planned model of TAURON Capital Group structure has been determined in the Corporate Strategy which assumes creating of one company in each Business Area, which should allow for optimisation of operations of entities along the whole value chain, indicated in the figure below, in order to maximise the margin generated in the whole TAURON Capital Group.

Figure No. 12 Value chain in TAURON Capital Group



2.7.2. Implementation of Corporate Strategy

In the years 2009–2010, the assumptions of *Corporate Strategy for TAURON Polska Energia S.A. Group for 2008–2012 with estimates up to the year 2020*, adopted and approved by the Company in 2008 were implemented in accordance with the adopted plan, within which the main actions were connected with integration of TAURON Capital Group, along the value chain and with achievement of sales and EBIT margin growth by the Company. Following two years of implementation of *Corporate Strategy for TAURON Polska Energia S.A. Group for 2008–2012 with estimates up to the year 2020*, in 2011 the actions undertaken so far were reviewed, assessed in terms of their implementation and the assumptions adopted in 2008 were updated. An important group of factors which were analysed covered the new market circumstances and trends in power industry as well as the legal conditions (the EU climate and energy package, amendment to the Act of 10 April 1997. *Energy Law*, Energy policy of Poland until 2030, Programme of nuclear energy).

The analysis of the broadly understood external environment of TAURON Capital Group as well as standing and possibilities of TAURON Capital Group itself led to updating the manner of strategic goals accomplishment in 2011. As a result, the Management Board adopted the updated Corporate Strategy which received positive opinion of the Supervisory Board on 28 April 2011. The Company informed of this event in the current report No. 25/2011 of 28 April 2011.

The overriding strategic goal of TAURON Capital Group is to provide for constant increase of value ensuring the secure return on the invested capital for shareholders. The implementation of the aforementioned goal will be measured on the basis of basic ratios of value development, i.e. EBITDA growth and ROIC (Return On Invested Capital) level.

As a follow-up of implementation of the Corporate Strategy, in 2011 its implementation was based on adjustment of strategic priorities to the changing environment. The key direction of the Corporate Strategy is to focus on growth in the areas of operations where the highest potential for achieving high rates of return on investments exists and diversification of the generation portfolio. In addition, the objective of further improvement of the efficiency and building of effective organization has been sustained.

Accordingly, the updated Corporate Strategy focuses on four key objectives which jointly provide for growth of value of TAURON Capital Group:

I. Growth in the most attractive Areas of Business

The growth will focus in the areas of operations where the highest potential for achieving high rates of return on investments exists, i.e. RES and Generation. Due to the need to restore the generation capacity and the related investment expenditure, investment in generation assets (and potential acquisitions in this area) on the domestic market will be the priority for the Group.

Within the generation portfolio, achievement of the new production capacity in different technologies, including wind energy, is planned at the level of 3,200 MWe by 2020. Moreover, the growth of net power until 2020 will reach 1,379 MWe.

II. Operational and investment effectiveness at the level of best practice

The Corporate Strategy envisages further implementation of synergy of integration of TAURON Capital Group companies. The next stage of restructuring will commence, through improvement of business management and integration of support functions. This will also involve centralisation and, in justified cases, outsourcing of areas which are not directly connected with the core operations of TAURON Capital Group.

The Company will continue to treat budgetary discipline as its priority within investment expenses and operating costs. The activities related to improvement of operational and investment effectiveness will also enable to prepare TAURON Capital Group to operating under volatile market conditions, in particular, under the significant volatility of process of fuels, energy, emission allowances, etc.

III. Management of exposure to market and regulatory risks

In view of market and regulatory volatility, the essential element of Corporate Strategy is the active management of market risks. In order to optimise these risks and maximise rates of return TAURON Capital Group will diversify the generation portfolio by appropriate adjustment of individual types of technologies (limitation of long-term risk arising from investment decisions) as well as develop effective security policy, including security of energy supplies (limitation of medium- and short-term risk resulting from the trading activity). This approach will enable to reduce the volatility of result in TAURON Capital Group through asset portfolio management and control of risk limits.

In 2011 no significant change in generation capacity structure was noted. About 98% of the capacity installed in TAURON Capital Group was covered by coal-burning technology. In 2020, share of these technologies will be reduced to about 70%, including 15–20% from new units. Share of low emission technologies, i.e. gas, wind, water, biomass and biogas, will reach about 30%.

Effective strategy of securities will cover the whole actions in the value chain of TAURON Capital Group, starting from the security of the assumed volume of fuel supply from the sources held, ending up with coverage of the specific volume of electric energy sold to end customers from own generation units. The adopted approach will guarantee the secure operations of the assets held in the Generation Area through provision of fuel supply and maintaining of its price at the acceptable level. The new trading goals will refer to: effective use of assets of TAURON Capital Group, active management of market risk in TAURON Capital Group as well as extension of operations in areas generating additional mass of margin.

IV. Building of effective organisation

Within implementation of this goal, TAURON Capital Group intends to focus its activities on the whole value chain as well as on implementation of the programme of human resources management and managing by objectives.

Effective implementation of the updated Corporate Strategy in the whole value chain will improve the position of TAURON Capital Group among the leading energy companies in the region.

2.7.3. Factors essential for development

Results of operations of the Company will be affected mainly, as it happened in the past, by the following factors:

- the macroeconomic situation, especially in Poland, as well as the economic situation of the area of operations of the TAURON Capital Group, situation of the European Union (EU) and the global economy, including interest rate changes and currency rate, etc., influencing the valuation of assets and liabilities recognised by the Company in financial statements,
- political environment, especially in Poland as well as on the European Union level, including the opinions and decisions of public administration institutions and bodies, for example: OCCP, the Energy Regulatory Office (ERO) and the European Commission,
- situation in electric energy sector, including competition behaviour at the energy market,
- introduction of the support system of electric energy generation by high efficiency cogeneration in units fired with methane (mandatory since September 2010),
- geological and mining conditions,
- number of allowances to CO₂ emissions allocated on complimentary basis after 2012 and prices of the allowances acquired,
- level of compensation for covering of the stranded costs related to termination of the long-term contracts (LTC),
- changes in regulations of the energy sector,
- changes in legal environment, including: tax law, commercial and energy law,
- demand for electric energy and other products of energy market,
- prices of electric energy and fuel coal as well as distribution tariffs, as factors influencing the level of revenue and costs;
- environmental protection requirements,
- research and technical progress,
- seasonality and weather conditions.

2.8. Assessment of implementation opportunities of investment projects

In 2011, in addition to investments described in section 1.4 of this report, other investments made by the Company were not significant.

Strategic investment as well as their financing are managed centrally at the level of the Company. On the basis of the conducted analyses, the Management Board of the company believes that TAURON Capital Group is able to finance the current and future investment projects from funds generated from operating activity and by acquisition of debt financing.

2.9. Risk and threat factors

Taking care for implementation of the Corporate Strategy, the Company manages business risks occurring in operations of the whole TAURON Capital Group. The business risks management process is aimed at implementation of the adopted business objectives of the TAURON Capital Group as a part of the acceptable risk level adopted by the Company's Management Board. W 2011, the process of implementation of the *Corporate Risk Management Policy in the TAURON Group* was continued in TAURON Group

The Comprehensive Risk Management System covers significant risks which occur in operations of the Company and TAURON Capital Group. The nature of risks is defined, in particular, by specifying their significance level and probability of materialization. To achieve this goal, the system covers and organises all the resources of TAURON Capital Group developing the infrastructure of corporate risk management (strategy, processes, authorisation, reporting, methodology and IT tools). The Risk Management System covers all elements of the value chain implemented of TAURON Capital Group and all the employees of TAURON Capital Group take part in the risk management process.

The figure below shows the processes within corporate risk management in TAURON Capital Group.

Figure No. 13 Processes within corporate risk management in TAURON Capital Group



In the Company, permanent team of experts operates, which includes persons holding relevant knowledge of the Company and its environment, established as the "Risk Committee", which permanently initiates, analyses, monitors, controls, supports and supervises the performance of corporate risk management in TAURON Capital Group.

Assessment of the extent the Company is exposed to the risk factors and threats listed below, takes into consideration their probability of occurrence and significance as well as adequacy of the applied risk management strategy. Order in which particular risks have been presented does not reflect the scale of the assessment.

Macroeconomic risk – is related, in particular, with the level of the Gross Domestic Product (GDP), interest rates, currency exchange rates, fiscal and monetary policy, unemployment rate and level of investment. Macroeconomic risk factors may significantly affect the financial results and market position of the Company, especially through the level of production of electric energy and heat as well as energy distribution and sales volume, availability and cost of acquisition of financial instruments.

Political risk – is connected with the manner and type of state intervention in the whole economy and its individual sectors. Political risk factors can have a significant influence on the Company operations, in particular, through changes in the energy or financial policy of the state.

Risk of unstable legal system and the European Union regulations connected with the operations of the energy sector, including environment protection – the risk applies to all legal changes, in both Polish and the European Union regulations as well as to legislation environment uncertainty. The risk factors may have significant adverse effect on operations of TAURON Capital Group and its financial situation through increase of operating costs or loss of concession within the scope required for the operations.

Risks associated with the process of strategic investments and strategic planning – is related to implementation of investment, failing to achieve the desired results or exceeding the budget. Risk factors may adversely affect business of the Company, its financial

condition or results of operations, and the deterioration of market position and image of the Company by generating a financial loss or loss of financial liquidity, increasing investment costs, reduced benefits and reduce the profitability of investments or stop the project.

Risk of fund raising and financing service – the risk of lack of possibilities to raise funding for operating and investment needs or obtaining financing on conditions which are different from the adopted assumptions. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through the lack of resources for projects included in the Corporate Strategy and in investment plans, and for operations.

Liquidity risk – the risk associated with the ability of the Company to settle its current liabilities. Risk factors may adversely affect business of the Company, its financial condition or results of operations through financial costs associated with the payment of interest for the delay in settling liabilities, the loss of the benefits of terminating deposits, loss of credibility and the need to incur further liabilities.

Price change risk – the risk is related to the uncertainty in the development of electricity prices, CO₂ emission rights and property rights arising from certificates of origin. Risk factors may adversely affect business of the Company, its financial condition or results of operations through the loss of revenue, lower margins and declining profitability of commercial activities.

Risk of product valuation of sold electricity – is associated with not taking into account of specific business conditions in the valuation of the offered product and the lack of contractual security on the conditions of sale of the offered product. Risk factors may significantly adversely affect business of the Company, its financial condition or results of operations through the loss of the planned margins and lack of profitability of sales.

Risk connected with the obligation to redeem CO₂ allowances – the risk is connected with emitting of CO₂ into the atmosphere as well as the need to redeem a relevant number of CO₂ allowances. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through imposing a fine for each unit of unredeemed credit. Limiting of free allotments and the resulting significant increase of costs to purchase of the outstanding CO₂ allowances may result in decreasing of the planned electricity sales profitability.

Volumetric risk – risk related to volatility of electric energy trade volume. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through increased costs connected with closing of open positions on the forward market and/or balancing market, on futures market and/or current market as well as losing income and decrease of margin on sales of electric energy to consumers.

Information concerning financial risk, understood as currency risk and interest rate risk is presented in item 3.6.2. of this report.

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

3.1. Principles of preparation of the annual financial statements

On 7 June 2010 the Extraordinary General Meeting of the Company adopted the resolution based on which the Company prepares financial statements in accordance with the International Financial Reporting Standards (IFRS), starting from financial statements for the period starting on 1 January 2010.

The Financial statement has been prepared in accordance with the IFRS adopted by the European Union. IFRS cover standards and interpretations approved by the International Accounting Standards Board as well as the International Financial Reporting Interpretation Committee.

The Financial statement has been prepared with the assumption of continuation of business operations by the Company in the predictable future. As of the date of the financial report, no circumstances are recognised, indicating any risk for business continuity of the Company.

The accounting principles (policy) adopted for drawing up of the financial statements have been provided in note 5 of the Financial statement of TAURON Polska Energia S.A. for the year ended on 31 December 2011.

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

Statement on comprehensive income

The table below presents annual unit statement of comprehensive income.

Table No. 13 Annual unit statement on financial situation (data PLN in thousands)

Statement on comprehensive income prepared according to IFRS	2011	2010	Dynamics (2011/2010)
Continuing operations			
Sales of goods, finished goods and materials without elimination of excise	8,823,744	7,172,814	123.0%
Excise tax	(15,122)	–	–
Sales of goods for resale, finished goods and materials	8,808,622	7,172,814	122.8%
Revenue on sales of services	36,526	12,444	293.5%
Other revenue	4	13	30.8%
Revenue on sales	8,845,152	7,185,271	123.1%
Own cost of sales	(8,662,983)	(7,067,452)	122.6%
Gross profit on sales	182,169	117,819	154.6%
Other operating revenue	2,520	742	339.6%
Costs of sales	(22,850)	(12,493)	182.9%
Overheads	(79,563)	(95,789)	83.1%
Other Operating Expenses	(1,210)	(652)	185.6%
Operating profit	81,066	9,627	842.1%
<i>Operating profit margin (%)</i>	<i>0.92%</i>	<i>0.13%</i>	<i>705.0%</i>
Financial revenue	1,121,100	195,648	573.0%
Financial expenses	(97,524)	(6,476)	1,505.9%
Gross profit	1,104,642	198,799	555.7%
<i>Gross profit margin (%)</i>	<i>12.5%</i>	<i>2.8%</i>	<i>446.0%</i>
Income Tax	(21,213)	(8,321)	254.9%
Net profit on continuing operations	1,083,429	190,478	568.8%
<i>Net profit margin (%)</i>	<i>12.2%</i>	<i>2.7%</i>	<i>453.7%</i>
Other comprehensive revenues	0	0	–
Total revenues for the period	1,083,429	190,478	568.8%
EBITDA	86,171	13,056	658.4%
<i>EBITDA margin (%)</i>	<i>0.97%</i>	<i>0.18%</i>	<i>540.0%</i>

Company's net profit in 2011 amounted to PLN 1 083 429 thousand, an increase of 468.8% compared to 2010, the Company's net profit margin (ratio of net profit to sales) was 12.2% compared to 2.7% achieved in 2010, a significant increase in net profit received was influenced by dividends received from subsidiaries. The increase in operating income in 2011 was influenced by lower operating costs of the Company, in 2010, there were, among others additional costs associated with conducting a public offering of shares in the Company and their introduction into the Warsaw Stock Exchange, as well as increased increase in revenues from electricity sales.

Table No. 14 Revenues of the Company from sales for the years 2011 and 2010 (figures in PLN thousands)

Specification	2011	2010	Dynamics (2011/2010)
Revenue on sales	8,845,152	7,185,271	123.1%
Sales of goods for resale, finished goods and materials	8,808,622	7,172,814	122.8%
including:			
Electricity sales (without elimination of excise)	8,370,051	6,981,780	119.9%
Revenues from sales of services and other income	36,530	12,457	293.2%
including:			
Sale of trading services	28,385	9,716	292.1%
Revenue on other operations	2,520	742	339.6%
Revenues from financial operations	1,121,100	195,648	573.0%

Increase in revenues from sales in 2011 compared to 2010 related to an increase in electricity sales volume by approximately 14% and the increase in selling price of electricity. The increase in revenues from sales of services as compared to 2010 occurred mainly for services relating to energy trading (service of technical and trading operator, management of CO₂ allowances portfolio.) Additionally, in 2011, the Company received compensation related to the termination of the Short-term Transaction Agreements in the amount of PLN 7 300 thousand.

A significant increase in revenues from other operating activities in 2011 compared to 2010, associated with the development of the 2011 provision for bad debts, but in relation to the level of liabilities, this figure is negligible, and represents approximately 0.3%.

The increase in revenue from financial operations in 2011 compared to 2010 was mainly due to higher dividends received from subsidiaries and higher interest on deposits of free cash.

Table No. 15 The size and structure of costs (in PLN thousand)

Specification	2011	2010	Dynamics (2011/2010)
Total costs	8,864,130	7,182,862	123.4%
Own cost of sales	8,662,983	7,067,452	122.6%
Sale and general management costs	102,413	108,282	94.6%
Other operating costs	1,210	652	185.6%
Financial operations costs	97,524	6,476	x

In 2011, the total operating costs of the Company amounted to PLN 8 864 130 thousand and were 23.4% higher than last year. Own cost of sales increased in 2011 by 22.6% compared to 2010, mostly due to the increase in power purchase cost increases, resulting from the increase in the volume of purchase and average purchase price for electricity (compared to 2010, an increase of about 5.6%).

Cost of sales and general management costs of the Company in 2011 were lower by about 5.4% compared to previous year, in which the Company incurred them i.e. cost of introducing shares to public trading.

The other operating costs cover mainly contributions to external organizations and donations.

A significant increase in financial expenses in relation to 2010 was due to the increase of interest on financial liabilities, due to the introduction of central funding model for activities of the TAURON Group, which provides for obtaining financing at the level of parent company.

Economic and financial position of the Company

In the table below, the annual unit statement on financial situation of the Company is presented.

Table No. 16 Annual unit statement on financial situation (data in PLN thousand)

Statement on financial situation prepared according to IFRS	State as at 31 December 2011	State as at 31 December 2010	Dynamics (2011/2010)
ASSETS			
Fixed Assets	22,230,228	17,224,617	129.1%
Tangible fixed assets	11,591	5,425	213.7%
Intangible assets	15,487	7,322	211.5%
Shares	21,028,076	16,353,470	128.6%

Statement on financial situation prepared according to IFRS	State as at 31 December 2011	State as at 31 December 2010	Dynamics (2011/2010)
Bonds, treasury bills and other debt securities	1,137,040	848,200	134.1%
Other long-term non-financial assets	830	1,686	49.2%
Deferred Income tax assets	37,204	8,514	437.0%
Current assets	1,340,747	1,220,568	109.8%
Short-term intangible assets	33,120	9,773	338.9%
Reserves	41,028	9,238	444.1%
Receivables due to income tax	–	2,822	–
Trade receivables and other receivables	991,975	634,531	156.3%
Bonds, treasury bills and other debt securities	13,003	383	3,395.0%
Other financial assets	2	257	0.7%
Other short-term non-financial assets	3,581	36,553	9.8%
Cash and equivalents	258,038	527,011	49.0%
TOTAL ASSETS	23,570,975	18,445,185	127.8%
LIABILITIES			
Equity	17,344,228	16,523,681	105.0%
Share capital	8,762,747	15,772,945	55.6%
Supplementary capital	7,412,882	475,088	1,560.3%
Retained profits/Uncovered losses	1,168,599	275,648	423.9%
Long-term liabilities	4,140,154	848,392	488.0%
Loans, credits and debt securities	4,136,112	845,650	489.1%
Liabilities due to leasing and lease contracts with purchase option	990	136	727.9%
Long-term provisions and employee benefits	3,052	2,606	117.1%
Short-term liabilities	2,086,593	1,073,112	194.4%
Trade liabilities and other liabilities	325,928	540,702	60.3%
Current portion of interest-bearing credits, loans and debt securities	1,468,066	461,627	318.0%
Liabilities due to income tax	33,687	–	–
Current portion of liabilities due to leasing and lease contracts with purchase option	627	906	69.2%
Other short-term liabilities	84,778	26,094	324.9%
Accruals and governmental subsidies	8,175	6,719	121.7%
Short-term provisions and employee benefits	165,332	37,064	446.1%
TOTAL LIABILITIES	23,570,975	18,445,185	127.8%

The increase in assets at the end of 2011 in relation to the comparable period of 2010 is due to increase in long-term investments and bonds. Increase in long-term investments by approximately PLN 4 674 606 thousand is, among others, the result of acquisition of securities described in item 1.4.1. of this report.

As at 31 December 2011 and 31 December 2010, the Company's total equity amounts to PLN 17 344 228 thousand and PLN 16 523 681 thousand, which represents 73.6% and 89.6% of total liabilities. The decrease in share capital results from the reduction of the Company shares par value, which is described in item 2.4 of this report. The amount of PLN 7,010,198, resulting from reduction in the share capital was appropriated towards reserve capital.

As at 31 December 2011, the state of the Company's liabilities under the received loans and debt securities concerned issued bonds and loans from related entities, entered into under the Agreement for the provision of cash pooling services (total PLN 4 136 112 thousand).

In the item *Current portion of loans and debt securities* covered are liability associated with the acquisition of long-term investments in the amount of PLN 1 002 438 thousand, which constitutes the acquired by the Company in the acquisition of shares in GZE debt to GZE Vattenfall AB and its subsidiaries.

The change in the items short-term provisions and employee benefits is related to the sale of electricity to final customers and the obligation to redeem a certain amount of certificates of origin for electricity from renewable energy sources, gas and co-generation. As of 31 December 2011 the Company established a short-term provision on this account in the amount of PLN 164 856 thousand. (as of 31 December 2010 the Company established a short-term provision for the obligation of presenting certificates of electricity origin in the amount of PLN 36,795 thousand). The increase in amount of the provision in 2011 to 2010, is due to an increase in the volume of electricity sales to final customers.

Statement of Cash Flow

Table No. 17 Statement of Cash Flow (data in PLN thousand)

Statement of Cash Flow prepared according to IFRS	Year ended 31 December 2011	Year ended 31 December 2010	Dynamics (2011/2010)
Cash flows from operating activities			
Gross profit (loss)	1,104,642	198,799	555.7%
Adjustments	(1,213,479)	(421,519)	287.9%
Net cash from operating activities	(108,837)	(222,720)	48.9%
Cash flows from investment activities			
Sales of tangible fixed assets and intangible assets	192	11	1,745.5%
Purchase of tangible fixed assets and intangible assets	(14,069)	(6,970)	201.9%
Sale of bonds, treasury bills and other debt securities	134,460	–	–
Purchase of bonds, treasury bills and other debt securities	(433,302)	(848,200)	51.1%
Acquisition of shares in associated companies	(3,623,031)	(80,711)	4,488.9%
Dividend received	967,409	181,948	531.7%
Interest received	54,800	–	–
Repayment of loans granted	168,000	–	–
Granting of loans	(348,009)	–	–
Other	–	3,548	–
Net cash from investment	(3,093,550)	(750,374)	412.3%
Cash flows from financial activities			
Purchase of own stocks	–	(245)	–
Repayment of liabilities due to financial leasing	(926)	(811)	114.2%
Issue of debt securities	3,300,000	848,200	389.1%
Paid dividends	(262,882)	–	–
Interest paid	(45,506)	(178)	x
Other	(12,735)	(1,700)	749.1%
Net cash from financial activities	2,977,951	845,266	352.3%
Increase/(decrease) in net cash and cash equivalents	(224,436)	(127,828)	175.6%
Net exchange differences	(61)	(44)	138.6%
Cash opening balance	85,574	213,402	40.1%
Cash closing balance	(138,862)	85,574	x

Total cash flow from operations, investing and financing activities of the Company for 2011, after taking account of cash at the beginning of the period amounted to PLN -138 862 thousand. The negative level of cash at the end of the period is the result of adjustment of cash balances which are the incurred and granted loans, implemented under the cash pooling transactions, due to the fact that they do not represent cash flows from investing activities or financing activities, they mainly serve the management of current liquidity.

Changes in flows in 2011 compared to 2010, result mainly from the acquisition of shares in GZE, conducted in 2011. In December 2011, the Company issued bonds worth PLN 3 300 000 thousand, in order to raise funds to purchase such shares.

3.3. Differences between the financial results recognised in the annual report and the forecasts of results for the year as published earlier

The Management Board of the Company did not publish forecasts for the Company's results for the fiscal year 2011.

3.4. Financial and non-financial ratios

The table below presents the basic financial indicators.

Table No. 18 Basic financial indicators of the Company

Specification	2011	2010	Dynamics (2011/2010)
Gross profitability (gross profit / net revenues from sales of products, goods and materials)	12.5%	2.8%	446.4%
Net profitability (net profit / net revenues from sales of products, goods and materials)	12.2%	2.7%	451.9%
Return on equity (gross profit / equity)	6.4%	1.2%	533.3%
Return on assets (net profit / total assets)	4.6%	1.0%	460.0%
EBIT [PLN thousands] (operating result)	81,066	9,627	842.1%
EBIT margin (EBIT / net revenues from sales of products, goods and materials)	0.92%	0.13%	707.7%
EBITDA [PLN thousands] (operating result + amortisation)	86,171	13,056	660.0%
EBITDA margin (EBITDA / net revenues from sales of products, goods and materials)	0.97%	0.18%	538.9%
Current liquidity ratio (current assets / current liabilities)	0.64	1.14	56.1%

Gross and net profitability of the Company in 2011 is at a level significantly higher than in the previous year. The level of the operating result is characteristic for company conducting management of a holding (costs associated with managing TAURON Capital Group are included in operating activities, while the revenue derived from the dividends are related to financing activities).

Company's ability to pay liabilities in 2011 is not compromised.

3.5. Income from the bonds issue programme

According to information contained in item 2.5.1 of this report, on 28 October 2011, between the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Nordea Bank Polska S.A., Nordea Bank AB, the annex was concluded to the Guarantee Agreement, Agency Agreement and Deposit Agreement and the Conversion Agreement was concluded, on the basis of which the value of bond issue programme of the Company was increased within tranche C by PLN 3,000,000 thousand, i.e. to the total amount of PLN 4,300,000 thousand. The primary agreement on the bond issue programme was signed on 16 December 2010 at the amount of PLN 1,300,000 thousand, consisting of two tranches: Tranche A with the value of PLN 850 000 thousand and Tranche B with a value of PLN 450 000 thousand. In 2010, the Tranche A has been used to refinance long-term debt of the TAURON Group companies.

On 12 December 2011 two issues of bonds were executed within:

- Tranche B at the level of PLN 300,000 thousand,
- Tranche C at the level of PLN 3,000,000 thousand.

The whole resources gained from the issue of the bonds were used for purchased of GZE shares by Vattenfall AB.

3.6. Financial instruments

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

The company constantly monitors its credit risk generated in the course of business.

In 2011, the Company had exposure to business partner credit risk arising from the conclusion of trade agreements. In order to reduce it, based on regularly performed analyses of creditworthiness and financial standing of the contracting parties, in justified cases, appropriate collaterals are required from the customer, for example in the form of bank, insurance or corporate guarantees, as well as regulations enabling to withhold deliveries of goods, products or rendering services in case of default in settling the accounts.

In order to minimize potential disruptions in cash flows and liquidity risk, the Company in 2011, as in previous years, operated a cash pooling mechanism, which, apart from means held by individual participants is associated with a flexible line of credit in the form of overdraft on the current account, the amount of which was raised from PLN 100 000 thousand in 2011 to PLN 300 000 thousand for the years 2012–2014.

In addition, at the end of 2011, the instrument ensuring the safety of the liquidity of the TAURON Group companies (and thus reducing the risk of loss of financial liquidity) was available part of the B tranche of the 5-year Company bonds issuing scheme, amounting to PLN 150 000 thousand, with the possibility of its issuance in a time chosen by the Company and a guarantee of taking up by the Banks. Regardless of that the Company had also signed two contracts with the European Investment Bank (referred to in item 2.5.3), for an available long-term financing at the level of PLN 510 000 thousand.

In 2011, the company, under the management of financial risk, secured currency exposure created in the course of commercial activities of the Company entering into a forward contract. The purpose of these transactions was to protect the Company against variability in cash flows resulting of exchange rate volatility.

As at 31 December 2011, the Company had one active term derivative transaction, as specified in the table below.

Table No. 19 Information on forward transactions and derivatives as at 30 December 2011

Type of transaction concluded	Total par value of the specific type of transaction	Currency			Maturity date of the specific type		Valuation of the specific type of transaction
		EUR	USD	CZK	up to one year	above one year	
Forward	PLN 8,960,400	–	–	x	x	–	PLN -80,301
IRS	–						
Option	–						
Other	–						

3.6.2. Goals and methods of financial risk management

The company manages financial risk, understood as currency risk and interest rate risk, based on the developed and adopted for application *Policy of management specific in the financial area in the TAURON Group*, which is a set of principles and standards in line with best practice in this area.

Due to correlation between the risk borne and the level of achievable income, these regulations are used to maintain the risks at the previously established, acceptable level. The main objective of financial risk management is to minimize the sensitivity of cash flows of the Company to financial risk factors and to minimize financial costs and the cost of security within transactions with the use of derivative instruments.

Simultaneously, the policy implements hedge accounting principles which determine the rules and types of hedge accounting policy as well as the booking approach to recognising of hedging instruments and items hedged under the hedge accounting, in compliance with IFRS. In accordance with that policy of the Company (which, according to the implemented Policy, as the only one enters into transactions with third parties, i.e. financial institutions) intends to use derivative instruments, characteristics of which allow the use of hedge accounting in the future.

Moreover, in the second half of 2011, the Company implemented the *Policy of liquidity management in TAURON Group*. Due to the Policy implemented, based, among others on precise, weekly update of the financial plans, analysis of scenarios and comparative analyses, the Company optimises the management of the liquidity position of TAURON Capital Group, accordingly decreasing the risk of losing of the liquidity. Based on the adopted policy, the Company determines the optimal amount and structure of the TAURON Group liquidity provision and measures and assesses the liquidity risk of the TAURON Group.

3.7. Present and forecast financial situation

Financial situation of the Company is good. There were no adverse events affecting the continuation of the Company operations.

Management Board of the Company foresees that the financial situation of the Company should not deteriorate.

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

3.8.1. Internal factors and their assessment

During 2011, there were not any major internal factors having a significant impact on the financial result. However, the events that influenced operations of the Company and results of the TAURON Group in 2011 included:

- purchase of shares in GZE, and its subsidiaries,
- centralization of commercial and technical operator functions in the Company in the scope of electricity trade and other products of the energy market.

These factors influenced the formation of the Company result, indirectly, their effect will be visible in both short and long term.

3.8.2. External factors and their assessment

The Company's results in 2011 were affected by the following external factors:

Macroeconomic situation

The core business of the Company is the Polish market, in which the Company takes advantage of the positive trends present on it. The increase in domestic demand, and above all, a positive correlation between the growth in electricity demand and economic growth, expressed by GDP accounted for higher revenues of the Company in 2011, according to Central Statistical Office (Główny Urząd Statystyczny – GUS), Polish GDP grew by 4.3% in 2011, in comparison to the same period last year. In view of other EU Member States, the GDP growth achieved was significantly higher and its structure positively reflects the strength of Polish economy, which is directly translated into growth of sales and revenues of the Company and TAURON Capital Group.

Financial year 2011 was another, during which higher demand for electricity in the National Power System (NPS) was observed. Consumption of electric energy in Poland, as compared to 2010 was higher by 1.9%.

Situation on the European energy market

Situation on the electric energy market in Poland was significantly influenced by events and trends occurring on the foreign markets. The key events from the perspective of the electric energy market included:

- 1) abandonment of nuclear energy in Germany – failure of the nuclear reactor in Fukushima did not affect Poland directly, however, gradual closing of reactors in Germany will result in the deficit of power in the future, which may have adverse effect on energy safety in this regions and stimulate the growth of energy prices;
- 2) negotiations at the EU level concerning the form of the National Allocation Plan for CO₂ emission allowances for the years 2013–2020. At the end of June 2011, Poland, demanding the analysis of costs involved in reduction of CO₂ emission, blocked the adoption of conclusions of the Council in the area of environment, concerning the roadmap for reducing CO₂ emission in the EU till 2050. The roadmap assumed that until 2020, the reduction of CO₂ emissions will reach 25% (instead of 20% agreed in 2008). This situation may influence growth of energy prices at the wholesale market in Poland in the future, as well as at the retail market;
- 3) volatility of prices of CO₂ allowances – in the first half of 2011, the CO₂ allowances prices quoted at the world stock exchange demonstrated the growing trend. The surge in prices was observed in the second half of March, after Germany announced a decision on plans to close seven nuclear power plants. Then the situation stabilised and, starting from June prices of EUA were quoted above 16 EUR/t. In the second half of the year, prices of allowances slumped. The reasons for these developments can be seen in the disturbing information about the Greek economy, which had a significant impact on European financial markets and thus indirectly also on CO₂. Concerns related to the economic downturn of the countries of Eurozone as well as the vision of the subsequent wave of the world financial crisis, led to further discounts of CO₂ emission allowances in the second half of the year. As of June the market was dominated by the downward trend that has led EUA prices to a level of 7 EUR/t in December 2011.

Situation in electric energy sector

Year 2011 in Polish energy sector did not bring any significant changes, and the effects of activities undertaken in the previous years were continued. The stable situation in the sector providing hard coal, the main fuel of conventional power industry, prevented dramatic changes of prices. Slight increase of raw material prices at the SPOT market had limited impact on energy generation costs.

During 2011 only one large unit of conventional energy generation was included in KSE. It was the 858 MW unit in Elektrownia Bełchatów, commissioned at the end of the third quarter of 2011. On the other hand, significant increase of the installed capacity was attributed to renewable energy whose volume exceeded 3 000 MW in total. The commissioned wind parks were dominating, which reached above 1 900 MW of the installed capacity until the end of 2011. Increased power availability in the NPS has translated into an increase in energy production, which, according to PSE Operator in 2011 increased by 4.36% compared to 2010. Analogically, the consumption of electric energy in 2011 increased by 1.9% year to year. The difference between the growth of production and consumption was exported, which was supported by favourable price relations between Polish market and neighbouring Germany and the Czech Republic. The total surplus of exports over imports of energy in the whole of 2011 amounted to over 5 TWh and was higher by more than 3.5 TWh than in 2010.

The continued liberalisation of the energy market and campaigns promoting using TPA as a principle, accompanied by growing competition in order to acquire the retail client, resulted in significant number of energy consumers changing the supplier. According to the data of URE,

until the end of 2011, this group reached almost 22 thousand business clients and over 14.3 thousand of households, which in case of G tariff means over ten-fold increase in relation to the end of 2010.

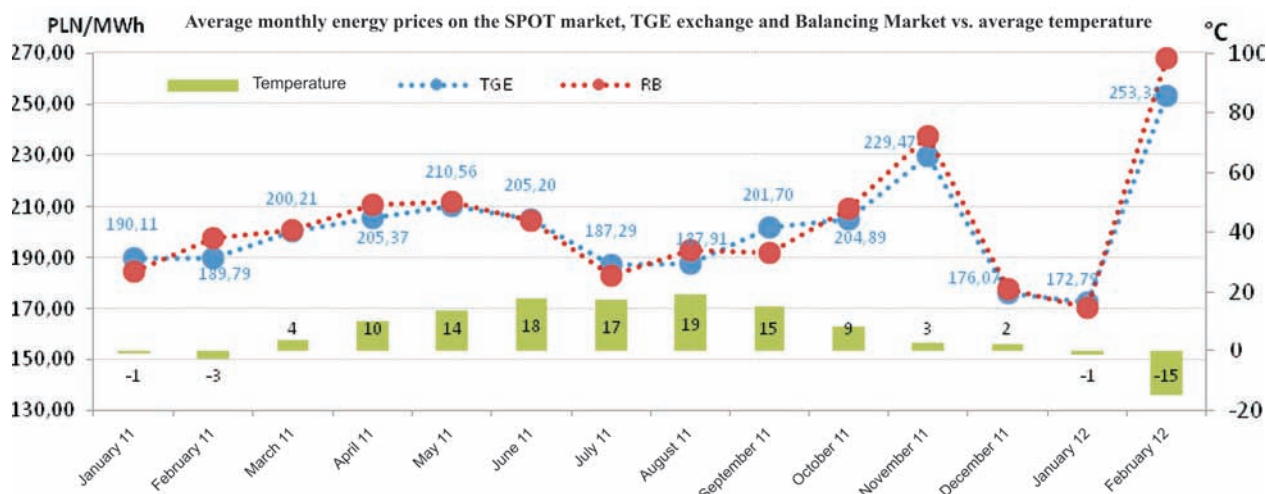
The year 2011 also brought the follow-up of legislative changes. Most important of these was extension of the capability to fulfil the obligations of energy sales by manufacturers, introduced by the Act of 19 August 2011 *amending the Energy Law*. The amendment of the Energy Law has also introduced changes related to the definition of the end consumer, according to which the end consumer performs purchases of fuel or energy for own use, while electric energy purchased for the needs of its generation, transmission or distribution is not classified as energy for own use. The definition of market organised by entity providing regulated market on the territory of the Republic of Poland was also extended, by introducing the company carrying out the over-the-counter market.

Prices of electric energy and CO₂ emission allowances on the Polish, Czech and German market

In 2011 prices of energy on the Polish market did not follow the clear long-term trend. Low prices observed in the first quarter were changed as a result of the nuclear accident in Fukushima, which happened due to the earthquake in March 2011 as well as the decision of Germany on withdrawal from the nuclear energy. During the consecutive months it stimulated the growth of prices by over 10%. However, already in the summer season, due to low temperatures, the growths were strongly adjusted, which was additionally supported by the information on the downturn in the Eurozone. Fall in prices was also favoured large amounts of energy delivered to the balancing market by a recently opened unit the Elektrownia Bełchatów. Starting from September 2011, the prices started to grow again in view of the threat of German deficits of energy in the 4th quarter, and consequently, higher probability of import of energy from Poland.

The highest price increases occurred in November 2011, when the availability of power in the NPS was low, due to numerous repairs of blocks in Centrally Disposed Generating Units (Jednostki Wytwórcze Centralnie Dysponowane – JWCD). However, December 2011 turned out to be completely different than assumed and due to exceptionally high air temperatures for this season of the year, and the related decreased demand for electric energy, prices of electric energy dropped and reached the lowest level during the year. The average price of electric energy for the day-ahead market, executed one day before the physical delivery (SPOT market), was 199.04 PLN/MWh, i.e. less than 4% more than in 2010.

Figure No. 14 Average monthly energy prices on the SPOT market, TGE exchange and Balancing Market vs. average temperature



During 2010, at the forward market, the average annual price level for the band product of equal power on each hour of the year (BASE), with delivery in 2011 (BASE Y-11) reached about 193.40 PLN/MWh (based on the registered transactions on the exchange and on trading platforms publishing such data). The highest turnover of BASE Y-11 contract occurred in the period from September 2010. The majority of the turnover in public listing, i.e. about 90% of the contracting was performed at TGE at the average price of about 193.30 PLN/MWh and the volume of 53.6 TWh. Trade outside TGE (brokers' trading platforms: TFS (Traditional Financial Services), GFI (Global Financial Information Group), etc. reached 4.9 TWh at the average price at the level of about 194.00 PLN/MWh.

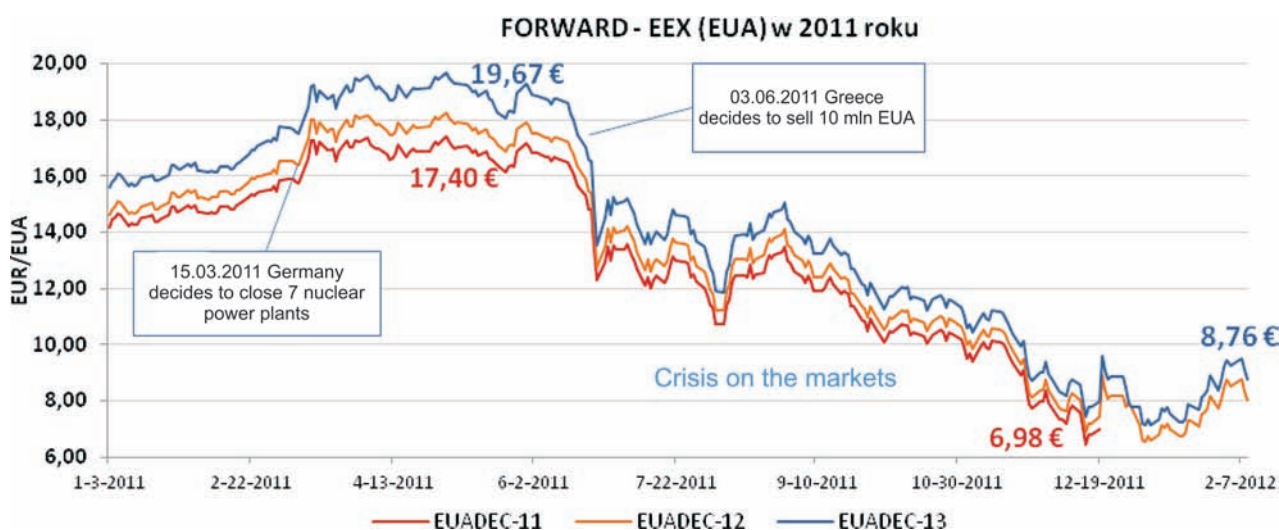
At the forward market, the most liquid contract was BASE Y-12. However, the volatility was not too high ranging from 200 PLN/MWh at the beginning of the year to 206 PLN/MWh recorded after the accident in the nuclear plant in Fukushima (Japan). In the second half of 2011, due to slumps in prices of CO₂ emission allowances and concern of serious slowdown in economy, the contract prices started to fall systematically, reaching the level of 201.50 PLN/MWh at the end of the year.

Energy prices on the neighbouring markets followed similar tendencies to those observed on the Polish market. In Germany and Czech Republic, strongly correlated in terms of prices, significant increase in prices was observed after the anti nuclear decision of the German

government. The situation stabilised in the middle of 2011 due to the crisis in Eurozone and cold summer. In the second half of 2011, like in Poland, November was the most expensive month while December was the cheapest. In addition, in December, the slump in prices was encouraged by very high generation of energy from wind and solar sources. In Germany, share of electric energy generated from renewable sources in the whole 2011 exceeded 20% of the total energy generated. The average SPOT price in Germany was 51 EUR/MWh, and in the Czech Republic it was only EUR 0.5 lower.

Within the market of CO₂ emission allowances, at the beginning of 2011, reports of hackers' attacks on registers of Member States stimulated Poland to close its register of allowances for preventive reasons, and the European Commission decided to block the possibility to execute transfers in all community registers. This situation has led to inertia on the market, which took place at the beginning of February 2011. Then the March accident in a nuclear power plant in Fukushima, leading to turning away from pro-nuclear policy, contributed to the strengthening of prices, which had been heightened further by notice on including the aviation sector to the European CO₂ Emission Trading Scheme of (EU ETS). In June, the alarming reports concerning the economic situation in Greece became the strong signal of economic decline, covering with its scope the growing number of countries and economic sectors, reflected in the systematic decrease of allowances prices. The average price of forward contracts with delivery in December 2011 (European Union Allowances December 2011 – EUADEC11) in the second half of 2011 decreased by 32% in relation to the average price of the first half of 2011, reaching the minimum at the level of 6.30 EUR/t EUA, and then oscillating above the value of 7 EUR/t EUA.

Figure No. 15 FORWARD – EEX (EUA) in 2011



Obligation of public sales of electric energy by generators

Year 2011 was the consecutive year of effectiveness of the so-called “exchange obligation”, according to which the generating enterprises are obliged to sell the obligatory volume at TGE (for generators taking advantage of LTC compensations, it means 100% of the sold electric energy). These changes described above have led to increased activity of the Company – also acting in favour of TAURON Group companies – on the TGE. Concluding of transactions at TGE is also associated with the necessity to maintain appropriate hedges and to maintain the deposit to be cleared during the execution of the forward transaction. Additional hedges influenced the growth of financial costs and operational costs connected with trading conducted by the Company. Simultaneously, such costs did not occur in companies of TAURON Capital Group.

Changes in regulations of the energy sector – decisions of the President of URE

In 2011 the President of ERO maintained the obligation to submit tariffs for households and, once again, resigned from liberalisation of this segment of electric energy consumers. Accordingly, the trading enterprises had limited influence on the margin generated in this sales segment (tariff G).

Prices of certificates of origin of energy from renewable and cogeneration sources

Quotes of prices of proprietary rights arising from certificates of origin of electric energy produced using the renewable energy sources, the so-called green certificates, and proprietary rights arising from certificates of origin of electric energy produced in high efficiency gas cogeneration, in the gas-fired unit or a unit of installed capacity below 1 MW, the so-called green certificates, were steadily growing during 2011. The prices were approaching the level determined by the substitution fees published by the President of URE, which in 2011, reached, respectively: 274.92 PLN/MWh and 127.15 PLN/MWh.

Figure No. 16 Indices of property rights under so-called green certificates – prices in 2011

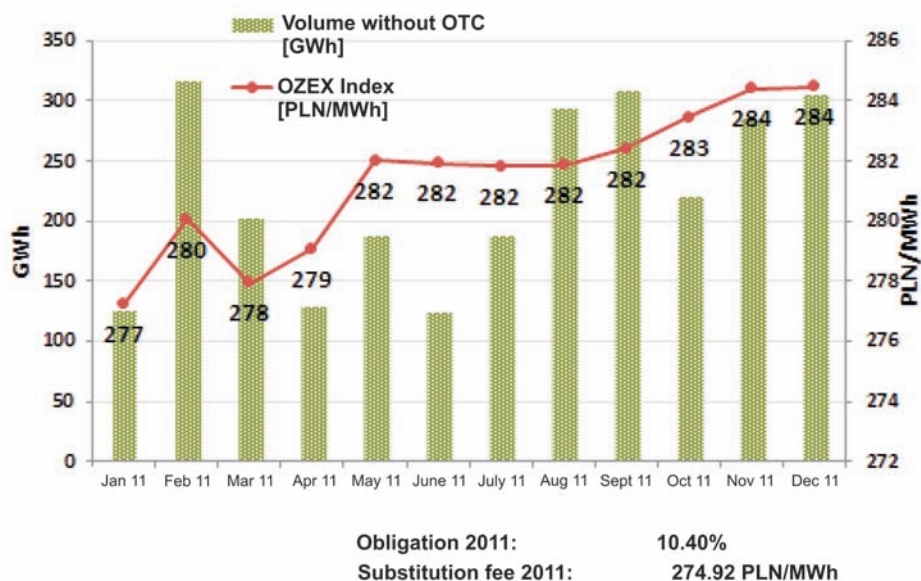
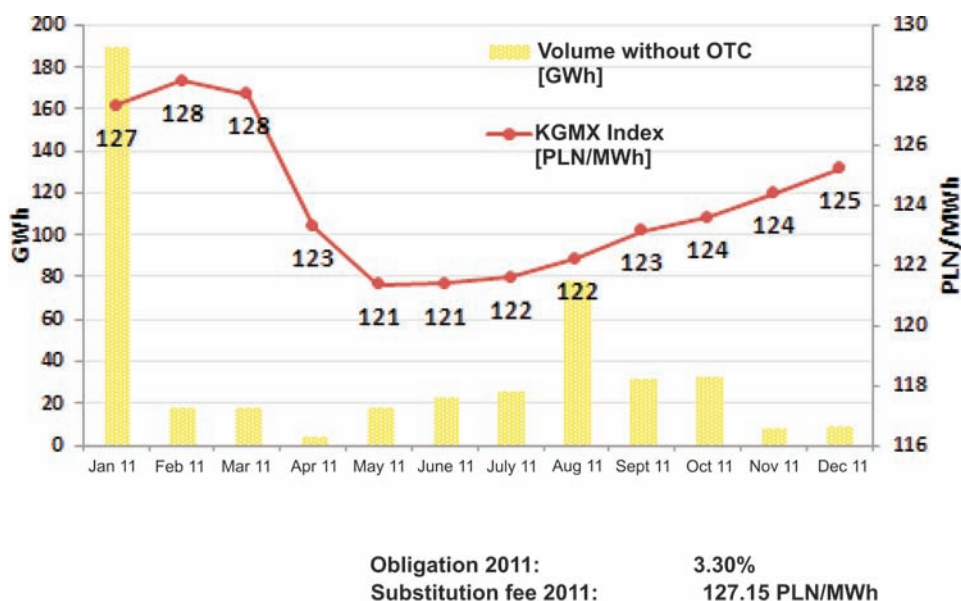
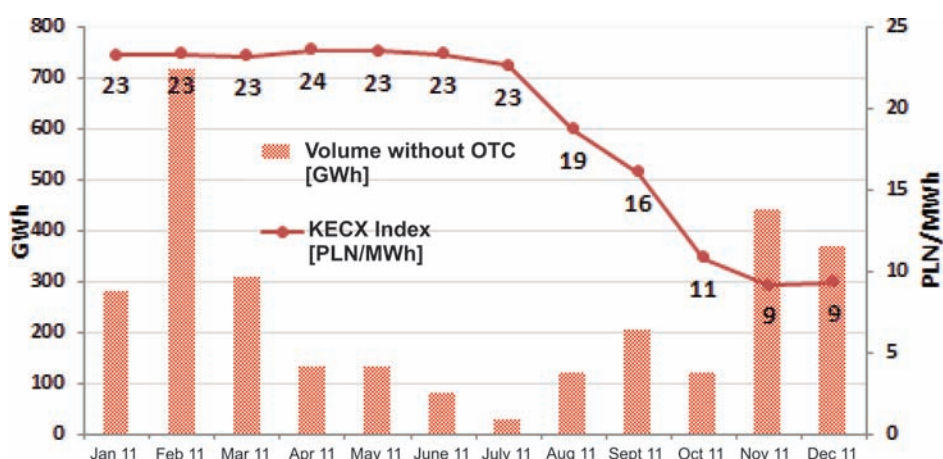


Figure No. 17 Indices of property rights under so-called yellow certificates – prices in 2011



Different situation was observed at the market of proprietary rights resulting from certificates of origin of electric energy produced in high efficiency cogeneration, the so-called red certificates, where prices of certificates started to fall dramatically in the second half of the year. Finally, in November and December 2011 the prices stabilised at the level of 9 PLN/MWh. The reason for discounting of red proprietary certificates was the excessive supply resulting mainly from substantial number of rights of the previous years, collected by energy enterprises, in connection with lack of decision (legal acts) on continuation of the current support system for electric energy to be produced in cogeneration after 2012. The slump in prices of proprietary rights of the so-called red certificates caused significant decrease of the planned redemption costs, partly discounted in sales prices from end customers.

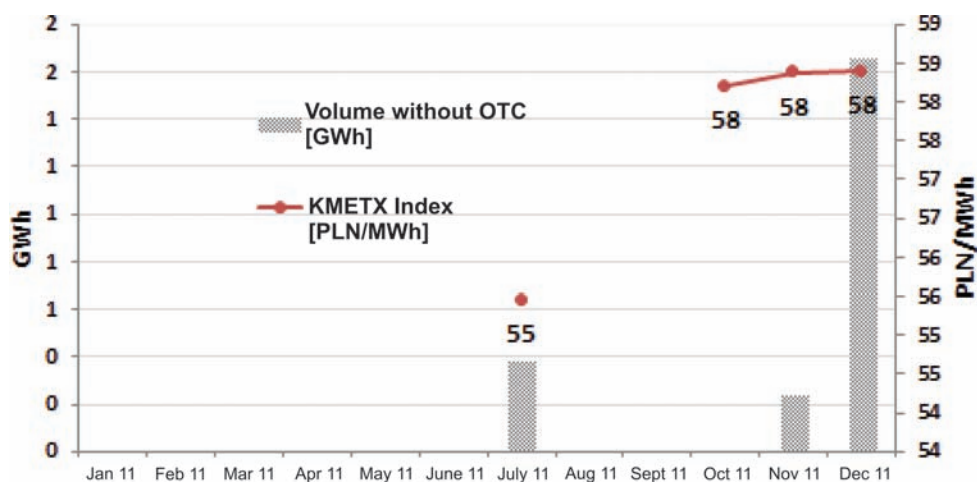
Figure No. 18 Indices of property rights under so-called red certificates – prices in 2011



Obligation 2011: 22.20%
 Substitution fee 2011: 29.58 PLN/MWh

In addition, from 10 September 2011, the electricity sold by energy companies to end users is the basis for calculating the level of fulfilling the obligation of the Act of 10 April 1997 *Energy Law* section 9a (8) in the scope of the so-called violet certificates (property rights arising from certificates of origin for electricity produced from high efficiency co-generation in co-generation unit fired with methane or bio-gas), in the amount of 0.4% at replacement fee of 59.16 PLN/MWh. Due to the low level of obligatory redemption of these rights, it had insignificant effect on floating costs of the trading enterprises.

Figure No. 19 Indices of property rights under so-called violet certificates – prices in 2011



Obligation 2011: 0.40%
 Substitution fee 2011: 59.16 PLN/MWh

Competition on the energy market

Year 2011 has shown that the electric energy market is becoming more and more competitive which is influenced by, among others, growing activity of the suppliers and clients related to the possibility to select the supplier. It is particularly visible in case of large clients (connected mainly to high and medium voltage grids), where decrease in margin acquired from sales of energy is observed. Similar trend should be expected in other segments of clients.

Activities of competition determined the necessity of intensive actions to be taken by TAURON Capital Group companies in order to maintain the hitherto clients and acquire new ones. New product offers were launched for sales and loyalty programmes for clients were implemented

by TAURON Capital Group companies. In 2011, widespread sales action was undertaken, related to acquisition of small and medium-sized enterprises (Tariff Groups C), purchasing energy from other suppliers, i.e. at the area of DSO, outside TAURON Capital Group. Moreover, in the business clients segment, intensive sales actions were conducted which were significantly reflected by the aforementioned growth of sales to TPA clients which are not connected to the distribution grid of TAURON Capital Group. Promotion actions were also conducted for current clients, consequently reducing the risk of loss of margin and sales volume.

3.9. Assessment of financial resources management

The Company in accordance with the adopted strategy, centralized the area of financial management in the TAURON Group and thus maximized its capacity to meet the incurred liabilities. The main tools for effective management of financial resources is implemented in 2010, central funding model and implemented in the second half of 2011, *Policy of liquidity management in the TAURON Group*, together with cash pooling functioning in the TAURON Capital Group. Moreover, the financial management system is supported by the central *Policy of managing risks specific in the financial area of TAURON Group* and the central *Insurance policy of TAURON Group*, in which the Company plays the role of manager and decision maker in the scope of directions of the actions undertaken, enabling to establish relevant limits of risk exposure.

In accordance with the adopted central model of financing, the Company is responsible for acquisition of financial resources for the companies of TAURON Capital Group. The funds raised both internally (from companies of TAURON Group generating financial surpluses) as well as externally (financial market) are then transferred to the companies of TAURON Capital Group reporting financing needs (for this purpose intra-group bond issuance program has been implemented in the TAURON Group).

Such model of acquisition of funding sources allows, among other things, for decreasing of the costs of capital, increasing of the possibility to obtain financing, it reduces the number and form of hedges established on assets of TAURON Capital Group (the Company acquired unsecured financing) and covenants required by financial institutions, as well as reduces administrative costs. The central model of financing also enables to acquire financial sources unavailable for individual companies, such as, for example, Euro bonds. Implementation of the central financing model effectively influenced the change of approach to investment funding in TAURON Capital Group. Funding is obtained based on the consolidated balance sheet of the TAURON Group and sources of financing are not linked to specific investment projects, but are taken out to cover the financial gap at the level of the TAURON Group. The structure of financing of investment projects in the specific period corresponds to the whole activity of TAURON Capital Group. The model adopted allows for implementation of investment plans in accordance with the approved Corporate Strategy.

The second essential element influencing the effectiveness of financial management is the policy of liquidity management. Through implementation of relevant forecasting standards it becomes possible to establish the precise liquidity position allowing for optimising of selection of the moment of fund raising as well as the maturity term and types of deposit instruments as well as the appropriate level of liquidity provision. The above factors influence both the cost reduction and safety enhancement. The current liquidity management is supported by the cash pooling mechanism implemented in 2010. Its overriding goal is to provide for current financial liquidity in TAURON Capital Group, with simultaneous limitation of costs of short-term external financing and maximising of financial revenue due to cash surpluses held. Owing to the cash pooling structure, the companies of TAURON Capital Group, facing short-term deficits of funds, may, at the first instance use the funds of companies recognising financial surpluses, without the need to acquire external financing.

Within the current financial activity the Company effectively manages the life cycle of cash flow by matching dates for payment of payables and receivables. Moreover, in 2011, the Company implemented a program of bank guarantees, which are available to all companies of TAURON Group.

In 2011, the Company had full capacity to meet its obligations as they fall due.

3.10. Information concerning the entity authorised to examine financial statements

Information regarding the contract with an entity authorized to audit financial statements was presented in note 37 of the Financial statement of TAURON Polska Energia S.A. for the year ended on 31 December 2011.

4. SHARES AND SHAREHOLDERS

4.1. Structure of the share capital

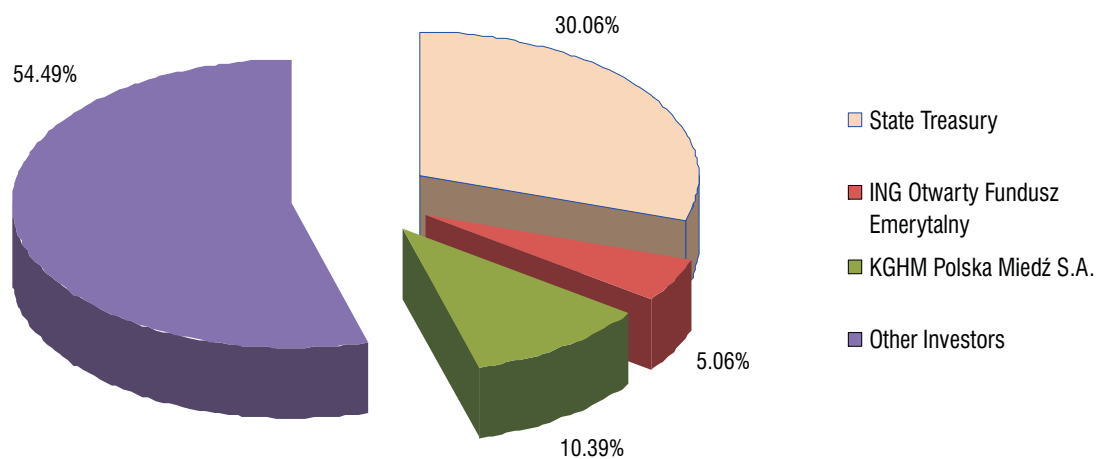
As of 31 December and on the day of this report:

- The share capital of the Company, in accordance with the entry to the National Court Register, amounted to PLN 8,762,746,970.00 and it was divided into 1,752,549,394.00 with a par value of PLN 5 each, including 1,589,438,762 ordinary registered shares of AA series and 163,110.632 ordinary bearer shares of BB series.
- The structure of the share capital of the Company was as presented in the table below.

Table No. 20 Structure of the share capital of the Company as of 31 December and on the day of this report:

No.	Shareholder	Number of shares/ number of votes at GM	Share in share capital/ share in general number of votes
1.	State Treasury	526,883,897	30.06%
2.	KGHM Polska Miedź S.A.	182,110,566	10.39%
3.	ING Otwarty Fundusz Emerytalny (Open Pension Fund)	88,742,929	5.06%
4.	Other individual and corporate investors	954,812,002	54.49%

Figure No. 20 Structure of shareholding as of 31 December 2011 and as of the date of this report



4.2. Number and par value of the Company shares as well as shares and stocks in affiliated entities of the Company held by the members of the management and supervisory bodies

Holdings of shares in the Company and stocks/shares in entities affiliated with the Company, held by persons managing and supervising the Company as at 31 December 2011 and at the date of this report is as follows:

Table No. 21 Proprietary status of the Company shares and share/stocks in entities affiliated with the Company – managing persons

Name and surname	TAURON shares		Share/stocks in entities affiliated with TAURON	
	Number	par value (PLN)	Number	par value (PLN)
as of 31.12.2011				
Dariusz Lubera	6,576	32,880	0	0
Joanna Schmid	0	0	0	0
Dariusz Stolarczyk	42,611	213,055	0	0
Krzysztof Zamasz	935	4,675	0	0
Krzysztof Zawadzki	27,337	136,685	0	0
as of the date of this report				
Dariusz Lubera	6,576	32,880	0	0
Joanna Schmid	0	0	0	0
Dariusz Stolarczyk	42,611	213,055	0	0
Krzysztof Zamasz	935	4,675	0	0
Krzysztof Zawadzki	27,337	136,685	0	0

Table No. 22 Proprietary status of the Company shares and share/stocks in entities affiliated with the Company – supervising persons

Name and surname	TAURON shares		Share/stocks in entities affiliated with TAURON	
	Number	par value (PLN)	Number	par value (PLN)
as of 31.12.2011				
Antoni Tajduś	0	0	0	0
Agnieszka Trzaskalska	0	0	0	0
Leszek Koziorowski	0	0	0	0
Jacek Kuciński	935	4,675	0	0
Włodzimierz Luty	935	4,675	0	0
Michał Michalewski*	0	0	0	0
Jacek Szyke	0	0	0	0
Marek Ściążko	0	0	0	0
as of the date of this report				
Antoni Tajduś	0	0	0	0
Agnieszka Trzaskalska	0	0	0	0
Leszek Koziorowski	0	0	0	0
Jacek Kuciński	935	4,675	0	0
Włodzimierz Luty	935	4,675	0	0
Jacek Szyke	0	0	0	0
Marek Ściążko	0	0	0	0
Rafał Wardziński**	0	0	0	0

* On 11 January 2012, Mr Michał Michalewski was dismissed from the Supervisory Board of the Company.

** On 11 January 2012, Mr Rafał Wardziński was appointed to the Supervisory Board of the Company.

4.3. Agreements concerning potential changes in shareholding structure

Management is not aware of the existence of agreements (including agreements concluded after the balance sheet date), which may result in future changes in the proportions of shares held by existing shareholders and bondholders.

4.4. Purchase of treasury shares

In 2011 the Company did not purchase treasury shares.

4.5. Programmes of employees shares

In 2011 the employees' shares programmes did not operate.

4.6. Share prices on the Stock Exchange

Shares of the Company are traded on the Main Board of the Warsaw Stock Exchange since 30 June 2010.

In 2011 the price of Company shares ranged from PLN 4.65 to PLN 6.81. During this period, despite the improved financial performance by the TAURON Capital Group in relation to 2010, the Company share price fall was similar to the behaviour of WIG20 and WIG indexes, which in this period also recorded a negative rate of return. It should be noted that the rate of return on the Company's shares from listing on the Stock Exchange by the end of 2011 amounted to about 6.7%, which was a better result in comparison with the index WIG20 and WIG Energy. Behaviour of share prices of companies listed at the Warsaw Stock Exchange in 2011 was mainly determined by macroeconomic factors related to the crisis in Eurozone as well as the uncertainty at the world markets. The collapse on stock markets that took place in August 2011, resulted in significant losses in the portfolios of investors, which could not be made up for the end of the year due to the deteriorating macroeconomic situation, unresolved debt problems of the Eurozone states and the threat of recession in the region. Until the end of 2011 the most important European stock exchanges were following the sideways trend, while the prices of the securities listed showed significant volatility.

As of 31 December 2011, the Company was included in the following key exchange indices:

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

Table No. 23 Key data concerning shares

Key data concerning shares	2011	2010
Maximum price [PLN]	6.81	6.92
Minimum price [PLN]	4.65	4.96
Latest price [PLN]	5.35	6.57
Capitalisation at the end of the period [M PLN]	9,376	11,514
Capitalisation at the end of the period [%]	2.10	2.12
Book value [M PLN]	15,922.47	15,044.64
C/Z	8.10	14.30
C/WK	0.59	0.77
Rate of return at the end of the period [%]	-16.73	–
Dividend rate [%]	2.8	0.0
Value of turnover [M PLN]	5,574.82	8,821.85
Share in turnover [%]	2.21	1.99
Turnover ratio [%]	58.80	46.00
Average volume per session	3,721,539	5,624,588
Average number of transactions per session	1,373	2,431
Average spread [pb]	22	20
Value of turnover [M PLN]	18.45	2.83
Volume	3,027	204

Source: Statistical Bulletin of GPW

The charts below present the share price of the Company and turnover in 2011, and the share price of the Company against the WIG20 and WIG-Energia in 2011.

Figure No. 21 Company's share price and turnover value in 2011

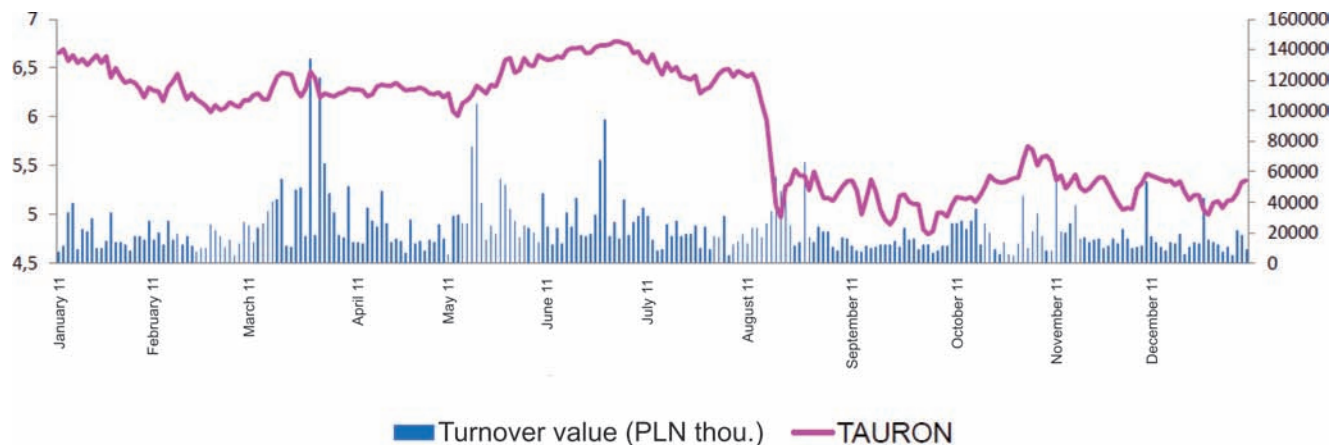


Figure No. 22 Company's share price vs. WIG20 and WIG-Energia indices in 2011



Recommendations for Company shares

In 2011, analysts of brokerage houses and investment banks issued a total of 24 recommendations for the shares of the Company, including:

- 13 "buy" recommendations,
- 10 "hold" recommendations,
- 1 "sell" recommendation.

5. STATEMENT OF APPLICATION OF CORPORATE GOVERNANCE

Acting in accordance with § 91 (5), (4) of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the provisions of law of a non-member state (Journal of Laws No.33 item 259 as amended), The Company Management Board submits the Statement of Application of Corporate Governance in 2011.

5.1. Indicating the applied set of rules of corporate governance

The Company is subject to the rules of corporate governance as described in the document, *Best Practices of GPW Listed Companies* (Principles of Corporate Governance) which is attached to the Resolution No. 20/1287/2011 of the GPW Supervisory Board of 19 October 2011. This document also contains the principles of corporate governance application of which Company has decided to voluntarily.

Good Practices of Companies Listed at GPW were adopted for application by the Company Management Board. All recommendations, effective for the specific period, were fulfilled in the financial year 2011.

The text of collection of corporate governance rules which the Company is subject to and which the company may have decided to voluntarily is published on the Stock Exchange website at (<http://www.corp-gov.gpw.pl>).

5.2. Indicating abandoned rules of corporate governance

The Company adopted all regulations of corporate governance resulting from *Good Practices of Companies Listed on the WSE*. In the period since the day of commencement of public listing of the Company shares there have been no occurrences of infringement of the corporate governance regulations adopted.

5.3. Description of main characteristics of internal control and risk management systems in relation to the process of generating the financial statements and consolidated financial statements

The internal control and risk management system in relation to the process of generating financial statements and consolidated financial statements is implemented by the Company through:

Supervision over application of coherent accounting principles by the companies of TAURON Capital Group which generating the consolidated financial statement of TAURON Capital Group

In order to ensure uniform accounting policies under IFRS adopted by the EU TAURON Capital Group has developed and implemented *Accounting policy of the TAURON Capital Group Polska Energia S.A.* This document is updated accordingly in case of amendments in regulations. The rules contained in the document are applicable to unit financial statements of the Company and consolidated financial statement of TAURON Capital Group. The Companies of TAURON Capital Group are obliged to apply *the Accounting Policy of TAURON Polska Energia S.A.* TAURON Capital Group while preparing the reporting packages which provide basis for generating of the consolidated financial statement of TAURON Capital Group.

The reporting packages are verified by the Office for Consolidation and Reporting in the parent company as well as by the independent auditor during examination or review of consolidated financial statements of TAURON Capital Group.

Procedures of authorisation and reviewing of financial statements of the Company and consolidated financial statements of TAURON Capital Group

In the Company, procedures of authorisation of financial statements have been implemented. Quarterly, semi-annual and annual financial statements of the Company as well as consolidated financial statements of TAURON Capital Group are approved by the Company Management Board before publication. Annual financial statements of the Company as well as consolidated financial statements of TAURON Capital Group are also presented for review by the Company Supervisory Board before publication. The Vice President of the Board, Chief Financial Officer supervises the preparation of financial statements, whereas Management Boards of companies covered by consolidation are responsible for reporting packages for TAURON Group consolidated financial statement.

Within the structure of the Supervisory Board of the Company, the Audit Committee of TAURON Polska Energia S.A. operates (Audit Committee) whose composition, competence and description of activities are covered in item 5.11.3 of this report.

IT systems

The Company keeps accounting books which constitute the basis for generating of the financial statement in the financial-accounting computer system SAP, implemented in the Company in the middle of 2011. Preparing of the consolidated financial statement takes place with application of IT tool designed for consolidation of financial statements. Access to IT systems is restricted by relevant authorisations for the entitled employees. In the Company IT and organizational solutions operate which control the access to financial-accounting systems and provide adequate protection and archiving of accounting books.

Internal audit

In the Company Internal Audit Department operates whose objective is to plan and implement the auditing tasks, among others, of advisory nature, as well as to perform the commissioned temporary inspections. The procedures and rules of implementation of the audit are specified in *Regulations of Internal audit in TAURON Group* as well as in rules of cooperation binding in individual companies of TAURON Capital Group. While implementing the function of internal audit, the Company acts in compliance with the Code of Ethics and International Standards of Internal Audit Professional Practice.

Submission of financial statements of the Company and consolidated statements of TAURON Capital Group for examination or review by independent chartered accountant

Annual financial statements of the Company and consolidated statements of TAURON Capital Group are subject to examination by independent chartered accountant. Semi-annual financial statements of the Company and consolidated statements of TAURON Capital Group are subject to examination by chartered accountant. In 2010 the Company selected one entity authorised to examine and review financial statements for significant companies of TAURON Capital Group as well as the consolidated financial statement.

5.4. Shareholders holding 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. 24 Shareholders holding large blocks of shares

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

* In accordance with the shareholder's notification of 29/03/2011.

** In accordance with the shareholder's notification of 23/03/2011.

*** In accordance with the shareholder's notification of 28/12/2011.

5.5. Owners of securities providing special control rights

In the financial year 2011, the Company did not issue securities which would provide special control rights towards to the Company.

5.6. Limitations on performing of the voting right

Limitations on voting rights are contained in § 10 of the Articles of Association of the Company, which are available on its website <http://www.tauron-pe.pl/>.

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

1. The voting rights of shareholders having over 10% of the total votes in the Company shall be limited in such manner that none of them can perform more than 10% of the total votes in the Company at the General Assembly.
2. Limitation of voting rights referred to in item 1 above does not apply to the State Treasury and subsidiaries of the State Treasury in the period in which the State Treasury and subsidiaries of the State Treasury have the number of shares entitling them to exercise at least 25% of the total votes in the Company.
3. Votes belonging to the shareholders, among whom exists a relation of domination or dependence within the meaning of § 10 of the Articles of Association (grouping of Shareholders) cumulates, where the cumulative number of votes exceeds 10% of the total votes in the Company, shall be subject to reduction. Rules of vote accumulation and reduction have been defined in 6 and 7 below.
4. Shareholder within the meaning of § 10 of the Articles of Association is any person, including its parent company and dependent, that has directly or indirectly, the right to vote at the General Assembly on the basis of any legal title, and applies to the person who does not hold shares of the Company, in particular, the user, the pledgee, the person entitled under the receipt of deposit within the meaning of the Act of 29 July 2005 *on Trading in Financial Instruments* and the person entitled to participate in the General Assembly despite the sale of shares held after the date of determining eligibility for participation in the General Assembly.

5. A parent company and subsidiary company, for the purposes of § 10 of the Articles of Association, is understood as a person:
 - 1) a parent entity, subsidiary or simultaneously being parent entity and subsidiary within the meaning of the Act of 16 February 2007 *on competition and consumers*, or
 - 2) having a status of the parent, senior parent, subsidiary, subsidiary downstream or jointly controlled entity or simultaneously having the status of the parent (including senior parent) and subsidiary (including the subsidiary of lower level and jointly controlled) within the meaning of the Act of 29 September 1994 *on accounting*, 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) votes of which attached to the possession, directly or indirectly, of shares in the Company are cumulated with votes of another person or other persons under the terms and conditions provided in the Act of 29 July 2005 *on public offering and conditions governing the introduction of financial instruments to organised trading and public companies* in connection with possession, sale or acquisition of large blocks of shares in the company.
6. Accumulation of votes is based on aggregating of the number of votes held by particular shareholders of Shareholders' Group.
7. Reduction of votes is based on decreasing the total number of votes in the Company that shareholders, who are a part of Association of Shareholders, are entitled to at the General Meeting to the level of 10% of total votes in the Company. Reduction of votes takes place in accordance with the following rules:
 - 1) number of votes of a shareholder who holds the biggest amount of votes in the Company among all shareholders who are members of Association of Shareholders is subject to being decreased by a number of votes equal to surplus of over 10% total votes in the Company that all shareholders in total are entitled to and who are members of the Association of Shareholders,
 - 2) if, despite the aforementioned reduction, the total number of votes that shareholders who are members of the Association of Shareholders are entitled to exceeds 10% of the total votes in the Company, a further reduction of votes belonging to other shareholders who are members of the Association of Shareholders takes place. Further reduction of particular shareholders' votes takes place in order established on the basis of the amount of votes that particular shareholders who are members of the Association of Shareholders hold (from the highest to the lowest one). Further reduction takes place until the moment when the total number of votes held by shareholders who are members of the Association of Shareholders does not exceed 10% of the total votes in the Company,
 - 3) in each case the shareholder whose voting right has been limited shall have to right to perform at least one vote,
 - 4) limitation on performing the voting right applies also to a shareholder absent at the General Meeting.
8. Each shareholder who is going to take part in the General Meeting, in person or through a proxy is obliged to, without a separate notice stipulated in item 9 below, notify the Management Board or the Chairperson of the General Meeting that she/he holds, directly or indirectly, more than 10% of the total votes in the Company.
9. Notwithstanding the provisions of item 8 above, in order to establish the basis for accumulation and reduction of votes, the Company's shareholder, the Management Board, the Supervisory Board or particular members of these bodies have the right to demand that the Company shareholder provides information whether she/he is a person holding the status of an entity dominating or subordinate towards other shareholder within the meaning of § 10 of the Articles of Association. The right referred to in the preceding sentence also includes the right to request the disclosure of the number votes which a shareholder of the Company has individually or jointly with other shareholders in the Company.
10. A person who has not exercised or performed the obligation to provide information, referred to in points 8 and 9 above, in an improper manner until the removal of infringement to obligation to provide information may perform the right to vote only from one share, the execution of the right to vote by such person of the remaining shares is ineffective.

5.7. Limitations on transfer of securities proprietary rights

As of 31 December 2011 and on the day of this report, there are no limitations in the Company on the transfer of proprietary rights of Company securities.

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

5.8.1. Management Board

Rules on appointing and dismissing members of the Management Board

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

Members of the Management Board or the whole Management Board are appointed and dismissed by the Supervisory Board. Each member of the Management Board may be revoked or suspended in activities by the Supervisory Board or the General Assembly.

Competence of the Management Board

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

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

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

5.8.2. Supervisory Board

Rules on appointing and dismissing members of the Supervisory Board

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

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

- b) is excluded from the voting right at the General Meeting on appointing and dismissing of other members of the Supervisory Board, including independent members of the Supervisory Board; it does not, however, apply to the case when the Supervisory Board cannot act due to a composition minor than required by the Articles of Association, and the shareholders present at the General Meeting other than the State Treasury do not supplement the composition of the Supervisory Board in accordance with the distribution of places in the Supervisory Board defined in present item;
- 2) in the period of time in which the State Treasury, together with entities dependent on the State Treasury within the meaning of § 10 item 5 of the Articles of Association, has a number of the Company's shares entitling to perform under 25% of total voting rights in the Company, the State Treasury, represented by a minister competent for the issues of the State Treasury shall be entitled to appoint and dismiss one member of the Supervisory Board.
- 3) appointing and dismissing of members of the Supervisory Board by the State Treasury pursuant to the aforementioned item 1) or item 2) takes place by means of a statement submitted to the Company.

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

Independent members of the Supervisory Board provide the Company, before being appointed to the composition of the Supervisory Board, with a written statement of having fulfilled the prerequisites of independence. In case of a situation causing failure to fulfil the conditions of independence, a member of the Supervisory Board is required to immediately notify the Company of this fact. The Company shall inform shareholders of the present number of independent members of the Supervisory Board.

Competence of the Supervisory Board

The Supervisory Board carries out continuous supervision over the Company's activities in all areas of its operations. The competences of the Supervisory Board include:

- 1) assessment of the Management Board report on the Company operations as well of the financial statement for the previous financial year in the scope of their compliance with the books, documents as well as with the actual status. It also applies to the consolidated financial statement of the Capital Group, provided that it is generated,
- 2) assessment of the Management Board conclusions on profit distribution or loss coverage,
- 3) submitting of a written report to the General Meeting on the results of operations covered by items 1 and 2,
- 4) preparing reports of the Supervisory Board on supervision of implementation of investments by the Management Board, including the purchase of fixed assets, and in particular, giving opinions on the correctness and effectiveness of spending of financial resources related to the above expenditures,
- 5) preparing, together with the report on results of the annual financial statement of the Company, an opinion of the Supervisory Board on the issue of economic legitimacy of involving the Company capital committed in a given financial year in other entities of commercial law,
- 6) selecting of the chartered accountant to carry out the examination of the Company financial statement and consolidated financial statement of the Capital Group,
- 7) determining the scope and deadlines of submitting of annual material and financial plans as well as long-term strategic plans, by the Management Board,
- 8) giving opinions on long-term plans and strategies of the Company and Capital Group,
- 9) giving opinions and approval of the rules of conducting sponsoring activity,
- 10) giving opinions on the annual plan of conducting the sponsoring activity as well as quarterly reports on its implementation,
- 11) adopting bylaws describing in details the procedures of performance of the Supervisory Board,
- 12) adopting of consolidated text of the Company Articles of Association, prepared by the Company's Management Board,
- 13) approving of the bylaws of the Company Management Board,
- 14) approving of the organizational regulations of the Company enterprise.

Competence of the Supervisory Board includes also granting the Management Board permission to:

- 1) purchase of real property, perpetual usufruct of shares in property or in perpetual usufruct with the value exceeding the equivalent of EUR 5,000,000 in PLN,

- 2) purchase of the components of fixed assets excluding real property, perpetual usufruct or share in real property or perpetual usufruct, bonds issued by the companies of the Capital Group of the value equal to or exceeding the equivalent of EUR 5,000,000 in PLN,
- 3) disposal of the components of fixed assets including real property, perpetual usufruct or share in property or perpetual usufruct with the value exceeding the equivalent of EUR 5,000,000 in PLN,
- 4) incur of contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of EUR 5,000,000 in PLN,
- 5) issuing bills of exchange of the value exceeding the equivalent of EUR 5,000,000 in PLN,
- 6) advance payment on account of the expected dividend,
- 7) taking over or purchase of stocks or shares in other companies, with the value exceeding the equivalent of EUR 5,000,000 in PLN, except for situations when taking over of stocks or shares of these companies takes place in exchange for the Company liabilities as a part of composition or bankruptcy proceedings,
- 8) disposal of stocks or shares, with the value exceeding the amount of EUR 5,000,000 in PLN, with defining of the conditions and procedure of their disposal, except for:
 - a) disposal of shares which are traded on the regulated market,
 - b) disposal of stocks or shares that the Company holds at the amount not exceeding 10% interest in the share capital of particular companies.

Moreover, competence of the Supervisory Board include in particular:

- 1) appointing and dismissing members of the Management Board,
- 2) establishing the rules of remuneration and the amount of remuneration for the members of the Management Board,
- 3) suspending members of the Management Board in performance of their duties, due to material reasons,
- 4) delegating members of the Supervisory Board to temporarily perform actions of the members of the Management Board who cannot perform their duties and establishing their remuneration subject to the provision that the total remuneration of the person delegated as the Supervisory Board's member as well as on account of being delegated to temporary performing actions of a member of the Management Board shall not exceed the remuneration established for the member of the Management Board, for whom the member of the Supervisory Board was delegated,
- 5) conducting recruitment proceedings for the position of a member of the Management Board,
- 6) conducting of a competition in order to select a person with whom an agreement to perform management in the Company shall be concluded,
- 7) granting permission to establish Company branches abroad,
- 8) granting permission to the members of the Management Board to take positions in governing bodies of other companies,
- 9) defining the way of performing the right of vote at the General Meeting or at the Shareholders' Meeting of companies in which the Company holds over 50% of stocks or shares, in matters concerning:
 - a) disposing and leasing of the Company's enterprise or its organized part as well as establishing a limited proprietary right on them, if their value exceeds the equivalent of the amount of EUR 5,000,000 in PLN,
 - b) dissolution and liquidation of the Company.

5.9. Description of the procedure of amendment of the Company Articles of Association

Change of the Company's Articles of Association takes place by means of resolution of the General Meeting, at the majority of two thirds of the votes, under the presence of persons representing at least half of the capital, and then requires issuing a decision by a proper court on entering the change into the Register of Entrepreneurs. A consolidated text of the Company Articles of Association, including amendments passed by the General Meeting, shall be adopted by the Supervisory Board by means of a resolution.

5.10. Manner of operating of the General Meeting, its fundamental authorities and description of shareholders' rights and mode of their performance

The manner of operating of the Company General Meeting and its authorities are included in the Company Articles of Association and in the *Regulations of the General Meeting of TAURON Polska Energia S.A.* which are available at the Company website <http://www.tauron-pe.pl/>.

Manner of operating of the General Meeting

The General Meeting is convened by announcement on the Company website and in the manner defined for providing current information by public companies. In case if the General Meeting is convened by an entity or body other than the Management Board on the basis of regulations of the Act of 15 September 2000 *Code of Commercial Partnerships and Companies*, and the convening of the General Meeting requires cooperation with the Management Board, the Management Board is obliged to perform all actions defined by law regulations in order to convene, 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 the following persons in the following order shall be authorized to open the General Meeting: Deputy 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 Partnerships and Companies* as well as provisions of the Company's Articles of Association shall state otherwise. The General Meeting may order a break in the meeting by the majority of two thirds of votes. In total, the breaks shall not exceed thirty days.

Competence of General Meeting

The following issues require Resolutions of the General Meeting:

- 1) examination and approval of financial statement for the previous financial year as well as the Management Board's report on the Company operations,
- 2) granting the vote of acceptance to the members of the governing bodies of the Company,
- 3) profit distribution and coverage of loss,
- 4) appointing and dismissing of members of the Supervisory Board,
- 5) suspending members of the Management Board in performance of their duties,
- 6) establishing the amount of remuneration for the Members of the Supervisory Board, subject to the provision that members of the Supervisory Board are entitled to a monthly remuneration in the amount determined by the General Meeting, taking into consideration the binding legal regulations,
- 7) disposal and lease of the Company enterprise or its organized part as well as establishing a limited proprietary right on them,
- 8) concluding of a credit, loan, surety agreement or any other similar agreement by the Company with a member of the Management Board, Supervisory Board, proxy and liquidator or for any of these persons. Concluding of a loan, surety or any other similar agreement with a member of the Management Board, Supervisory Board, proxy, liquidator or for any by a subsidiary company,
- 9) increasing and lowering the share capital of the Company,
- 10) issuing convertible bonds or priority bonds as well as registered securities or bearer securities entitling its owner to subscribe or acquire the shares,
- 11) purchasing of own shares in cases required by the regulations of the Act of 15 September 2000, *Code of Commercial Partnerships and Companies*,
- 12) compulsory redemption of shares in accordance with the stipulations of art. 418 of the Act of 15 September 2000, *Code of Commercial Partnerships and Companies*,
- 13) creating, using and liquidation of reserve capitals,
- 14) using of supplementary capital,
- 15) provisions concerning claims to repair damage caused at establishing the company or performing management or supervision,
- 16) merger, transformation and division of the Company,
- 17) redemption of shares,
- 18) amendment to the Articles of Association and change of the scope of the Company operations,
- 19) dissolution and liquidation of the Company.

In accordance with the Act of 15 September 2000, *Code of Commercial Partnerships and Companies*, issuing and redemption of shares lies within the competence of the General Meeting.

Description of shareholders' rights and mode of their execution

A shareholder or shareholders representing at least one twentieth of the share capital, may demand convening of the Extraordinary General Meeting. Such a demand shall include its concise justification. It can be submitted to the Management Board in writing or send in electronic form, to the Company e-mail address, indicated by the Company on at its website in "Investor Relations" tab. The Company reserves the right to undertake appropriate steps to identify the Shareholder of Shareholders who request a demand.

The Shareholder or Shareholders representing at least half of the share capital or half of total votes in the Company may convene the Extraordinary General Meeting. The shareholder or shareholders shall appoint the Chairperson of such a General Meeting.

A shareholder or shareholders representing at least one twentieth of the share capital may demand including certain issues on the agenda of the nearest General Meeting. Such a demand, including a justification or a draft of resolution on the proposed point of agenda shall be submitted to the Management Board not later than 21 days before the given date of the General Meeting. Such a demand may be submitted in electronic form to the Company' e-mail address, or in writing to the Company address.

A shareholder or shareholders representing at least one twentieth of the share capital may, before the date of the General Meeting, submit drafts of resolutions on issues included on the agenda of the General Meeting or issues which are to be introduced into the agenda. Such a request can be made in electronic form to the e-mail address of the Company or in writing to the Company address.

The shareholder may become acquainted with the Shareholders' list in the Company's Management Board seat for three days preceding directly the General Meeting. The shareholder may demand sending him/her the list of Shareholders free of charge by electronic mail, providing address to which the list shall be sent. Such a demand may be submitted in electronic form to the Company 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 on convening of the General Meeting and not later than on the first working day after the day of registering participation in the General Meeting.

The shareholder may take part in the General Meeting as well as perform the voting right in person or through a proxy. Persons co-authorized by means of shares may take part in the General Meeting and perform the voting right only through a joint representative (proxy). The proxy may represent more than one Shareholder and vote differently based on shares of each Shareholder.

Shareholders shall appoint the Chairperson the General Meeting. The Chairperson shall be elected among persons entitled to take part in the General Meeting. Each of the members of the General Meeting shall have the right to submit one candidacy to the post of the Chairperson. Persons, whose candidacies are submitted, shall be put on the list of candidates on condition that they agree to candidate. The election of the Chairperson takes place by secret voting, with an absolute majority of votes. In case when there is just one candidate to the Chairperson, the election can take place by acclamation.

Each Shareholder shall submit no more than three candidates to the member of Returning Committee, selected by the General Meeting and vote for maximum three candidates.

During the General Meeting the Shareholder shall have the right, until closing the discussion on a certain point of the agenda, to submit a proposal of changes to the content of a draft of resolution proposed for adoption by the General Meeting within a given item of the agenda or to put forward his/her draft of such a resolution. The proposal of changes or a new draft of the resolution shall be submitted with their justification. The proposal of changes or a draft of the resolution may be submitted to the Chairperson or orally to the minutes of the meeting.

The shareholder who was voting against a resolution, and after its adoption by the General Meeting wants to raise his/her objection shall immediately after passing this resolution (after the announcement of results of voting) raise his/her objection and demand its including in the minutes before proceeding to the next item of the agenda. In case of a later raising of objection, which however shall not take place later than until closing the General Meeting, the Shareholder shall indicate to which resolution passed at this General Meeting she/he is raising his/her objection. The shareholder raising his/her objection to the General Meeting's resolution may submit to the minutes of the General Meeting a concise justification of the objection.

5.11. Composition of managing and supervising bodies and their committees, changes, description of operation

5.11.1. Management Board

The present, Third term of office of the Management Board, started on 6 May 2011, i.e. on the day of convening of the General Meeting of the Company approving the financial statement for the last full financial year of the tenure of the members of the Management Board of the second term, i.e. for the year 2010. In accordance with the Company Articles of Association this is a joint term of office and it shall last for three years.

Personal composition of the Management Board as of 31 December 2011 and on the day of this report

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

Changes in the Management Board composition

In the period covered by the present report, no changes in the composition of the Management Board of the Company took place.

On 24 February 2011, the Supervisory Board of the Company passed a resolution on the appointment of the following persons for the third term of the Management Board of the Company. Resolutions of the Supervisory Board to appoint the above persons to the Management Board of the Company entered into force on the day of their adoption, becoming effective from the date of Ordinary General Meeting approving the financial statements for the financial year 2010 (current report No. 8/2011 of 24 February 2011). Information on appointment of the Management Board of the Company for the new term is also included in item 2.6 of this report.

Mode of operation

The Management Board of the Company operates on the basis of the Act of 15 September 2000, *Code of Commercial Partnerships and Companies* and other regulations of law, stipulations of the Company Articles of Association and provisions of the *By-laws of the Management Board of TAURON Polska Energia Spółka Akcyjna*, which is available at the website of the Company <http://www.tauron-pe.pl/>. While performing their obligations the members of the Management Board are governed by regulations included in the Good Practices of Companies Listed at GPW.

Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for submitting statements on behalf of the Company. Should the Management Board be single person, one member of the Management Board or a proxy shall be entitled to submit statements on behalf of the Company.

Meetings of the Management Board are convened by the President of the Management Board or a Vice-President of the Management Board appointed by him/her. Meetings of the Management Board are also convened upon the motion of the majority of Vice-Presidents of the Company as well as upon the motion of the Chairperson of the Supervisory Board. The meetings take place in the Company's seat, on the date set by the person convening the meeting. In justified cases, the Management Board's meetings may take place outside the seat of the Company. President of the Management Board or a Vice-President appointed by him/her shall chair the meeting.

The Management Board votes in an open voting. The result of voting is recorded in the minutes of the meeting. The President of the Management Board orders a secret ballot upon the request of any member of the Management Board.

Resolutions of the Management Board are passed by an absolute majority of votes in the presence of 3/5 of the composition of the members of the Management Board. The Management Board may pass resolutions in a written mode or by using means of direct remote communication. Voting in the aforementioned modes is ordered by the President of the Management Board or the Vice-President appointed by him/her, defining the deadline to vote by the members of the Management Board. It is acceptable to submit a different opinion. It shall be recorded in the minutes together with justification. Decisions of the Management Board, regulating current business, not requiring a resolution, are recorded only in the minutes.

In the event if the number of Vice-Presidents of the Management Board is lower than the Divisions, the Vice-Presidents of the Management Board may join the capacity of directors of two divisions, or distribute the competence in any other way which would be in compliance with the distribution of responsibilities performed by the Supervisory Board.

In 2011, the Supervisory Board approved amendments to the By-laws of the Management Board within which, among others, the hitherto names of positions of the members of the Management Board were changed, holding the following positions:

- 1) President of the Management Board,
- 2) Vice-President of the Management Board for Corporate Matters,
- 3) Vice-President of the Management Board, Chief Commercial Officer,
- 4) Vice-President of the Management Board, Chief Strategy and Business Development Officer,
- 5) Vice-President of the Management Board, Chief Financial Officer.

Scope of activities of the President of the Management Board covers competence in the area of operations of business units reporting to the Division of the President of the Management Board, in accordance with the organisational structure of the Company.

Scope of activities of the Vice-President of the Management Board covers competence in the area of operations of business units reporting to the Division of the President of the Management Board, in accordance with the organisational structure of the Company.

The structure of the divisions reporting to individual members of the Management Board is specified in the organisational chart of the Company, presented in item 1.3.2 of this report.

5.11.2. Supervisory Board

The present, Third term of office of the Supervisory Board, started on 6 May 2011, i.e. on the day of convening of the General Meeting of the Company approving the financial statement for the last full financial year of the tenure of the members of the Supervisory Board of the second term, i.e. for the year 2010. In accordance with the Company Articles of Association this is a joint term of office and it shall last for three years.

Personal composition of the Supervisory Board as of 31 December 2011

1. Antoni Tajduś – Chairman of the Supervisory Board,
2. Agnieszka Trzaskalska – Deputy Chairman of the Supervisory Board,
3. Leszek Koziorowski – Secretary of the Supervisory Board,
4. Jacek Kuciński – Member of the Supervisory Board,
5. Włodzimierz Luty – Member of the Supervisory Board,
6. Michał Michalewski – Member of the Supervisory Board,
7. Jacek Szyke – Member of the Supervisory Board,
8. Marek Ściążko – Member of the Supervisory Board.

Changes in the Supervisory Board composition

In 2011, no changes in the personal composition of the Supervisory Board of the Company had occurred.

Due to expiry of the term of the Supervisory Board on 6 May 2011, the Supervisory Board of the Company was appointed with the same personal composition. Information on appointment of the Supervisory Board of the Company for the new term is also included in item 2.6 of this report.

Personal composition of the Supervisory Board as of the day of this report

Pursuant to personal authority of the State Treasury resulting from the Articles of Association of the Company, on 11 January 2012, the Member of the Supervisory Board, Michał Michalewski who had been appointed to the Supervisory Board as its Member on 6 October 2008, was dismissed by the State Treasury.

As of 11 January 2012, Rafał Wardziński was appointed as the Member of the Supervisory Board for the Third Joint Term Pursuant to personal authority of the State Treasury resulting from the Articles of Association of the Company.

On 2 February 2012, the Supervisory Board introduced changes within the function of Deputy Chairman of the Supervisory Board, replacing Agnieszka Trzaskalska, acting in this capacity so far, by Rafał Wardziński.

The personal composition of the Supervisory Board as of the day of this report was as follows:

1. Antoni Tajduś – Chairman of the Supervisory Board,
2. Rafał Wardziński – Deputy Chairman of the Supervisory Board,
3. Leszek Koziorowski – Secretary of the Supervisory Board,
4. Jacek Kuciński – Member of the Supervisory Board,
5. Włodzimierz Luty – Member of the Supervisory Board,
6. Jacek Szyke – Member of the Supervisory Board,
7. Marek Ściążko – Member of the Supervisory Board,
8. Agnieszka Trzaskalska – Member of the Supervisory Board.

Mode of operation

A detailed description of the mode of the Supervisory Board operation is included in the Company Articles of Association, *By-laws of the Supervisory Board of TAURON Polska Energia S.A.*, which is available on the Company website <http://www.tauron-pe.pl/> as well as in the Act of 15 September 2000, *Code of Commercial Partnerships and Companies*.

The main form of performing supervision by the Supervisory Board over the Company's operations are meetings of the Supervisory Board. The Supervisory Board performs its obligations jointly. Meetings of the Supervisory Board are convened by the Chairperson of the Supervisory Board or Deputy Chairperson of the Supervisory Board by presenting a detailed agenda:

- 1) in accordance with decisions adopted by the Supervisory Board,
- 2) on his/her own initiative,
- 3) upon a written proposal of each member of the Supervisory Board,
- 4) upon a written proposal of the Management Board.

Meetings of the Supervisory Board take place in the Company's seat. In justified cases the meeting may be convened in another venue.

In order to convene a meeting, written invitation of all members of the Supervisory Board at least 7 days before the date of the Supervisory Board's meeting is required. Due to material reasons the Chairperson of the Supervisory Board may shorten this period to 2 days, defining the mode of giving the invitation. Notifications of the Supervisory Board meeting are sent by means of fax or electronic mail and are confirmed by phone. In the notification of the Supervisory Board meeting the Chairperson defines the date of the meeting, venue of the meeting as well as detailed draft of the agenda. The Supervisory Board shall meet when the need arises, however not less frequently than once every two months. The Supervisory Board may meet without convening a formal meeting if all members of the Supervisory Board are present and nobody appeals against the fact of holding the meeting or against the agenda.

A change of the proposed agenda may take place when all members of the Supervisory Board are present at the meeting and nobody appeals against the agenda. An issue not included on the agenda shall be included into the agenda of the next meeting.

Taking part in meetings of the Supervisory Board is the Supervisory Board Member's duty. A Member of the Supervisory Board shall give reasons of his/her absence in writing. Justification of the Supervisory Board Member's absence requires the Supervisory Board resolution. Members of the Management Board of the Company may take part in the Supervisory Board's meetings unless the Supervisory Board raises an objection. Participation of the Management Board members in the Supervisory Board meetings is compulsory if they were invited by the Chairperson of the Supervisory Board. Other persons may also take part in the meetings if they were invited in the above mentioned way.

The Supervisory Board may seek opinion of legal advisers who render regular legal advice for the Company, as well as, in justified cases, it may appoint and invite to meetings of the Supervisory Board appropriate experts in order to ask their advice and make an appropriate decision.

In the aforementioned cases the Supervisory Board shall pass a resolution concerning commissioning the work to a chosen expert (audit or consulting company) obliging the Company's Management Board to conclude an appropriate agreement.

Meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in the case of his/her absence by the Deputy Chairperson. Due to material reasons, with the consent of the majority of the members of the Supervisory Board present at the meeting, the person chairing the meeting is obliged to submit to voting a motion to stop the meeting and establish a new date of resuming the Supervisory Board meeting. The Supervisory Board makes decisions in the form of resolutions. The Supervisory Board resolutions are passed mainly at the meetings. The Supervisory Board passes resolutions if at least half of its members are present at the meeting and all its members were invited in the way defined in the Regulations. Subject to absolutely binding regulations of law, including the Act of 15 September 2000, *Code of Commercial Partnerships and Companies* as well as provisions of the Company's Articles of Association, the Supervisory Board passes resolutions by an absolute majority of votes of the persons present at the meeting, where the absolute majority of votes is understood as more votes submitted "for" than "against" and "abstain". Resolutions cannot be passed in issues not included in the agenda unless all members of the Supervisory Board are present and nobody voices an objection. It shall not apply to resolutions on justifying the Supervisory Board's member absence at the meeting. Voting of the resolutions is open. A secret ballot is ordered:

- 1) upon the request of at least one of the members of the Supervisory Board,
- 2) in personnel-related issues.

The Supervisory Board, in accordance with the Articles of Association, may pass resolutions in writing or by using means of direct remote communication. Passing a resolution in such a mode requires a justification and a prior submitting of the draft of the resolution to all members of the Supervisory Board. Passing resolutions in this mode does not apply to the appointing the Chairperson, the Deputy Chairperson and the Secretary of the Board, appointing or suspending in the activities of a member of the Supervisory Board and dismissing these persons as well as other issues the settlement of which requires a secret voting. Voting on a resolution passed in the aforementioned mode, a member of the Supervisory Board indicates the mode of his/her voting, "for", "against" or "abstain". In case of failure to express the vote by a Member of the Supervisory Board in the time period defined by the Chairperson the resolution shall not be passed. Resolution with a note that it was passed in a written mode or by mode of voting using means of direct distance communication shall be signed by the Chairperson of the Supervisory Board. Resolutions passed in this mode shall be submitted at the first coming meeting of the Supervisory Board with announcing the result of the voting.

Members of the Supervisory Board shall take part in meetings and perform their duties in person, and while performing their duties they are obliged to exercise due diligence. Members of the Supervisory Board are obliged to keep information connected with the Company activity which they have acquired in connection with holding their seat or at other occasion secret. The Supervisory Board performs its 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 detailed description of activities of the Supervisory Board in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the General Meeting and then published on the Company website <http://www.tauron-pe.pl/>.

The Supervisory Board may appoint among its members permanent or temporary working groups or committees to perform particular actions. The permanent committee of the Supervisory Board include the Audit Committee and Nominations and Remuneration Committee of TAURON Polska Energia S.A. (hereinafter referred to as Nominations and Remuneration Committee). Composition, tasks and rules of operation of the aforementioned committees are defined by regulations passed by the Supervisory Board.

5.11.3. Audit Committee

The Audit Committee was appointed on 13 May 2010 by the Supervisory Board among its members. At the time, the Audit Committee consisted of three Members.

Due to commencement of the Third Term of the Supervisory Board on 6 May 2011 and appointment of the members of the Supervisory Board of the new tenure, the Supervisory Board appointed the Audit Committee of the Supervisory Board, consisting also of three persons.

Personal composition of the Audit Committee as of 31 December 2011

1. Michał Michalewski – Chairman of the Audit Committee,
2. Marek Ściążko – Member of the Audit Committee,
3. Jacek Szyke – Member of the Audit Committee.

Changes in the Audit Committee personal composition

As of 11 January 2012, Michał Michalewski who had acted in the capacity of the Chairman of the Audit Committee was dismissed from the Supervisory Board. As of 2 February 2012, the Supervisory Board appointed Jacek Kuciński and Włodzimierz Luty, who has been acting as the Chairman of the Audit Committee since 1 March 2012.

Personal composition of the Audit Committee as of the day of this report

1. Włodzimierz Luty – Chairman of the Audit Committee,
2. Jacek Kuciński – Member of the Audit Committee,
3. Jacek Szyke – Member of the Audit Committee,
4. Marek Ściążko – Member of the Audit Committee.

Mode of operation

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

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

The Audit Committee consists of three to five members. The activities of the Audit Committee are managed by its Chairperson. Meetings of the Audit Committee are convened by the Chairperson of the Audit Committee on his/her own initiative or upon the motion of a member of the Audit Committee or Chairperson of the Supervisory Board.

Meetings of the Audit Committee take place as the need arises, but at least once every quarter. The Chairperson of the Audit Committee may invite members of the Supervisory Board, who are not members of the Audit Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company, including the chartered auditor to the meetings of the Audit Committee. The Chairperson of the Audit Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board. Report on the Audit Committee operations shall be submitted to the Supervisory Board at least once every six months.

The Audit Committee passes resolutions if at least half of its members were present at the meeting and all its members have been duly invited. 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 remote communication.

The Company Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the Audit Committee. Every year, the Audit Committee provides public record information, through the Company, on the composition of the Audit Committee, number of meetings held and participation in the meetings during the year as well as on main activities. In particular, the Audit Committee confirms its positive assessment of the independence of financial audit process and submits a short description of steps taken to formulate such a motion.

The tasks of the Audit Committee cover:

- 1) monitoring of financial reporting process;
- 2) monitoring of the accuracy of financial information presented by the Company;
- 3) monitoring of the efficiency of internal control, internal audit and risk management systems existing in the Company;
- 4) monitoring of performing of financial revisions;
- 5) monitoring of independence and objectivity of chartered auditor and entity entitled to examine financial statements, including rendering by them services other than financial audit;
- 6) recommending of an entity entitled to examine financial statements to perform financial audit to the Supervisory Board.

In the financial year 2011, the Audit Committee was dealing, among others, with the following issues:

- 1) monitoring and assessment of the efficiency of internal control, internal audit and risk management systems existing in the Company;
- 2) monitoring and assessment of independence of the financial revision process, including the objectivity of the chartered auditor examining unit financial statements of the Company and consolidated financial statements of TAURON Capital Group;
- 3) monitoring of financial reporting process;
- 4) analysis of reliability of financial information presented by the Company in *Financial statement of TAURON Polska Energia S.A. in compliance with the International Financial Reporting Standards for the financial year ended on 31 December 2010* and recommendation for the Supervisory Board concerning assessment of the said report in relation to its compliance with the ledgers and documents as well as with the state of affairs;
- 5) analysis of reliability of financial information presented by the Company in *Financial statement of TAURON Polska Energia S.A. Capital Group in compliance with the International Financial Reporting Standards for the financial year ended on 31 December 2010* and recommendation for the Supervisory Board concerning assessment of the said report in relation to its compliance with the ledgers and documents as well as with the state of affairs;
- 6) analysis of reliability of financial information provided by the Company in the extended consolidated semi-annual report of TAURON Capital Group for the 1st half of 2011;
- 7) analysis of reliability of financial information provided by the Company in the extended consolidated quarterly reports of TAURON Capital Group for the 1st quarter of 2011 and the 3rd quarter of 2011.

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

5.11.4. Nominations and Remuneration Committee

The Nominations and Remuneration Committee was appointed on 27 August 2010 by the Supervisory Board among its members. At the time, the Nominations and Remuneration Committee consisted of three Members.

Personal composition of the Nominations and Remuneration Committee in the period 1 January 2011 – 30 May 2011

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

Changes in the Nominations and Remuneration Committee personal composition

Due to commencement of the Third Term of the Supervisory Board on 6 May 2011 and appointment of the members of the Supervisory Board of the new tenure, the Supervisory Board appointed the Nominations and Remuneration Committee of the Supervisory Board, consisting also of four persons.

Personal composition of The Nominations and Remuneration Committee in the period 30 May 2011 – 31 December 2011 and as of the day of this report

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

Mode of operation

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

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

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

Meetings of the Nominations and Remunerations Committee are convened by the Chairperson of the Nominations and Remunerations Committee on his/her own initiative or upon the motion of a member of the Nominations and Remunerations Committee or Chairperson of the Supervisory Board. Meetings of the Nominations and Remunerations Committee take place as the need arises. The Chairperson of the Nominations and Remunerations Committee may invite members of the Supervisory Board, who are not members of the Nominations and Remunerations Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company, including the chartered auditor to the meetings of the Audit Committee. The Chairperson of the Nominations and Remunerations Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board.

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

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

The tasks of the Nominations and Remunerations Committee include:

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

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

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

5.12. Remuneration of key management and supervisory personnel

The total amount of remuneration understood as the value of salaries, awards and benefits received in cash, in kind or in any other form, disbursed by the Company to the Management Board Members for 2011 amounted to PLN 8,443 thousand. As the total amount of remuneration paid or due and awards for 2011, the gross value of remuneration paid or due for the period from January to December 2011 is provided.

The members of the Management Board of the Company are not covered by the incentive or bonus programme based on the capital of the Company, neither do they receive any remuneration or awards due to performance in governing bodies of subsidiaries of TAURON Capital Group.

Table No. 25 Remuneration of members of the Management Board for 2011 (data in PLN thousand)*

Surname and name	Period of holding the position in 2011	Remuneration and awards	Other benefits	Total
Lubera Dariusz	01.01.2011 – 31.12.2011	1,655	200	1,855
Schmid Joanna	01.01.2011 – 31.12.2011	1,238	129	1,367
Stolarczyk Dariusz	01.01.2011 – 31.12.2011	1,575	191	1,766
Zamasz Krzysztof	01.01.2011 – 31.12.2011	1,575	156	1,731
Zawadzki Krzysztof	01.01.2011 – 31.12.2011	1,575	149	1,724
Total		7,618	825	8,443

* No overheads.

Remuneration of members of the Supervisory Board for 2011 is presented in the table below.

Table No. 26 Remuneration of members of the Supervisory Board for 2011 (data in PLN thousand)*

Surname and name	Period of holding the position in 2011	Remuneration and awards	Other benefits	Total
Tajduś Antoni	01.01.2011 – 31.12.2011	127	0	127
Koziorowski Leszek	01.01.2011 – 31.12.2011	104	0	104
Kuciński Jacek	01.01.2011 – 31.12.2011	93	0	93
Luty Włodzimierz	01.01.2011 – 31.12.2011	93	0	93
Michalewski Michał	01.01.2011 – 31.12.2011	93	0	93
Szyke Jacek	01.01.2011 – 31.12.2011	93	0	93
Ściążko Marek	01.01.2011 – 31.12.2011	93	0	93
Trzaskalska Agnieszka	01.01.2011 – 31.12.2011	116	0	116
Total		812	0	812

Members of the Supervisory Board of the Company in 2011 did not receive remuneration or awards from companies of TAURON Capital Group because they had not held any positions in supervisory boards or management boards of these companies.

5.13. Agreements concluded with managing persons which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation is caused by merger of the Company through takeover

Between the Company and managing persons no agreements were concluded which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation is caused by merger of the Company through takeover.

6. OTHER SIGNIFICANT INFORMATION AND EVENTS

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

During the reporting period no proceedings, related to the Company or subsidiaries of TAURON Capital Group, were pending in the court, competent arbitration authority or public authority body single or aggregate value of which would exceed 10% of the equity of the Company.

6.2. Important achievements in research and development

In 2011, activities took place, result of which is formal settlement of rules of participation of the Company and its subsidiaries in implementation of projects within the Knowledge, and Innovation Community KIC InnoEnergy. On 8 July 2011, the deed on formation of the company CC Poland Plus sp. z o.o. (Ltd.) was signed, shareholders of which, besides the Company, include: the University of Science and Technology (Akademia Górniczo-Hutnicza), The Technical University of Silesia (Politechnika Śląska), The Jagiellonian University (Uniwersytet Jagielloński), The Technical University of Wrocław (Politechnika Wroclawska), the Institute of Chemical Coal Processing (Instytut Chemicznej Przeróbki Węgla), the Central Mining Institute (Główny Instytut Górnictwa), and the European company KIC InnoEnergy SE. The Agreement provided basis for operations of the Polish node (one of six in the EU) of Knowledge, and Innovation Community KIC InnoEnergy, established to conduct research and coordinate activities in the area of the so-called clean coal technologies. These tasks also constitute the tasks of the newly established company. On 9 September 2011 the Agreement on Cooperation was also signed between the Company and CC Poland Plus, which regulates rules of participation of the Company in activities of KIC InnoEnergy, as the partner of the status of Associated Partner. The aforementioned actions enabled to conclude on, 20 September 2011, the Project Agreement based on which TAURON Wytwarzanie participates in implementation of the project "Coal Gas".

On 7 October 2011 the Company, as one of the shareholders, entered into Agreement on Cooperation in the form of the special purpose vehicle under the name of Pierwiastki i Surowce Krytyczne sp. z o.o. (Ltd.). Other signatories of the agreement include: KGHM Polska Miedź, ZGH Bolesław as well as the University of Science and Technology (Akademia Górniczo-Hutnicza). The goal of the company is to implement surveys, research and development in the area of production and processing of critical elements as well as production and sales of innovative solar panels. This project will enable the TAURON Capital Group to build additional competence in the scope of up-to-date technology for generating of green energy as well as to gain access to know-how on raw materials necessary to produce the solar panels.

In 2011 activities were continued involving research tasks implemented under the programme of research and development entitled *Advanced Technologies of Acquisition of Energy*, co-financed by the National Research and Development Centre. The Company, as the member of two consortia which won the project, participates in implementation of the first research task (*Development of technologies for highly efficient, "zero-emission" coal units integrated with capturing CO₂ from exhaust*) and the third research task (*Development of technology of coal gasifying for highly efficient production of fuels and electric energy generation*). TAURON Wytwarzanie is also involved in the project (in both above-mentioned tasks and the second task: *Development of oxygen combustion technologies for dust and fluidised bed boilers integrated with CO₂ capture*) as well as PKW (within the third task). In relation to implementation of the first task, activities are continued aimed at production of mobile pilot installation for CO₂ capturing as well as conducting of surveys in facilities belonging to TAURON Wytwarzanie. In 2011, the base design of the installation was generated.

On 9 December 2011 the Agreement of HTRPL Consortium was signed on *High temperature Nuclear Reactor in Poland*. The Research – Industrial Consortium was established in order to participate in the competition announced on 4 November 2011 by the National Research and Development Centre (NCBiR) under the strategic research project *Technologies supporting the development of safe nuclear power industry*, within the scope of Research Task No. 1 entitled: *Development of high temperature reactors for industrial application*. The leader of the established Consortium is the University of Science and Technology (Akademia Górniczo-Hutnicza) in Cracow. In December 2011 the offer was prepared to implement the research task, which was submitted to the NCBiR at the beginning of January 2012. Participation of the Company is related to implementation of the stage: *Analysis of experience of the energy operator in application of co-generation systems, from the perspective of potential implementation of high temperature reactors technology*.

6.3. Issues concerning natural environment

The Company does not conduct business activities which would result in violation of the requirements of environmental protection, and would result in the payment of fees for the use of the environment. But because of the use of official cars by the Company, the Company is subject to provisions of the Act of 27 April 2001 *Environmental Protection Law* in the scope of calculation of fees for use of the environment for introduction of gases or dust into the air. However, due to the amount of the calculated fee, the company was not obliged to pay it in 2011.

6.4. Policy on Corporate Social Responsibility (CSR)

Since 2009 in the Company, functional strategy of public relations and communication operates, the key element of which is focused on social responsibility of business.

Within the functional public relations strategy, the image of TAURON brand is built around four values: safety, care for local communities, sustainable development and ecology. In 2011, in acknowledgement that communication of CSR actions is particularly important in case of companies listed at stock exchange, for whom the image of socially responsible company is essential to attract investors and, simultaneously, to increase the value of the company, within the document *Corporate Strategy of TAURON Group for the years 2011–2015, with estimates up to the year 2020*, the need to develop and implement the CSR strategy, within integration of PR function, at the level of the Company and TAURON Capital Group was entered.

One of the priorities set in 2011 was the establishment of TAURON Foundation. The Management Board of the Company established TAURON Foundation in November 2011, adopting the project of its statute and appointing its governing bodies. Activity of TAURON Foundation is to allow for even more effective implementation of CSR actions within the area of care for safety of local communities and actions for public benefit. Moreover, the mechanism of employees' voluntary activities will allow for creation of the structure of representatives of TAURON Foundation working pro bono for the benefit of implementation of TAURON Foundation goals and for integration of employees around the performed activities.

TAURON Capital Group, acting in the area of southern Poland, has a leading position in energy sales and generation. These conditions cause that the scope of actions conducted for the benefit of the communities in which companies of TAURON Capital Group operate, is very broad. Many projects are supported which are important for inhabitants of the regions of Upper and Lower Silesia, Opolskie, Małopolska and Podkarpacie. One of the priorities is the sponsoring of sport, culture and ecology. Companies of TAURON Capital Group get involved in many projects in favour of important ideas. They include, among others, charity concert for small hearts in favour of the Clinic of Children's Cardio-surgery in Cracow, supporting of the idea of blood and bone marrow donors during the Agata Mróz Olszewska memorial, or supporting of Iskierka Foundation acting for the benefit of children with cancer. Last year, one of the projects on promoting of sports activity and basketball among children and teenagers was the action "Orlik Basketmania".

The Company is the signatory of the declaration signed on 17 June 2009 during the national conference of the cycle "Responsible Energy", covering the principles of sustainable development in energy sector in Poland. The objective of the document is to implement the principles of sustainable development in the sector, to guarantee the development of environmental protection and broadly understood social development.

An important aspect of CSR activities in TAURON Capital Group is the action "Houses of Positive Energy" addressed to 24-hours custody and care-taking facilities. In 2011, the edition of this action covered for the first time all the facilities within the area of operations of TAURON Capital Group. The main objective of this action is the improvement of living conditions of children from orphanages. The project attracted substantial interest, with 79 orphanages participating. On 13 December 2011, the ceremonial final of the action took place during which the winning orphanages (one from each of the provinces) received financial awards.

The Company also cooperates with the Mountain Voluntary Emergency Service (GOPR), the goal of which is to increase safety in the mountains. The Company is the strategic partner of the internet GOPR training concerning activity in the mountains, covering such issues as: summer activity (mountain bike, climbing, cave exploring), winter activity (skiing and snowboard, avalanches), travelling to high mountains (high mountain tourism, arrangement of trips, height, glaciers, actions of emergency services).

Companies of TAURON Capital Group, together with the Polish Society of Transmission and Distribution of Electric Energy, have been involved in the national action "Safer with the current" for six years. The project is aimed at raising awareness among children and teenagers concerning appropriate use of electric devices. Promoting of behaviours connected with appropriate dealing with electric energy significantly reduces the accident risk. For some time, the issues of rational and ecological use of electric energy have also been incorporated into the programme, which contributes to improvement of the environmental conditions. The campaign is carried out under the patronage of the Minister of National Education, Children's Rights Ombudsman and President of URE. Every year, within the campaign, national competitions (painting and photography) are organised, addressed to children and teenagers from primary and secondary schools as well as to teachers. Since the beginning, employees of TAURON Dystrybucja have been actively involved in the campaign "Safer with the current", providing classes in schools and kindergartens, teaching the youngest and the teenagers how to use electricity safely. Every year several dozen of educational facilities and several thousand children use this form of training.

The popularity of this action is increased due to competitions addressed to children and teenagers from primary and secondary schools. Younger children learn safe principles of using the electric devices and appropriate behaviour in the vicinity of electric energy infrastructure. Older children gain knowledge of electric energy, its generation, transmission, application and ways of use. Due to the action "Safer with the current", the image of TAURON Capital Group is strengthened, as the entity actively participating in the social life of the region, and the TAURON Capital Group is better recognisable among children and the youth.

6.5. Awards and distinctions

25 May 2011

The Company was ranked **10th** in the List of 500 of "Rzeczpospolita" daily, and in the ranking of "The most valuable enterprises of the Rzeczpospolita", accompanying the List of 500, it was ranked at **18th** position. The Company was evaluated at almost 11 billion PLN. The Holding was also ranked at 23rd position in the ranking of companies which enhanced effectiveness.

26 June 2011

TAURON EKO Premium, the ecological product of the Company received the **award Ecolaur of the Decade of the Polish Chamber of Ecology**, which has been awarding projects and products friendly for environment for 10 years. TAURON EKO Premium is the first and currently the only energy from renewable sources in Poland, the origin of which is confirmed by the Polish Society of Energy Certification. The Product is offered within the system of Guarantee of Energy Sales. It confirms that energy comes totally from renewable sources (among others, from hydro power plants), and its production is performed in the environmentally-friendly way, without any adverse effects on the environment.

7 September 2011

The Council of the Economic Forum in Krynica acknowledged the Company as the leader on energy market, **the best company of Central and Eastern Europe**, which noted **the best debut at the stock exchange** in 2010. According to the jury, the Company proved that under difficult conditions of economy under transformation, it is possible to be successful, due to daring investment and good management. As the Council stressed – the success is even more significant as it was achieved during the economic crisis which has substantially deteriorated situation of many leading companies.

08 September 2011

TAURON Capital Group was ranked as **23rd position of the List of 500 biggest companies of Central and Eastern Europe** prepared by "Rzeczpospolita" and the consulting company Deloitte. In the list of **20 biggest energy and raw material companies**, accompanying the ranking, TAURON Capital Group took the 13th position.

19 October 2011

The Company is **the winner of the award "New Impulse" for 2011**. "New Industry", granting the award, stated in the justification that the Company received this distinction, among others, for determination in implementing of the development strategy, *strengthening its position on the market. According to "New Industry", TAURON also demonstrates the potential and capacity still held by the Polish energy industry, and by taking over GZE proves that the Polish corporation is not only able to develop organically, but also to build the company value through takeovers in competition with the foreign rivals.*

21 October 2011

The Company was awarded in the **competition "The Best Annual Report 2010"** for the quality of the consolidated financial statement included in the report of TAURON Capital Group for 2010. Evaluating the annual report, members of the committee assessing the application of international accounting standards and international financial reporting standards stressed that the annual financial statement allows for transparent and aggregated way of assessing of the financial situation of the Company, its results and cash flows.

6.6. Investor relations

Since the beginning of its stock exchange listing, the Company pays particular attention to the quality of the implemented communication policy. Communication with investors' environment is implemented with the use of obligatory activities, i.e. by communication of publicly available current and periodical reports as well as through participation in numerous investors' conferences, road shows as well as meetings with analysts and fund managers during which the data and information is discussed, as published by the Company within the current and periodical reports. In 2011 the Management Board and representatives of Investors' Relations Office participated in ten conferences and four road shows, during which over 120 meetings with about 170 managers were held. Meetings with corporate investors were held in main financial centres of Europe and North America, among others, in New York, London, Paris and Frankfurt.

Publication of periodical reports of the Company, the Company was combines with organisation of four conferences for analysts and managers, during which members of the Management Board discussed financial results published in the reports and presented key achievements in individual periods. The conferences were transmitted on Internet in Polish and in English. The investors also had a possibility to ask questions during the conference via electronic mail.

In 2011 the Company also undertook a number of actions addressed to other, extremely important group of shareholders – individual investors. The Company has become the strategic partner of the Programme "Citizens' Shareholding". The Programme, initiated by the Ministry of Treasury during the stock exchange debut of the Company, PZU SA and GPW, was supported by educational actions concerning safe investment at the capital market. The objective of the Programme was to encourage Poles to active and aware participation in economic life of the country, through active saving and investing in shares of privatised companies and stock exchange instruments. Within the programme "Citizens' Shareholding", representatives of the Company participated in several dozen meetings with individual investors all over Poland, within which they delivered presentations and answered investors' questions concerning investors' relations, investing and operations of TAURON Capital Group. During the discussed period, the Company actively cooperated with the Association

of Individual Investors – in April it participated in the project “Academy of investing”, while in June – in the biggest conference for individual investors, “Wall Street” in Zakopane.

On 2–3 April 2011, the Investor’s Days were organised, within which the analysts and managers invited had a possibility to get acquainted with selected assets of TAURON Capital Group and to participate in the cycle of presentations provided by members of the Management Board. About 40 analysts and managers participated in the event.

The useful tool for communication with investors is the Company website, within which the constantly updated section “investor relations” operates, containing, among others, information of the structure of shareholders, financial results, dividend policy, general meetings, analysts providing recommendations concerning the Company shares as well as video broadcasts of conferences summarising the quarterly reports.

Management Board of the Company

as of 06 March 2012

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	.....

Schedule A: Glossary of terms and list of abbreviations

Below the glossary of trade terms and list of abbreviations most commonly used in this report, is presented.

Table No. 27 Explanation of abbreviations and trade terms applied in the text of the report

Abbreviation and trade term	Full name/explanation
BELS INVESTMENT	BELS INVESTMENT sp. z o.o. with the seat in Jelenia Góra
CAO	Central Allocation Office GmbH with the seat in Freising, Germany
Cash pooling	Cash pooling operating in the Company – consolidation of balances of bank accounts through physical cross-posting of cash from accounts of TAURON Capital Group in the bank in which cash pooling operates to the bank account of Pool Leader whose function is fulfilled by the Company. At the end of each working day, from cash is cross-posted from the bank accounts of companies of TAURON Capital Group which show positive balance to the bank account of Pool Leader. At the beginning of each working day, bank accounts of companies of TAURON Capital Group are credited from the bank account of the Pool Leader with the amount demanded to maintain cash flow of the company of TAURON Capital Group on a given working day.
CC Poland Plus	CC Poland Plus sp. z o.o. with the seat in Cracow
CER	(Certified Emission Reduction – a unit of confirmed emission reduction – reduced emission of greenhouse gases or avoided emission of greenhouse gases, expressed as equivalent, obtained as a result of the project on mechanism of clean development
Certificates	Proprietary rights resulting from certificates of origin of energy generated in the way subject to support, the so-called coloured certificates: <ul style="list-style-type: none"> – green – certificates of origin of electric energy from renewable energy sources, – red – certificates of origin of electric energy from cogeneration (CHP certificates Combined Heat and Power), – yellow – certificates of origin of electric energy generated in co-generation from sources of total installed capacity below 1 MW or gas-burning, – violet – certificates of origin of electric energy generated in co-generation, burning methane released and captured during underground mining works in active, under liquidation or liquidated hard coal mines, or burning gas acquired from biomass processing, – white – certificates confirming gaining of energy savings within the meaning of the Act of energy effectiveness, – brown – certificates confirming forcing agricultural biogas to the network.
CSR	(Corporate Social Responsibility) social responsibility of business
EBIT	(Earnings Before Interest and Taxes) result on operating activity before taxing
EBITDA	(Earnings before Interest, Taxes, Depreciation and Amortization result on operating activity before taxing, increased by amortization and depreciation
EC Nowa	Elektrociepłownia EC Nowa sp. z o.o. with the seat in Dąbrowa Górnicza
EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. with the seat in Stalowa Wola
EC Tychy	Elektrociepłownia Tychy S.A. with the seat in Tychy
EnergiaPro	EnergiaPro S.A. with the seat in Wrocław (currently: TAURON Dystrybucja)
ENION	ENION S.A. with the seat in Cracow (taken over by EnergiaPro)
ERU	(Emission Reduction Unit – unit of emission reduction – reduced emission of greenhouse gases or avoided emission of greenhouse gases, expressed as equivalent, or one mega gram (1 Mg) of absorbed carbon dioxide (CO ₂), obtained as a result of the execution of the joint implementation project
ESW	Elektrownia Stalowa Wola S.A. with the seat in Stalowa Wola (taken over by PKE)
EU ETS	(European Union Emission Trading System) the European system of CO ₂ emission allowances
EUA	(European Union Allowances) – authorisation to introduce the equivalent to the air, within the meaning of art. 2 item 4 of the Act of 17 July 2009 on the system of management of emissions of greenhouse gases and other substances, carbon dioxide (CO ₂), which is used for settlements of emission size within the system, which can be managed based on principles specified in the Act of 28 April 2011 on the system of greenhouse gases emission allowances trading (Journal of Laws No. 122, item 695).
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) with the seat in Warsaw
TAURON Capital Group	TAURON Polska Energia S.A. Capital Group
“TAURON Group”	TAURON Group established by the Management of the Company pursuant to the Code, comprising the Company and selected companies of TAURON Capital Group
GUS	Central Statistical Office (Główny Urząd Statystyczny)

Abbreviation and trade term	Full name/explanation
GZE	Górnośląski Zakład Elektroenergetyczny S.A. with the seat in Gliwice
IRGIT	Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House) with the seat in Warsaw
JWCD	Centrally disposed Generating Units
LTC	(Long-term contracts) – long-term contracts on sales of power and electric energy, listed in the Appendix No. 1 to the Act of 29 June 2007 on principles of covering of the costs incurred by producers due to the premature termination of long-term contracts for sales of power and electric energy (Journal of Laws No. 130, item 905, as amended)
Code	The document entitled <i>Code of TAURON Group</i> , adopted by the Management Board of TAURON Polska Energia S.A.
Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.
Nominations and Remuneration Committee	Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A.
Kompania Węglowa	Kompania Węglowa S.A. with the seat in Katowice
KSE	National Power System
KW Czatkowice	Kopalnia Wapienia Czatkowice sp. z o.o. with the seat in Krzeszowice
Lipniki	Lipniki sp. z o.o. with the seat in Wrocław
MEGAWAT MARSZEWO	MEGAWAT MARSZEWO sp. z o.o. with the seat in Jelenia Góra
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
Business Area	Area of operations of subsidiaries included in TAURON Group, determined by the Company, constituting the business segment of TAURON Group
Management Area	Management Area indicated in the List of Management Areas, i.e. the document issued by the Management Board of the Company, pursuant to the Code, established based on Corporate Strategy and included in the business model of TAURON Group
DSO	Distribution System Operator
RES	Renewable Energy Sources
PEPKH	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. with the seat in Katowice
PGK	Tax Capital Group
GDP	Gross Domestic Product
PKE	Południowy Koncern Energetyczny S.A. with the seat in Katowice (currently: TAURON Wytwarzanie)
PKW	Południowy Koncern Węglowy S.A. with the seat in Jaworzno
PSE Operator	Polskie Sieci Elektroenergetyczne Operator S.A. with the seat in Konstancin-Jeziorna
Organisational Regulations/Bylaws	Document entitled <i>Organisational Regulations of TAURON Polska Energia S.A.</i>
ROIC	(Return On Invested Capital) return on invested capital
SPOT (SPOT Market)	In relation to electric energy, it is the place of concluding of trade transactions for electric energy, for which the period of delivery falls at the latest, three days after the date of transaction (usually one day before the date of delivery). Operating of SPOT market for electric energy is strongly related to operating of the Balancing Market provided by the Operator of Transmission Grid.
Company	TAURON Polska Energia S.A. with its seat in Katowice
Corporate Strategy	The document entitled <i>Corporate Strategy of TAURON Group for 2011–2015 with estimates until the year 2020</i> , being the update of the document <i>Corporate Strategy of TAURON Polska Energia S.A. Capital Group for 2008–2012 with estimates until the year 2020</i> .
TAURON Ciepło	TAURON Ciepło S.A. with its seat in Katowice
TAURON Czech Energy	TAURON Czech Energy s.r.o. with its seat in Ostrava, Czech Republic
TAURON Dystrybucja	TAURON Dystrybucja S.A. with its seat in Cracow
TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with its seat in Jelenia Góra
TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław

Abbreviation and trade term	Full name/explanation
TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with the seat in Cracow
TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with the seat in Katowice
TGE	Towarowa Gielda Energii S.A. (Polish Power Exchange) with the seat in Warsaw
TPA	(Third-party Access) – the principle based on the owner or operator making available the grid infrastructure to the third parties in order to supply goods/services to clients of the third party (it may refer to transmission or sales of electric energy, telecommunication services or railway services)
EU	the European Union
UOKiK	Office for Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
ERO	Energy Regulatory Office
Vattenfall Business Services Poland	Vattenfall Business Services Poland sp. z o.o. with the seat in Gliwice
Vattenfall Distribution Poland	Vattenfall Network Services Poland sp. z o.o. with the seat in Gliwice
Vattenfall Network Services Poland	Vattenfall Network Services Poland sp. z o.o. with the seat in Gliwice
Vattenfall Sales Poland	Vattenfall Sales Poland sp. z o.o. with the seat in Gliwice
Vattenfall Wolin-North	Vattenfall Wolin-North sp. z o.o. with the seat in Gliwice
WFOŚiGW	Regional Fund of Environmental Protection and Water Management in Katowice
GM	General Meeting/Shareholders' Meeting

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

STATEMENT

**of the Management Board of TAURON Polska Energia S.A.
on the compliance of the Financial statements of TAURON Polska Energia S.A.
prepared in accordance with International Financial Reporting Standards
for the year ended 31 December 2011
and the Management Board's report on the activities
of TAURON Polska Energia S.A. for the year 2011**

I, the undersigned, represent that, to my best knowledge, the Financial statements of TAURON Polska Energia S.A. prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2011 and comparable figures were prepared in accordance with applicable accounting rules and give the true and fair picture of the assets, financial standing and performance of TAURON Polska Energia S.A.

I also certify that the Management Board's report on the activities of TAURON Polska Energia S.A. for the year 2011 gives the true picture of the development, achievements and situation of TAURON Polska Energia S.A., including the description of key risks and threats.

Management Board Members:

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

6 March 2012

date

STATEMENT

**of the Management Board of TAURON Polska Energia S.A.
on the appointment of the entity authorised to audit financial statements
(Financial statements of TAURON Polska Energia S.A.
prepared in accordance with International Financial Reporting Standards
for the year ended 31 December 2011)**

I, the undersigned, represent that the entity authorised to audit financial statements and examining the financial statements of TAURON Polska Energia S.A. prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2011 was appointed in accordance with legal regulations, and this entity and auditors examining the statements have met conditions for developing an impartial and independent report on the review of the audited financial statements in accordance with applicable regulations and professional standards.

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

6 March 2012

date