



***Additional information  
to the extended  
consolidated financial report  
of the TAURON Group  
for the first quarter of 2011***

11 May 2011

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# 1 The organisation of the TAURON Capital Group

## 1.1 Basic information on the Group

As at 31 March 2011 The Capital Group TAURON Polska Energia S.A. (hereinafter referred to as the TAURON Capital Group) consisted of the parent entity TAURON Polska Energia S.A. (hereinafter referred to as the Company, the Issuer or TAURON) and 39 subsidiary companies (direct and indirect). In addition, there are 19 subsidiaries related to the Company, in which TAURON holds between 50% - 20% shares and 27 other companies.

During the reporting period, the main companies subject to consolidation included: Południowy Koncern Węglowy S.A. engaged in hard coal mining, Południowy Koncern Energetyczny S.A. engaged in the generation of power from conventional sources and using a joint combustion of biomass, TAURON Ekoenergia sp. z.o.o. engaged in the generation of power from renewable sources, Enion S.A. and EnergiaPro S.A. dealing with providing electricity distribution services, TAURON Sprzedaż sp. z.o.o.<sup>1</sup> (formerly operating under the name Enion Energia sp. z.o.o.), engaged in the supply of electricity to retail customers and TAURON Obsługa Klienta sp. z.o.o.<sup>2</sup> (formerly operating under the name EnergiaPro Gigawat sp. z.o.o.), currently dealing with customer service.

Furthermore, the TAURON Capital Group consisted of 10 other subsidiary companies and 1 interdependent company, subject to consolidation, dealing with generation of electricity and heat, trade in electricity and heat, distribution of heat, extraction, quarrying and grinding of limestone as well as the extraction of stone for construction purposes.

In order to ensure operation of the TAURON Group, understood as a single economic entity consisting of autonomous commercial law companies, to ensure more effective functionality of TAURON Capital Group - on 12 October 2010 - the Management Board of TAURON Polska Energia S.A. appointed the TAURON Group consisting of companies listed below and TAURON Polska Energia S.A. as a parent company; at the same time they adopted the *TAURON Group's Code* as the primary normative act of TAURON Group's operation (hereinafter referred to as the TAURON Group). The following companies acquired the status of a TAURON Group's member at the date of adoption of the resolution on joining TAURON Group by their Shareholder's General Meetings.

The TAURON Group includes following companies:

**Table No. 1. List of subsidiary companies of the TAURON Group**

Item	Name of the Company	Date of accession to the TAURON Group
1.	TAURON Sprzedaż sp. z o.o.	26.10.2010
2.	TAURON Obsługa Klienta sp. z o.o.	26.10.2010
3.	TAURON Ekoenergia sp. z o.o.	26.10.2010
4.	Południowy Koncern Energetyczny S.A.	28.10.2010
5.	Elektrociepłownia EC Nowa sp. z o.o.	4.11.2010
6.	TAURON Czech Energy s.r.o.	10.11.2010
7.	Elektrociepłownia Tychy S.A.	22.11.2010
8.	Polska Energia - PKH sp. z o.o.	29.11.2010

<sup>1</sup> Due to the resolution of the Shareholder's Meeting of Enion Energia sp. z.o.o., dated 18.11.2010, on the 3.01.2011 the status of the Enion Energia sp. z.o.o has been changed to TAURON Sprzedaż sp. z.o.o., therefore in the present document this subsidiary is referred as TAURON Sprzedaż sp. z.o.o.

<sup>2</sup> Due to the resolution of the Shareholder's Meeting of EnergiaPro Gigawat sp. z.o.o. dated 18.11.2010, on the 3.01.2011 the status of the EnergiaPro Gigawat sp. z.o.o. has been changed to TAURON Obsługa Klienta sp. z.o.o., therefore in the present document this subsidiary is referred as TAURON Obsługa Klienta sp. z.o.o.

Item	Name of the Company	Date of accession to the TAURON Group
9.	Enion S.A.	30.11.2010
10.	EnergiaPro S.A.	6.12.2010
11.	PEC Katowice S.A.	9.12.2010
12.	Elektrownia Stalowa Wola S.A.	10.12.2010
13.	PEC w Dąbrowie Górniczej S.A.	14.12.2010
14.	Kopalnia Wapienia Czatkowice sp. z o.o.*	5.01.2011
15.	Południowy Koncern Węglowy S.A. *	13.01.2011

\* in the first quarter of 2011, two companies joined the TAURON Group - Kopalnia Wapienia Czatkowice sp. z o.o. and Południowy Koncern Węglowy S.A.

The TAURON Group's Code adopted in the TAURON Group - regulates the functionality of the Group, ensuring fulfillment of the objectives through a specially designed management solutions of TAURON Group entities, including in particular the definition of objectives of the companies' activities, which enable achieving the projected outcomes.

The proposed solutions presented in the Code include the revised concepts developed under the holding agreement, including the rules of determining, consultation, or changes in business and management areas.

For efficient management of the TAURON Group, under § 17 of the section 1 item 12) of the TAURON Polska Energia S.A. *Management Board By-laws* as well as Article 24 section 2 of the *TAURON Group's Code*, the Management Board of TAURON Polska Energia S.A. on 12 October 2010 passed resolutions on creating business areas; on membership of individual companies comprising the TAURON Group to the respective business areas as well as on establishing management areas, within which the relevant principles of cooperation are introduced.

Another important element enabling making operational decisions within the TAURON Group, through the adoption of the *TAURON Group's Code*, was the creation of new opinion giving and quasi-supervisory bodies of the Group – the TAURON Group's three Committees:

1. Project Evaluation Committee,
2. TAURON Group Management Committee,
3. TAURON Group Compliance Committee.

The objective behind the establishment of the Committees was to guarantee that the Group's subsidiaries follow operational consistency principles in accordance with law as well as to the best interest of the TAURON Group and its shareholders.

Committees perform following functions:

1. Influential function for the TAURON Management Board,
2. Decision-making function,
3. Supervisory function for the management boards of TAURON subsidiaries.

The main task of the Committees is to ensure the implementation of the objective consistency program by the Group's all participants, in the common interest of all members of the Group. The specific functions of the Committees were concretised in the regulations of their operations adopted by the TAURON's Management Board.

From the point of view of the TAURON Group's management rules, the essential tasks, powers and duties of the newly appointed Committees are essential: TAURON Group Management and TAURON Compliance Group.

The most important tasks, powers and duties of the TAURON Group's Management Committee include:

1. Expressing opinions as well as recommending solutions for the adopted or designed (planned) corporate solutions in the TAURON Group, in the scope of merits of following corporation activities towards Company's subsidiary companies:
  - a) changes in Articles of Association, Memorandum of Association or subsidiary contract,
  - b) determination of the number of members of subsidiary bodies,
  - c) changes in the composition of subsidiary bodies,
  - d) determination of the rules and amount of remuneration of subsidiary body members,
  - e) granting of annual awards to members of the subsidiary management board,
  - f) granting of interim bonuses to members of the subsidiary management board,
  - g) purchase or acquisition of shares in the company by a subsidiary,
  - h) the filing by the subsidiary a contribution to a company or cooperative,
  - i) issuance of bonds by a subsidiary.
2. Giving opinions or making recommendations in the scope of applications for a bonus and its amount to the management board members of the Company.
3. Expressing opinions and recommendations on matters covered by the proposals of Company's Management Board submitted for consideration by the company's Supervisory Board.
4. Expressing opinions on the proposed corporate solutions for individual companies or TAURON Group.
5. Proposing specific solutions and actions to the Management Board regarding implementation of standards and processes in the scope of the management of the TAURON Group.

The most important tasks, powers and duties of the TAURON Group's Compliance Committee include:

1. Expressing opinions on the compliance of decision, implemented standard, procedure of the company as well as its derogations from accepted corporate solutions in the TAURON Group, in particular with the Code, as well as Corporate Strategy, business areas strategy as well as the principles of cooperation in the management areas,
2. Consent to modify by the Company a common procedure or standard, or Principles of Cooperation in the management area introduced in the TAURON Group,
3. Giving opinions on the conclusion of cooperation agreements concluded between the Companies,
4. Examination of the consistency of Company's standards with the TAURON Group's standards.

In addition, due to the implementation of the TAURON Group's management model based on *Group's Code*, action has been taken to terminate the management Agreements concluded with individual subsidiaries. By 12 April 2011 all management Agreements have been terminated.

## 1.2 Entities subject to consolidation

As at 31 March 2011, within the TAURON Capital Group, financial statements of seventeen subsidiaries shall be consolidated with the financial statement of the Company, by applying full consolidation method. The list of companies covered by the full consolidation method is set out below:

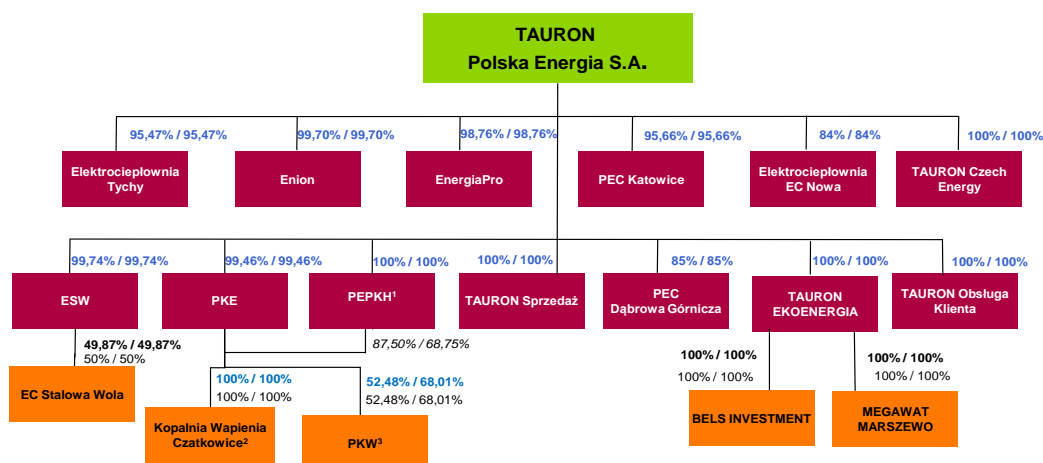
- 1) Południowy Koncern Energetyczny S.A. located in Katowice (hereinafter: PKE),
- 2) Enion S.A. located in Krakow (hereinafter: Enion),
- 3) EnergiaPro S.A. located in Wrocław (hereinafter: EnergiaPro),
- 4) Elektrownia Stalowa Wola S.A. located in Stalowa Wola (hereinafter: ESW),
- 5) Elektrociepłownia Tychy S.A. located in Tychy (hereinafter: Elektrociepłownia Tychy),
- 6) Przedsiębiorstwo Energetyki Ciepłej Katowice S.A. located in Katowice (hereinafter: PEC Katowice),
- 7) Elektrociepłownia EC Nowa sp. z o.o. located in Dąbrowia Górnicza (hereinafter: Elektrociepłownia EC Nowa),
- 8) Przedsiębiorstwo Energetyki Ciepłej w Dąbrowie Górniczej S.A. located in Dąbrowa Górnicza (hereinafter: PEC Dąbrowa Górnicza),

- 9) Kopalnia Wapienia „Czatkowice” sp. z o.o. located in Krzeszowice (hereinafter: Limestone Mine Czatkowice),
- 10) Polska Energia – Polska Kompania Handlowa sp. z o.o. located in Katowice (hereinafter: PEPKH),
- 11) Południowy Koncern Węglowy S.A. located in Jaworzno (hereinafter: PKW),
- 12) TAURON Sprzedaż sp. z o.o. located in Krakow (hereinafter: TAURON Sprzedaż),
- 13) TAURON Ekoenergia sp. z o.o. located in Jelenia Góra (hereinafter: TAURON Ekoenergia),
- 14) TAURON Obsługa Klienta sp. z o.o. located in Wrocław (hereinafter: TAURON Obsługa Klienta),
- 15) TAURON Czech Energy s.r.o. located in Ostrawie, Czech Republic (hereinafter: TAURON Czech Energy),
- 16) BELS INVESTMENT sp. z o.o. located in Jelenia Góra (hereinafter: BELS INVESTMENT),
- 17) MEGAWAT MARSZEWO sp. z o.o. located in Jelenia Góra (hereinafter: MEGAWAT MARSZEWO),

Moreover, the TAURON Group shall consolidate the financial results (through the recognition using the equity method) of investments in the joint venture - Elektrociepłownia Stalowa Wola S.A. located in Stalowa Wola (hereinafter referred to as part of the report EC Stalowa Wola).

### 1.3 The structure of the Capital Group – consolidated companies

The diagram below shows all the companies whose results are consolidated within the TAURON Capital Group as of 31 March 2011.



Notes:

% share in the capital / % share in the governing body

The blue figures specify the direct share of the TAURON Polska Energia S.A. in the share capital / votes for WZZ (ZW)

The bolded figures specify a direct and indirect share of the TAURON Polska Energia S.A. in the share capital / votes for WZZ (ZW)

¹ TAURON PE S.A. holds 12.50% of direct share in the Company, which gives 31,25% votes on the Shareholder's Meeting, therefore TAURON PE S.A. holds 100% of the share capital of the Company that gives 100% votes on the Shareholder's Meeting.

² On the basis of the usage agreement of 100% shares of the Company, which gives 100% votes on the Shareholder's Meeting, being in possession of PKE S.A.

³ On the basis of the usage agreement of 52.48% shares of the Company, which gives 68.01% votes on the Shareholder's Meeting, being in possession of PKE S.A.

Notes:

% share in the capital / % share in the governing body

The blue figures specify the direct share of the TAURON Polska Energia S.A. in the share capital / votes for WZZ (ZW)

The bolded figures specify a direct and indirect share of the TAURON Polska Energia S.A. in the share capital / votes for WZZ (ZW)

1 TAURON PE S.A. holds 12.50% of direct share in the Company, which gives 31,25% votes on the Shareholder's Meeting, therefore TAURON PE S.A. holds 100% of the share capital of the Company that gives 100% votes on the Shareholder's Meeting.

2 On the basis of the usage agreement of 100% shares of the Company, which gives 100% votes on the Shareholder's Meeting, being in possession of PKE S.A.

3 On the basis of the usage agreement of 52.48% shares of the Company, which gives 68.01% votes on the Shareholder's Meeting, being in possession of PKE S.A.

In the first quarter of 2011 following changes took place in the structure of the subsidiaries of the TAURON Group:

1. On 8 February 2011 there was as a reduction of the share capital of Enion S.A. from the amount of PLN 252 961 720,56 to the amount of PLN 252 897 508,08 as a result of remission of its 6 421 246 shares acquired by the Company pursuant to Article 418<sup>1</sup> § 4 of the Commercial Companies Code. Therefore the Company's share in the initial capital and in decision-making authority has increased from 99.68% to 99.70%.
2. On 31 March 2011, there was a redemption of shares belonging to current shareholders of the company PEPKH, which is the Katowicki Holding Węglowy S.A. and KWK Kazimierz Juliusz sp. z.o.o., in conjunction with the above, the companies lost their status of PEPKH shareholders. Therefore:
  - a) Company's equity stake in PEPKH capital increased from 10% to 12.5% and in the decision-making body from 27.77% to 31.25%;
  - b) PKE's equity stake in PEPKH capital increased from 70% to 87,5% and in the decision-making body from 61.11% to 68.75%.

At the same time, with the regard to the use of the total shares of PKE in PEPKH by the Company, the actual equity stake of the Company in PEPKH capital increased from 80% to 100% and in the decision-making body from 88.88% to 100%.

#### **1.4 The effects of the changes in the structure of the Company and the Capital Group**

Below, the effects of changes in the structure of TAURON Capital Group has been presented, as a result of merger of business entities, acquisition or sale of units of the issuer's capital group, long-term investments, division, restructuring and discontinued operations.

##### ***The division of TAURON Obsługa Klienta sp. z o.o.***

In the beginning of 2011, the change of supply companies' organisation structure took place. Previous supply companies of TAURON Capital Group have changed the profile of their activity - TAURON Sprzedaż sp. z o.o. has been involved in supply of electricity to all customers (under the TAURON Polska Energia brand), while EnergiaPro Gigawat as TAURON Obsługa Klienta sp. z o.o. has been providing services related to mass customer service and business parts. The integration of the activities related to the supply and customer service results from implementation of the business model in the Group, which is an element of the restructuring plan.

On 3 January 2011, The District Court in Kraków has made an entry on increasing the share capital of TAURON Sprzedaż Sp. z.o.o. The division of the TAURON Obsługa Klienta sp. z o.o. took place under Article 529 § 1 item 4 of Commercial Companies Code, in the process of acquisition by TAURON Sprzedaż sp. z o.o. the part of assets of the TAURON Obsługa Klienta sp. z.o.o, which form an organised part of the company, consistent of tangible and intangible assets and liabilities associated with the supply of electricity. The share capital of TAURON Sprzedaż sp. z.o.o. was increased from PLN 282 597 by PLN 196 433 to PLN 479 030 by creating 3 928 649 shares worth PLN 50 each, which in total was covered by TAURON Polska Energia S.A. In connection with the division of TAURON Obsługa Klienta sp. z o.o its share capital was reduced from the amount of PLN 33 650 by PLN 32 932 to the amount of PLN 2 718 by creating 329 316 shares worth PLN 100 each. The reduction of the share capital was registered on 31 December 2010.



Due to the fact, that the described changes consisted in restructuring and were carried out in the existing companies of the Group, it had no effect on the interim condensed consolidated financial statement as of 31 March 2011.

### ***The purchase of treasury shares by Polska Energia Pierwsza Kompania Handlowa sp. z o.o.***

On March 2011, Polska Energia Pierwsza Kompania Handlowa sp. z o.o. signed agreements on purchasing 200 treasury shares with a total nominal values of PLN 1 200 from the shareholders: Katowicki Holding Węglowy S.A and KWK Kazimierz Juliusz sp. z o.o.

The purchase of the shares in order to redeem them from the net profit has occurred based on the resolution of the Shareholders' Extraordinary Meeting of the Polska Energia Pierwsza Kompania Handlowa sp. z o.o. of 30 December 2010. The remuneration has been paid to both exiting shareholders by the end of March 2011. On 8 April 2011, an application has been submitted to the District Court in Katowice on share redemption registration.

Consequently, direct share of TAURON Polska Energia S.A. in the share capital of the Polska Energia Pierwsza Kompania Handlowa sp. z o.o. increased by 10% up to 12,5% (in the decision-making body – from 27.78% to 31.25%) and direct share of Południowy Koncern Energetyczny S.A. – from 70% to 87.5% (in the decision making body – from 61.11% to 68.75%).

### ***Forced repurchase of the shares***

In the TAURON Capital Group, the processes of forced repurchase of treasury shares is being continued, in order to redeem them by the Południowy Koncern Energetyczny S.A., Enion S.A., EnergiaPro S.A., Elektrownia Stalowa Wola S.A., Elektrociepłownia Tychy S.A. and Przedsiębiorstwo Energetyki Ciepłej Katowice S.A.

## **2 The operations of the TAURON Capital Group**

### **2.1. Main areas of activity**

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

TAURON Capital Group operates in the following areas (segments):

- Mining Segment, comprising mainly the mining, dressing and sales of coal in Poland, an activity which is conducted by PKW.
- Generation Segment, mainly comprising generating electricity and heat using conventional sources, as well as generating electricity and heat using joint combustion of biomass, the activities which are conducted by PKE, ESW, Elektrociepłownia Tychy and Elektrociepłownia EC Nowa.
- RES Segment, comprising generating electricity using renewable sources (excluding generation of electricity using joint combustion of biomass, which has been included in the Generation Segment), an activity which is carried out by TAURON Ekoenergia and companies purchased in 2010: BELS INVESTMENT and MEGAWAT MARSZEWO.
- Distribution Segment, comprising distribution of energy using distribution networks located in southern Poland, an activity which is conducted by Enion and EnergiaPro.
- Supply Segment, comprising sale of electricity to end-customers and wholesale trading of electricity, as well as trading and management of CO<sub>2</sub> emissions and the property rights arising from the energy certificates. Activity in this area is conducted by the companies: TAURON

Sprzedaż, PEPKH, TAURON Czech Energy and TAURON Polska Energia S.A. Also TAURON Customer Service – a company which deals with customer service is assigned to this Segment.

- Other Segment, comprising mainly the distribution and supplies of heat, as well as other activities. Activity in this area is conducted by the companies: Heat Supply Company Katowice, Heat Supply Company in Dąbrowa Górnicza and Limestone Mine in Czatkowice.

TAURON Capita Group conducts its operations and generates revenue mostly from the sales of hard coal and generating, distributing and supplies of electricity and heat.

In the first quarter of 2011, TAURON Group has achieved the following key operating parameters:

Key operating parameters	1Q 2011	1Q 2010	Change
Commercial coal production (million tonnes)	1.15	1.27	-15.4%
Generating electricity and heat (net production of the Generation Segment and RES) (TWh)	5.90	5.31	11,1%
Including: using renewable sources (production using biomass of Generation Segment and hydropower plants of the RES Segment) (TWh)	0.23	0.23	0.0%
Generating heat (Production of Generation Segment and Other Segment) (Pj)	7.36	8.11	-9.2%
Distribution of electricity (TWh)	10.00	9.64	3.7%
Retail supply of electricity (TWh)	9.24	8.58	7.7%
Number of customers - Distribution (thousands)	4 125	4 104	0.5%

### 2.1.1. The Mining Segment

The basic operations conducted by the TAURON Capital Group within the Mining Segment are mining, dressing and sales of hard coal in Poland. Through PKW, TAURON Capital Group indirectly holds and runs Zakład Górniczy Sobieski and Zakład Górniczy Janina.

In the first quarter of 2011, PKW produced a total of nearly 1.2 million tons of hard coal, which is approximately 15.4% less compared to the corresponding period of 2010, in which production of commercial coal amounted to about 1, 4 million tons.

### 2.1.2. The Generation Segment

The main activities in the Generation Segment of the TAURON Capital Group include the generation of electricity and heat in 11 power plants and combined heat and power plants (plants that produce both electricity and heat) fuelled with hard coal and by means of joint combustion of biomass. The total reachable power of generation units of the Generation Segment amounted, at the end of March 2011, to 5 448 MW of electricity (which means that it has remained unchanged compared to 2010, and accounted for 15.3% of the domestic generating potential) and 3 200 MW of heat.

In the first quarter of 2011, the companies of the Generation Segment generated, in total, approx. 5.8 TWh of electricity net (including 0.12 TWh from biomass), which is 11.5% more compared to the

corresponding period of 2010, in which net electricity production was 5.2 TWh (including 0.13 TWh from biomass). The heat output of the Companies from the Generation Segment in the first quarter of 2011 amounted to 6.9 PJ and was lower compared to the same period of 2010 when it amounted to 7.6 PJ.

### 2.1.3. The RES Segment

The basic operations conducted by the TAURON Capital Group in the RES Segment is the generation of electricity from renewable sources of energy in hydroelectric power plants, as well as project management of TAURON Group in the scope of generating energy from other renewable energy sources. In the RES Segment, 35 hydroelectric power plants operate with the reachable power of 131.7 MW, which accounts for 2.4% of the total reachable power of the TAURON Capital Group.

In the first quarter of 2011, the RES Segment generated 0.11 TWh compared to 0.1 TWh in the same period last year, which shows an increase of generation by over 10%, compared to the level obtained in the first quarter of 2010.

### 2.1.4. The Distribution Segment

The TAURON Group belongs to the largest electricity distributors in Poland, both in terms of the supplied electricity volume as well as the income from the distribution operations. The Distribution Segment makes use of distribution networks of a considerable range, situated in the southern part of Poland.

The activities within the Distribution Segment of the TAURON Group are conducted by two companies: ENION and EnergiaPro. Both ENION, as well as EnergiaPro conduct their operations based on five branches, with ENION conducting its operations through the branches in Bielsko-Biała, Będzin, Częstochowa, Kraków and Tarnów, and EnergiaPro conducting its operations through the branches in Jelenia Góra, Wrocław, Legnica, Opole and Wałbrzych. On 31 December, the President of the Energy Regulatory Office appointed ENION and EnergiaPro distribution system operators within the scope of the concession granted to these entities for the period up to 31 December 2025..

In the first quarter of 2011, the Distribution Segment supplied 10.0 TWh of electricity, including 8.7 TWh to end-customers. During this period, the Distribution Segment has rendered distribution services to 4.1 million customers. In the same period of last year, the Distribution Segment has supplied, in total 9.6 TWh of electricity to approximately 4 million customers, including 8.4 TWh to end-users. This shows that in the first quarter of 2011 electricity supply was 3.7% higher than in the corresponding period last year.

### 2.1.5. The Supply Segment

The Supply segment includes supply and wholesale trading of electricity and other products of the energy market as well as the customer service (the supply company and DSO companies). The supply operations include supplying end-users, including key clients, with electricity. Operations within wholesale trading include wholesale electricity trading and trading and management of carbon emissions allowances and rights arising from electricity certificates.

In the first quarter of 2011, the companies of the Supply Segment supplied a total of over 9.2 TWh of electricity to approximately 4.1 million consumers, both households and enterprises, which compared to the corresponding period of 2010, in which the sale was approximately 8.6 TWh, shows an increase by 7.7%.

### 2.1.6. The Other Segment

The Other Segment includes mostly operations consisting in the distribution and supply of heat, as well as other operations in the scope of extraction of stone, including limestone, for the power industry, metallurgy, construction and road building as well as the production of sorbents for flue gas desulphurization system using wet method and the use in the fluidized bed boilers (Kopalnia Wapienia Czatkowice sp. z o.o.). The companies of the TAURON Group conducting operations within the distribution and supply of heat are mostly PEC Katowice and PEC in Dąbrowa Górnicza, which also deal with generating heat in their own heat stations. At the date of 31 March 2011, the total reachable power of generating assets PEC Katowice amounted to 20 MW, while in the case of PEC in Dąbrowa Górnicza it amounted to 168 MW and represented approximately 5.5% of the reachable heat power of

the TAURON Capital Group. In the first quarter of 2011, the distribution of the heat generated and purchased by heating companies of the Segment was 4.6 PJ compared to about 5.1 PJ in the first quarter of 2010.

## 2.2. Significant achievements and failures of the TAURON Capital Group in the reported period

### 2.2.1. The structure of sales by segments

The following table presents TAURON Capital Group's volumes and structure of supplies divided into particular areas (segments) of activity for the first quarter of 2011 in comparison with the first quarter of 2010.

Specification	[Measuring unit]	1Q 2011	1Q 2010	Dynamics 1Q 2011 / 1Q 2010
Coal production by the Mining Segment	million Mg	1.15	1.27	90,6%
Sales of electricity and heat through the Segment of Generation of electricity and heat from conventional sources	TWh	6.61	5.50	120.2%
	PJ	6.49	7.18	90.4%
Sales of electricity generated in hydroelectric plants by the Segment of Generation of electricity from renewable sources	TWh	0.11	0.10	110.0%
Sales of electric energy distribution services by the Distribution Segment	TWh	10.00	9.64	103.7%
Retail sales of electricity by the Segment of Supply of electricity and other products of the energy market	TWh	9.24	8.58	107.7%
Sales of the heat purchased and generated by the Other Segment	PJ	4.60	5.09	90.4%

#### **Coal mining**

The volume of coal sales in the first quarter of 2011 amounted to almost 1.2 million tonnes, which in comparison with the corresponding period of 2010 represents a decrease by 9.4%. The main cause of the decrease in sales are the limitations associated with temporary work disruption caused by the increased inflow of underground water from a particular area of the mining field, which has impeded the mining and forced the expansion of the drainage system as well as implementation of additional security walls.

#### **Generating electricity and heat from conventional sources**

The volume of electricity supplied by the Generation Segment of the TAURON Capital Group increased by 1.1 TWh, which means by 20.2%, from 5.5 TWh in the first quarter of 2010 to about 6.6 TWh in the first quarter of 2011, which is a result of higher demand for electricity in the National Power System. The direction of sales has changed – due to the changes in the Energy Law (since 9 August 2010) energy generators are obliged to sell a part or total of (in the case of PKE, as a beneficiary of the Act on LTC termination), the volume of electricity (except generated from RES and in congregation) so as to ensure equal access of the public to the energy. Accordingly, most of the electricity produced is sold out to the Polish Power Exchange (before amendment to the Law, almost the entire volume of production was sold within the Group).

#### **Generating electricity from renewable sources**

The volume of electricity generated in hydroelectric power plants and supplied through the companies from the RES Segment of the TAURON Capital Group in the first quarter of 2011 was higher by more than 10% v.s. corresponding period last year (an increase in the generation volume and supplies amounted to 0.013 TWh), which was due to favourable weather conditions. Positive air temperatures occurring in the first quarter of 2011 resulted in melting of snow and increased inflows over the period to the storage reservoirs. Also waterlogged soil significantly caused increased water runoff. These factors resulted in higher energy production than in the comparable period last year.

### **Electricity distribution**

The volume of electricity supplied to the recipients by the Distribution Segment of the TAURON Group increased by approx. 0.4 TWh, which means by 3.7%, from approx. 9.6 TWh in the first quarter of 2010 to 10 TWh in the first quarter of 2011, which was associated with an increase in demand for electricity supply of current customers and acquiring new customers connected to the network mainly from the small and medium business sector buying high and medium voltage electricity. An upward trend to a lesser extent concerned low voltage customers; a slight decrease in the volume of deliveries, compensated by the increase in the average rates for distribution services, concerned mainly households.

### **Supplying energy and other products of the energy market**

The volume of electricity supplied to recipients by companies from the Supply Area of the TAURON Group increased by approximately 0.7 TWh, which is by 7.7%, from approx. 8.6 TWh in the first quarter of 2010 to over 9.2 TWh in the first quarter of 2011. The reasons of the supplies increase are similar to those for the Distribution Sector and result from increased demand for electricity also as a result of acquiring new customers for the Group's electricity. The increase in electricity consumption was observed particularly in B and C tariff groups. The smaller-than-expected were also clients leaving from these groups. In the G group, compared to the corresponding period of the previous year, has been a slight decrease in the average energy consumption, which resulted in smaller supplies volume in this group, despite greater number of customers.

### **Income from other operations**

The volume of heat coming from trade, purchasing and production in their own heating plants decreased by about 0.5 PJ, which is by 9.6%, from approx. 5.1 PJ in the first quarter of 2010 to 4.6 PJ in the first three months of this year. The decrease of operating parameters is associated with worse atmospheric conditions for the heating activity in the first quarter, which affected lower demand for heat than in the corresponding period of 2010. The average ambient temperature was higher than the same period of 2010, in which a historically high heat consumption by consumers was recorded. Heat sales level obtained in the first quarter of this year does not diverge from the levels achieved before 2010, in which winter was exceptionally harsh and long, and which helped increasing demand for heat.

## **2.2.2. The Corporate Strategy update**

On 28 April 2011, the Management Board and the Supervisory Board of TAURON Polska Energia S.A. adopted the "Corporate Strategy of TAURON Group for the period of 2011-2015 with a view for 2020" which is an update to the strategy from 2008. The revised Corporate Strategy is based on the pre-defined strategic priorities; the overarching strategic objective is to ensure the continuous growth of return on invested capital for the shareholders. A key direction for the strategy is to focus on growth in the areas where there is greatest potential for achieving high rates of return on investments and generation portfolio diversification. In addition, the objective to further improve the efficiency and to build an effective organization has been upheld. New strategic goal for the Group is to manage the exposure to the market and regulatory risks. Because of the need to rebuild the generation capacity, the priority for the Group will be investments in generation assets (and potential acquisitions in this area) on the domestic market. Group's total investment in the years 2011-2020 will amount to about 44-45 billion PLN. Within the generation portfolio it is assumed to start new production capacity in different technologies by 2020. The planned investment objective is to launch a generation capacity of 2,400 MW, including in particular:

- 1010 MW in the technology based on coal,
- 735 MW in technology based on gas,
- 240 MW in biomass.

Within the verification of generation asset portfolio and reduction of the risks associated with exposure to CO<sub>2</sub>, TAURON has decided on the need to increase the share of owned power in the low-carbon technologies. In 2020, the Group will have up to 800 MW in wind energy and biogas. TAURON will carry out activities on the preparation for the process of building a nuclear power plant (current report No. 25/2011 dated 28 April 2011).

### **2.2.3. The implementation of the investment program**

In the first quarter of 2011, work associated with the implementation of the investment program has proceeded. Many projects are in the start-up or implementation phase. Capital expenditures of the TAURON Capital Group in this period amounted to over PLN 231.1 million and were higher by about 36% from the expenditure incurred in the corresponding period last year, which amounted to PLN 170 mln. This is mainly due to the intensification of strategic investments in the areas of Generation and Distribution.

The main investments during the three months of this year are outlays for the construction of new power generation units (PLN 41 million), construction of new connections in the Distribution Segment (PLN 48 million), and the construction of underground technical infrastructure in the Mining Segment (PLN 10 million).

### **2.2.4. The signature of contracts for the construction project of the gas-steam unit in Stalowa Wola**

On 11 March 2011, a package of agreements on the construction project of the the gas-steam unit in Stalowa Wola has been signed. These are: the Agreement on the Functioning of the Power Station Stalowa Wola S.A., a long-term agreement on electricity supply, comprehensive agreement to provide gas fuel. This project involves the construction of the gas-steam unit generating electricity in high congregation and heat in the form of water for the municipal and process steam needs of the nearby industrial facilities (current report No. 9/2011 dated 11 March 2011).

### **2.2.5. Work on obtaining free allocations of CO<sub>2</sub> emission allowances**

On 29 March 2011, the European Commission issued a Communication titled "Guidelines for the optional use of Article 10c of the Directive 2003/87/EC" laying down rules of the granting of free emissions permits for the eligible individual generation companies. A key piece of the Communication was to define the concept of "physically launched investment process which, in accordance with the expectations of the Polish government would enable the inclusion of the installations which are at the end of 2008 under development to the group of beneficiaries entitled to make use of free emission permits in the period 2013-2020. Ultimately it has been adopted in Communication that "The investment process should be regarded as physically commenced not later than on 31 December 2008, when it can be proved that the investment decision was not taken under the influence of the possibility of obtaining free permits (for emissions)." This means that member countries must be able to prove that physical work has began on the sites, and "it was apparent" before the end of December 2008 or that a contract on building a power plant has been signed between the investor and contractor. At the same time the Commission "shall adopt in this context that physically started construction work can also include preparatory work, however, always taken on the basis of explicit consent, if necessary, of the appropriate authorities." In a result, EU countries should provide such a document issued in accordance with national law, and in the absence of official approval for preparatory work, the Commission permits the submission of other evidence of physical work commencement, however, they must convince them that the investment decision was not taken under the influence to obtain free licenses.

In the first quarter of 2011 the companies of TAURON Capital Group from the Generation Area participated in the work on obtaining free permits. In February 2011, in response to an inquiry of the Team set up by the Ministry of Economy to the work on obtaining assignments, completed surveys were sent on the preparation of the National Investment Plan and the derogating proposal.

Upon application, the Commission will have 6 months to evaluate. The Commission has the right to reject the application in whole or in part. Apart from Poland, the following countries have the right to be granted a maximum of 70 percent of free allocation for CO<sub>2</sub> emission in 2013: Bulgaria, Cyprus, Czech Republic, Hungary, Estonia, Latvia, Lithuania, Malta and Romania.

A real possibility to benefit from the allocation of free permits for the installation, for which the investment process has been "physically initialized" will depend on the timely adoption of national legislation.

### **2.2.6. Construction of a CHP unit at EC Tychy – obtaining a loan from the Regional Fund for Environmental Protection and Water Management in Warsaw**

On 29 March 2011, the Regional Fund for Environmental Protection and Water Management (WFOŚiGW) and Elektrociepłownia Tychy S.A. (EC Tychy) signed a concessional loan of PLN 30 mln for a task involving rebuilding the fluidized bed boiler and construction of installations of biomass feed. In the EC Tychy a new power unit with heating - condensation turbine, with the power of nominal (at condensing work) 50 MWe and heat distribution of up to about 86 MWt shall emerge. To allow the work of existing unit BC-35 after the entry into force of new, stricter emission standards, the modernization of the existing fluidised bed boiler has been provided in order to adapt to combustion of biomass.

### **2.2.7. Selection of technology for the new power unit at Blachownia**

In the the first quarter of 2011, analytical work on the final selection of the technology for the new unit at the EC Blachownia, belonging to the Południowy Koncern Energetyczny was continued. The options under consideration included coal and gas fuel. As a result, on 13 April 2011, the boards of TAURON Polska Energia S.A., KGHM Polska Miedź S.A. and Południowy Koncern Energetyczny S.A have signed an agreement deciding that further design work on building the 800-910 MW unit at the EC Blachownia in Kędzierzyn-Koźle shall be conducted with the assumption of the choice of the gas fuel.

### **2.2.8. The Company's Ordinary General Meeting of 6 May 2011**

On 6 May 2011, The Ordinary General Meeting of TAURON Polska Energia S.A. (Ordinary General Meeting) has taken inter alia, resolutions approving the Company's and the TAURON Capital Group's financial statements for the year 2010 and approving the reports of the Company's operations and report on the activities of the Group for the year 2010. In addition, the Ordinary General Meeting decided on the division of the profit for the year 2010, usage of capital reserves and determined the amount intended for the payment of the dividend for the shareholders (PLN 262 882 409.10), the day of the dividend (30 June 2011) and the dividend payment date (20 July 2011). The Ordinary General Meeting granted a discharge to all members of the Management Board and the Supervisory Board, who served a function in 2010, and adopted a resolution on establishing the number of the Supervisory Board members. The Ordinary General Meeting appointed three members of the Supervisory Board for the third term in the person of Mr. Jacek Kuciński, Mr. Leszek Koziorowski and Mr. Jacek Szyke. Furthermore, it should be noted, that the Minister of the Treasury, under § 23 section 1, item 3) of the Articles of Association of TAURON Polska Energia S.A. appointed to the Supervisory Board, for a new joint third term, from the date of the Annual General Meeting approving the financial statement for the year 2010 the following persons: Mr. Antoni Tajdus, Mrs. Agnieszka Trzaskalska, Mr. Włodzimierz Luty, Mr. Marek Ściążko, Mr. Michał Michalewski. As a result, the composition of eight person Supervisory Board are: Mr. Antoni Tajduś, Mrs. Agnieszka Trzaskalska, Mr. Leszek Koziorowski, Mr. Jacek Kuciński, Mr. Włodzimierz Luty, Mr. Michał Michalewski, Mr. Jacek Szyke, Mr. Marek Ściążko. The Ordinary General Meeting also adopted a resolution on the amendment to the Articles of Association.

## **3 The analysis of the assets and financial situation of the Capital Group**

### **3.1. The financial situation of the Capital Group after the first quarter of 2011**

#### **3.1.1. Consolidated statement on all income**

The following table presents selected positions from the consolidated statement on all income of the TAURON Capital Group for the 3 month period ended on 31 March 2011 and comparative figures for the 3 month period ended on 31 March 2010. These positions have been referred in accordance with the IFRS [*Interim Consolidated Financial Statement*] for the 3 month period ended on 31 March 2011, which includes a presentation of the reports for the first quarter of 2011, compared to the first quarter of 2010.

**TAURON Polska Energia S.A.**

Additional information to the extended consolidated financial report of the TAURON Group for the 1<sup>st</sup> quarter of 2011

Specification	1Q 2011		1Q 2010	
	in thousands PLN	% of total revenues from sales	in thousands PLN	% of total revenues from sales
<b>Continuing operations</b>				
Sales of goods for resale, finished goods and materials without elimination of excise	4 079 450	77.0%	2 711 503	71.5%
Excise duty	106 307	2.0%	105 549	2.8%
Sales of goods for resale, finished goods and materials	3 973 143	75.0%	2 605 954	68.7%
Rendering services	1 315 110	24.8%	1 181 008	31.1%
Other income	10 822	0.2%	7 371	0.2%
<b>Sales revenues</b>	<b>5 299 075</b>	<b>100.0%</b>	<b>3 794 333</b>	<b>100.0%</b>
Cost of sales	4 583 956	86.5%	3 106 970	81.9%
<b>Gross profit (loss)</b>	<b>715 119</b>	<b>13.5%</b>	<b>687 363</b>	<b>18.1%</b>
Other operating income	19 346	0.4%	31 761	0.8%
Cost of sales	49 157	0.9%	52 512	1.4%
General and administrative expenses	146 521	2.8%	144 596	3.8%
Other operating costs	27 792	0.5%	45 970	1.2%
<b>Operating profit (loss)</b>	<b>510 995</b>	<b>9.6%</b>	<b>476 046</b>	<b>12.5%</b>
Operating profit margin (%) *	9.6%		12.5%	
Finance revenue	22 479	0.4%	26 239	0.7%
Finance costs	46 437	0.9%	52 556	1.4%
Share of profit of associate	-297		0	
<b>Gross profit (loss)</b>	<b>486 740</b>	<b>9.2%</b>	<b>449 729</b>	<b>11.9%</b>
Gross profit margin (%) *	9.2%		11.9%	
Income tax	98 769	1.9%	90 142	2.4%
<b>Profit (loss) from continuing operations</b>	<b>387 971</b>	<b>7.3%</b>	<b>359 587</b>	<b>9.5%</b>
Net profit margin (%) *	7.3%		9.5%	
Profit (loss) from discontinuing operations	0		0	
<b>Profit (loss) for the financial year</b>	<b>387 971</b>	<b>7.3%</b>	<b>359 587</b>	<b>9.5%</b>
Other comprehensive income for the financial year, having deducted due taxes	121		-6 438	
Total revenues for the financial year	388 092	7.3%	353 149	9.3%
<b>Profit attributable to:</b>				
Shareholders of the parent company	382 471		291 813	
Non-controlling interest	5 500		67 774	
<b>The total income attributable to:</b>				
Shareholders of the parent company	382 592		286 341	
Non-controlling shareholders	5 500		66 808	
<b>EBIT and EBITDA</b>				
EBIT	510 995		476 046	
EBITDA	860 288		821 529	

\* Margins of operating profits, gross profit and net profit for the first quarter of 2011 counted to comparable to the level of sales revenue from the same period last year (excluding the compulsory sale of the electricity produced by power exchange resulting from the amendment to the Energy Law) would be similar to those obtained in last year and would be: 12.3%, 11.7%, 9.4%.

In the first quarter of 2011 the TAURON Group stated supplies revenue at a level of PLN 5 299.1 million, compared to PLN 3 794.3 million in the first quarter of 2010, which represents an increase of about 39.7%. Such high growth is associated with the obligation of sales of the generators of electricity through power exchange - sales value is about PLN 1 154 million (22%). After taking into account this fact and bringing to comparability, the increase in revenues would be 9.3%. In the first quarter of 2010, sales of electricity from the Generation Segment was to be exempted within the



consolidation of the Capital Group revenues - almost the entire volume of energy produced was sold to the Group's companies.

The revenues from sales include revenues from fixed compensation relating to LTC, which during the first quarter of 2011 amounted to PLN 73.5 million and was close to the revenues achieved in the corresponding period of 2010 (PLN 73.6 mln).

### 3.1.2. Financial results by segments

The following table presents the TAURON Capital Group's results divided into various areas (segments) for the the period of the first quarter of 2011, and the first quarter of 2010. The data for individual segments do not include the consolidation exclusions.

Specification (in thousands PLN)	I quarter of 2011	I quarter of 2010
Coal mining		
Supplies revenue	284 066	299 896
Operating profit	-4 414	43 048
Amortization and non-finance asset write-downs	26 129	26 735
EBITDA	21 715	69 783
Generating electricity and heat from conventional sources		
Supplies revenue	1 680 644	1 415 760
Operating profit	209 509	184 867
Amortization and non-finance asset write-downs	142 697	137 551
EBITDA	352 206	322 418
Generating electricity from renewable sources		
Supplies revenue	51 643	31 656
Operating profit	34 120	13 926
Amortization and non-finance asset write-downs	6 010	5 396
EBITDA	40 130	19 322
Distribution of electricity		
Supplies revenue	1 189 517	1 146 148
Operating profit	167 402	116 952
Amortization and non-finance asset write-downs	160 859	162 502
EBITDA	328 261	279 454
Energy and other energy market products supplies		
Supplies revenue	3 472 379	3 094 384
Operating profit	92 373	99 918
Amortization and non-finance asset write-downs	2 165	1 518
EBITDA	94 538	101 436
Other		
Supplies revenue	208 754	210 409
Operating profit	27 032	26 259
Amortization and non-finance asset write-downs	11 433	11 781
EBITDA	38 465	38 040
Unmatched positions and exclusions		
Supplies revenue	-1 587 928	-2 403 920
Operating profit	-15 027	-8 924
Amortization and non-finance asset write-downs	0	0
EBITDA	-15 027	-8 924
<b>EBITDA Total</b>	<b>860 288</b>	<b>821 529</b>

**Coal mining**

In the first quarter of 2011, total supplies revenues in the Mining segment amounted to PLN 284.1 million, which represents a decrease of about 5.3% compared to the same period of 2010, EBIT of the Mining segment in the first quarter of 2011 amounted to PLN -4.4 million, and EBITDA PLN 21.7 million. In the same period of the previous year EBIT amounted to PLN 43 million, and EBITDA amounted to PLN 69.8 million. The decrease in EBIT and EBITDA is a consequence of non-execution of the plan of coal mining due to a transient unfavourable mining and geological conditions. The consequence of non-execution of the mining plan is lower production and sales of coal.

**Generating electricity and heat from conventional sources**

In the first quarter of 2011, total supplies revenues in the Generation segment amounted to PLN 1 680.6 million, which represents an increase of about 18.7% compared with first quarter of 2010. The increase in revenues is primarily due to increased volume of sales of electricity. EBIT of the Generation segment in the first quarter of 2011 amounted to PLN 209.5 million, and EBITDA amounted to PLN 352.2 million. In the same period of the previous year EBIT amounted to PLN 184.9 million, while EBITDA amounted to PLN 322.4 million. Higher results are primarily from the increase in revenues from the sales of electricity and reduction of fixed costs.

**Generating electricity from renewable sources**

In the first quarter of 2011, total sales revenues in the RES segment amounted to PLN 51.6 million, which represents an increase of about 63.1% in comparison with the first quarter of 2010. The EBIT segment in the first quarter of 2011 amounted to PLN 34.1 million and EBITDA amounted to PLN 40.1 million. In the same period of the previous year EBIT amounted to PLN 13.9 million, and EBITDA to PLN 19.3 million. The increase in revenues, EBIT and EBITDA is a consequence of the implementation of increased electricity sales and property rights (higher generation is derived from favorable weather conditions), as well as sales of those products at higher prices. Moreover, in the first quarter of 2010 (and by the end of September 2010) in RES Segment's revenues and in results were not included revenues from property rights acquired from the production of TAURON's hydro-electric power plants, which were redeemed in connection with the sale of electricity to end-users. After division of the TAURON Sprzedaż, organized part of the company associated with the generation of electricity from renewable energy sources (hydroelectric plants) and the acquisition of property by TAURON Ekoenergia, i.e. after the fourth quarter of 2010, these revenues are presented as income of the RES Segment.

**Distribution of electricity**

In the first quarter of 2011, revenues from sales in the Distribution segment amounted to PLN 189.5 million, which represents an increase of approximately 3.8% compared with the first quarter of 2010.

The EBIT of the Distribution segment in the first quarter of 2011 amounted to PLN 167.4 million, compared to PLN 117 million in the same period the previous year. EBITDA achieved the level of PLN 328.3 million, which was higher by PLN 48.8 million (17.5%) than achieved in the first quarter of 2010. The decisive influence on the result obtained was favorable growth in sales volume of distribution services. For the improvement in the volume of supply is mainly responsible the growth in demand for electricity by customers using high and medium voltage and an increase in the number of consumers in these tariff groups.

**Energy and other energy market products supplies**

In the first quarter of 2011, total sales revenues in the segment Trade (Supply) amounted to PLN 3 472.4 million, which represents an increase of about 12.2% compared to the same period in 2010. This is a result of increased electricity demand of existing customers and acquired by the Group new electricity customers.

The EBIT of the Trade segment in the first quarter of 2011 amounted to PLN 92.4 mln, and EBITDA amounted to PLN 94.5 million. In the same period of the previous year EBIT amounted to PLN 99.9 mln, while EBITDA to PLN 101.4 million. Comparable (managerial), value of EBIT and EBITDA for the first quarter of 2010 would be by about PLN 12.6 million lower - for the outcome of the Supply Segment during this period a valuation of property rights obtained from the RES production of TAURON Sprzedaż had a positive impact, which had been waived in order to meet obligations. After

separation of the generation part of the company, and combination with the TAURON Ekoenergia (RES Segment), revenues from the sales of certificates of origin are assigned to RES Segment. Hence, a comparable level of EBIT and EBITDA for the first quarter of 2011 compared to that obtained in the first quarter of 2010 (respectively PLN 87.4 million and 88.9 million) is higher by about PLN 5.4 million.

In addition, in the Supply Segment in prior periods, the general and administrative expenses of the parent company have been presented. Since the first quarter of 2011 the presentation of unallocated expenses, which are accounted for general and administrative expenses of the parent company have changed. These costs are incurred for the entire group and can not be directly attributable to a single operating segment. According to the revised rules of the presentation of the unallocated costs were also transformed into figures for the comparable period.

### **Other operations revenue**

In the first quarter of 2011, total supplies revenues in the Other segment totalled PLN 208.8 mln, a decrease of about 0.8% compared to the same period of 2010. The impact on the small decrease in revenues, despite a significant decrease in the volume of heat sold was higher than the previous year's average price of heat and thermal power.

The EBIT of the Other segment in the first quarter of 2011 amounted to PLN 27 million, when in the same period of the previous year it was PLN 26.3 million. EBITDA level for the period of the first quarter of 2011 amounted to PLN 38.5 million, which is the value by 1.1% higher than achieved in the corresponding period of 2010. The improved performance was essentially influenced by a higher average price of heat and lower variable costs of heat generation. Within primary activities of heating companies of Other Segment a positive impact for the EBITDA are the results of the activities associated with the generation and transmission of heat, but the improvement is mainly due for the heat trade improved the EBITDA in the current year compared to the same corresponding period last year.

## **3.2. Asset status**

### **Consolidated financial status statement**

Consolidated financial status statement (in thous. PLN)	Balance as at 31.03.2011	Balance as at 31.12.2010
<b>ASSETS</b>		
<b>Non-current assets</b>		
Tangible fixed assets	17 402 446	17 524 936
Intangible assets	785 201	970 530
Shares in associated companies and joint ventures reported using the equity method	13 467	764
Other long-term financial assets	193 679	177 452
Other long-term non-financial assets	147 024	123 613
Deferred income tax assets	158 726	161 806
<b>Total current assets</b>	<b>18 700 543</b>	<b>18 959 101</b>
<b>Current assets</b>		
Inventories	352 719	408 560
Claims arising from income tax	65 922	74 749
Amounts receivable from deliveries and services other charges	2 483 396	2 273 145
Other short-term financial assets	18 874	28 193
Other short-term non-financial assets	314 109	208 158
Cash and cash equivalents	850 022	1 473 981
Total current assets	<b>4 085 042</b>	<b>4 466 786</b>
Current Assets classified as intended to sale	4 397	4 397
<b>TOTAL ASSETS</b>	<b>22 789 982</b>	<b>23 430 284</b>

Consolidated financial status statement (in thous. PLN)	Balance as at 31.03.2011	Balance as at 31.12.2010
<b>LIABILITIES</b>		
Equity attributable to holders of the parent company		
Issued capital	8 762 747	15 772 945
Reserve capital	7 485 286	475 088
Foreign exchange differences from translation of foreign entities	-150	-271
Retained earnings / Accumulated losses	-1 156 121	-1 542 937
Non-controlling interests	485 227	507 246
<b>Total Equity</b>	<b>15 576 989</b>	<b>15 212 071</b>
Long-term liabilities		
Loans, credits and debt securities	1 104 014	1 076 178
Lease obligations and lease agreements with option to purchase	64 167	67 810
Long-term provisions and employee benefits	1 079 754	1 059 028
Long-term prepayments and government grants	642 121	644 522
Liabilities from deliveries and services and other long-term financial obligations	8 709	6 910
Provisions for deferred income tax	1 253 651	1 215 615
<b>Total long term liabilities</b>	<b>4 152 411</b>	<b>4 070 063</b>
Short term liabilities		
Liabilities from deliveries and services and other liabilities	1 087 509	1 629 723
Current portion of interest-bearing loans and borrowings	215 307	325 027
Current Part of lease obligations and lease agreements with option of purchase	19 835	23 452
Other short term liabilities	811 554	752 819
Accruals and government grants	205 778	189 712
Income tax payable	26 791	68 672
Short-term provisions and employee benefits	693 803	1 158 745
<b>Total short term liabilities</b>	<b>3 060 577</b>	<b>4 148 150</b>
<b>Total liabilities</b>	<b>7 212 993</b>	<b>8 218 213</b>
<b>TOTAL LIABILITIES</b>	<b>22 789 982</b>	<b>23 430 284</b>

On the dates of 31 March 2011 and 31 December 2010, the Group's fixed assets amounted to PLN 18 700.5 million and PLN 18 959.1 million and accounted for approximately 81-82% of total assets. Current assets of the TAURON Group as of the date 31 March 2011 amounted to PLN 4 085 million, and were by approx. 8.5% lower than as of 31 December 2010 amounting to PLN 4 466.8 million. Lower state of assets is primarily due to lower cash and cash equivalents.

As at the date 31 March 2011 and 31 December 2010 total equity of the Group amounted to PLN 15 577 million and PLN 15 212.1 million, representing respectively 68.4% and 64.9% of equity and total liabilities. Equity of minority shareholders (non-controlling shares) as of the date 31 March 2011 and 31 December 2010 amounted to PLN 485.2 million and PLN 507.2 million. The increase in total equity resulted mainly from the net profit of PLN 387.9 mln developed in the first quarter of 2011. Change of the amount of core capital of PLN 15 772.9 on 31 December 2010 to PLN 8 762.7 million on 31 March 2011 is associated with a reduction in nominal value of shares from the amount of PLN 9 to the amount of PLN 5 per share. The resulting balance of PLN 7 010.2 million joined the capital.

An increase in long-term liabilities and reserves in the three months ended on 31 March 2011, is mainly due to higher by PLN 27.8 million debt from bank credits, loans and debt securities as well as higher by PLN 58.8 mln in reserves.

Short term liabilities decreased from PLN 4 148.2 mln, as of the date 31 December 2010 to PLN 3 060.6 mln on 31 March 2011, primarily due to the decrease in liabilities from deliveries and services

and reserves. The balance of short-term bank credits, loans and debt securities as of 31 March 2011 amounted to PLN 215.3 mln, while a decrease by PLN 109.7 mln compared to the situation on 31 December 2010 takes into account reclassification of long-term liabilities. The reduction of short-term provisions as of 31 March 2011 in comparison to 31 December 2010 by PLN 464.9 million results mainly from the termination of reserves for the obligation to submit to redemption of Certificates of Origin of energy in relation to the actual redemption of the certificates, which occurred in March 2011.

At the end of March 2011 the level of net financial debt of the TAURON Capital Group amounted to PLN 553.5 compared to PLN 18.5 mln at the end of December 2010. The increase in the level of net debt by PLN 535 million result from lower level of cash and cash equivalents.

### 3.3. The cash flows

#### **Consolidated Statement of Cash Flows**

The following table presents the cash flows of the Capital Group for the three month period ended 31 March respectively: 2011 and 2010.

Specification (in thousands PLN)	1Q 2011	1Q 2010
Cash flows from the operating activity		
Gross Profit / (loss)	<b>486 740</b>	<b>449 729</b>
Adjustments for:		
Share in profit an associate entity and joint venture reported using the equity method	297	
Amortization	349 588	346 604
(Profit) / loss on foreign exchange differences	-308	-2 430
Interests and dividends, net	20 372	30 626
(Profit) / loss on investment activities	1 035	1 198
(Increase) / decrease in accounts receivables	-214 271	-284 957
(Increase) / decrease in reserves	55 183	90 350
Increase / (decrease) in liabilities excluding credits	-217 821	-28 033
Change of other assets both long and short term	111 446	165 305
Change in deferred income and government grants and accrued expenses	7 825	-51 505
Change of reserve state	-471 640	-449 511
Income tax paid	-90 710	-48 810
Other	4	-7 991
Net cash generated from operating activities	<b>37 740</b>	<b>210 575</b>
Cash flows from investment activities		
Sale of tangible fixed assets and intangible assets	10 399	1 599
Purchase of tangible fixed assets and intangible assets	-509 788	-318 329
Sales of other financial assets	9 125	4 496
Acquisition of shares in associated companies and joint venture reported using the equity method	-13 000	-500
Purchase of other financial assets	-14 529	-85 581
Interests received	0	134
Granting of loans	15	0
Other	-1	8
Net cash from the investment activities	<b>-517 779</b>	<b>-398 173</b>
Cash flows from financial activities		
Purchase of own non-controlling interests	-24 185	0
Repayment from the finance lease liabilities	-9 894	-10 386
Cash inflows from credits / loans	60 594	40 082

Specification (in thousands PLN)	1Q 2011	1Q 2010
Repayment of the loans / credits	-152 215	-84 553
Dividends paid to non-controlling shareholders	-2	-10
Interests paid	-8 468	-17 396
Other	-7 624	-465
Net cash from the financial activities	<b>-141 794</b>	<b>-72 728</b>
Increase / (decrease) in net cash and cash equivalents	<b>-621 833</b>	<b>-260 326</b>
Net exchange differences	338	-121
Cash and cash equivalents at the beginning of period	<b>1 471 660</b>	<b>972 655</b>
Cash and cash equivalents on the the end of the period, including	<b>849 827</b>	<b>712 329</b>
- with limited disposal possibilities	87 164	18 399

The balance of cash as of 31 March 2011 amounted to PLN 849.8 mln and was higher than at the end of the corresponding period last year by PLN 137.5 mln.

In the first quarter of 2011 there was a decrease in cash flows from operating activities - up to PLN 37.4 million, compared to PLN 210.6 million in the corresponding period last year. A drop in the value of flows from operating activities is mainly due to decrease in liabilities other than credits. Net negative cash flows from investment activities for the three months period of 2011 ended on 31 March 2011 and amounted to PLN 517.8 million and compared to the period which ended on 31 March 2010 were higher by about PLN 119.6 million. The balance of cash flows from investment activities primarily consisted of expenditures for the acquisition of tangible assets and intangible assets of the amount of PLN 509.8 million.

Net negative cash flows from financial activities for the three months period of 2011 ended on 31 March 2011 and amounted to PLN 141.8 million, compared to PLN 72.7 million for the period ended on 31 March 2010. The increase of net expenditure from financing activities was primarily due to higher repayments of loans and credits during the first quarter of 2011, compared to to the corresponding period 2010.

### **3.4. Factors and occurrences, particularly of untypical nature, significantly affecting financial results**

In the analyzed period, there were no factors or events of unusual character, having a significant impact on the financial results.

### **3.5. Factors, which in the opinion of the Issuer will have an impact on its financial results achieved within at least another quarter**

The Issuer believes that the results of the Group's activities will be affected primarily, as they were in the past, by the following factors:

- the macroeconomic situation, especially in Poland, as well as the economic situation of the area in which the Group operates, European Union and the global economy,
- political environment, especially in Poland as well as on the European Union level,
- changes in the regulation of the energy sector, the activities / decisions of the President of URE (Energy Regulatory Authority),
- amendment to the Energy Act and other laws relating to the obligation of public sale of electricity by generators,
- the introduction of the support system of electricity generation in high efficiency cogeneration in units fired with methane,
- electricity prices in the wholesale market,

- the sale prices of electricity and coal as well as distribution tariffs, as factors influencing the level of income,
- prices of certificates of origin for renewable energy and congregations,
- prices for CO<sub>2</sub> allowances,
- energy prices,
- demand for electricity and heat,
- seasonality and weather conditions,
- the amount of compensation for covering the stranded costs related to the termination of the PPA,
- potential failures of equipment, systems and networks belonging to the Group TAURON.

### **3.6. Recommendation on dividend payment to the shareholders**

The Management Board of TAURON Poland S.A. decided to submit to the Ordinary General Meeting of the Company a recommendation to pay dividends to shareholders in the amount of PLN 262 882 409.10. This means that dividend payment will be PLN 0.15 per one share. The recommended amount of dividends to shareholders includes the entire net profit of the Company for the financial year 2010 in the amount of PLN 190 477 439.61 as well as part of funds transferred to the reserve capital from the net profit for the financial year 2009 in the amount of PLN 72 404 969.49. At the same time the Board decided to submit to the Ordinary General Meeting of the Company a recommendation fixing the date of the dividend for 30 June 2011 and the dividend payment date for 20 July 2011 (current report No. 19/2011 from 5 April 2011).

### **3.7. Standpoint of the Management Board concerning the possibilities of realising previously published result forecasts for the year**

TAURON Polska Energia S.A. did not publish financial forecasts.

## **4 Shares and shareholding**

### **4.1. Reduction of the share capital and change in nominal value of the Company's share**

On 25 March 2011, the District Court Katowice-Wschód in Katowice, 8<sup>th</sup> Division of the National Court Register, issued a decision on entry into the register of entrepreneurs the share capital reduction of TAURON Polska Energia S.A., adopted by the ordinary General Meeting of the Company by Resolution No. 4 dated 10 November 2010 on the reduction of share capital through amendment to the Articles of Association by reducing the nominal value of shares. Consequently, the Company's share capital was reduced 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 by reducing the par value of each share by PLN 4,00, which is from the amount of PLN 9.00 to the amount of PLN 5. All issued shares of the Company are entitled to 1 752 549 394 votes for the General Meeting (current report No. 15/2011 of 29 March 2011).

### **4.2. Shareholders holding at least 5% of the total number of votes**

Below are presented the Shareholders holding directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting of Shareholders and the changes in the ownership structure of large blocks in the period from the previous quarterly report. According to the notifications received by the Company, the structure of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting of the Company as of 9 November 2010 (the publication of the report for the third quarter of 2010.), was as follows:

**TAURON Polska Energia S.A.**

Additional information to the extended consolidated financial report of the TAURON Group for the 1<sup>st</sup> quarter of 2011

Shareholders	Number of shares held	Percentage in the share capital	Number of votes held	Percentage of in total number of votes
The Treasury*	735 451 278	41.96%	735 451 278	41.96%
KGHM Polska Miedź S.A.**	81 822 499	5.15%	81 822 499	5.15%

\* according to the notice of the shareholder from 05/11/2010

\*\* according to the notice of the shareholder from 02/07/2010

In connection with further notices of shareholders, the structure of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting of the Company has changed and at the date of submission of this information shall be as follows:

Shareholders	Number of shares held	Percentage in the share capital	Number of votes held	Percentage of in total number of votes
The 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%

\* according to the notice of the shareholder dated 29.03.2011

\*\* according to the notice of the shareholder dated 23.03.2011

**Description of changes in the ownership structure of large blocks of shares**

- On 23 March 2011, the Company received notification from the KGHM Polska Miedź S.A. (KGHM) that a threshold of 10% of the total number of votes in TAURON Polska Energia S.A. was exceeded due to the purchase of 71 000 000 shares of TAURON Polska Energia S.A. by KGHM on 23 March 2011 from the Polish State Treasury. The transaction was carried out in the accelerated book building process conducted by the State Treasury. Prior to the transaction KGHM owned 111 110 566 shares of TAURON Polska Energia S.A., which represented 6.34% of its share capital, giving the right to 111 110 566 votes at the General Meeting, which represented 6.34% of total votes. Following the transaction, KGHM has 182 110 566 shares of TAURON Polska Energia S.A., which represents 10.39% in its share capital, giving the right to 182 110 566 votes at the General Meeting, which represents 10.39% of the total number of votes. In addition, on 24 March 2011, KGHM informed that they did not preclude further increase in share capital of TAURON Polska Energia S.A. It is related to the implementation of the KGHM Strategy for the years 2009-2018 which provides for diversification of income sources as well as the entry into the power sector (current reports No. 11/2011 of 23 March 2011 as well as 12/2011 of 24 March 2011).
- On 29 March 2011, the Company received notification from the Ministry of the Treasury on the sale by the State Treasury of a significant block of shares of the Company, resulting in a change in the number of votes held by the Treasury in the Company. On 23 March 2011, in package transactions 208 478 000 shares of the Company held by the Treasury were sold. The settlement of package transactions took place on 28 March 2011. Before the transaction the Treasury had a total of 735 361 897 shares of the Company giving the same number of votes at the General Meeting of shareholders. These shares represented 41.96% in the share capital and the same proportion in the total number of votes in the Company. The Treasury currently holds 526 883 897 shares of the Company giving the same number of votes at the General Meeting of shareholders. These shares represent 30.06% in share capital and the same proportion in the total number of votes in the Company (current report No. 18/2011 of 29 March 2011).



### 4.3. Summary of shares held by the management and supervisory bodies

The following summary presents the number of shares of the Issuer or the rights to these shares held by managers and supervisors of the Issuer, together with an indication of changes in ownership in the period from the previous quarterly report, separately for each person. On 9 November 2010, which is the date of publication of the report for the third quarter of 2010, as well as at the date of submission of this information, the ownership of shares of TAURON Polska Energia S.A. or rights to them by the people managing and supervising the Company were as follows:

#### *Managing individuals:*

Name and surname	Number of shares as of 11/09/2010 (publication of the report for 3Q 2010)	Change in number of shares held	Number of shares on the date of presented quarterly report
Dariusz Lubera	6 576	no change	6 576
Joanna Schmid	0	no change	0
Dariusz Stolarczyk	18 183	no change	18 183
Krzysztof Zamasz	935	no change	935
Krzysztof Zawadzki	21 454	no change	21 454

#### *Supervision individuals:*

On 9 November 2010 (publication of the report for the third quarter of 2010), as well as at the date of submission of this information, the ownership of shares of TAURON Polska Energia SA or rights to them by the supervisors of the Company were as follows:

Name and surname	Number of shares as of 11/09/2010 (publication of the report for 3Q 2010)	Change in number of shares held	Number of shares on the date of presented quarterly report
Antoni Tajduś	0	no change	0
Agnieszka Trzaskalska	0	no change	0
Leszek Koziorowski	0	no change	0
Jacek Kuciński	935	no change	935
Włodzimierz Luty	935	no change	935
Michał Michalewski	34 500	+5 500	40 000
Jacek Szyke	0	no change	0
Marek Ściążko	0	no change	0

#### Changes in share ownership from the previous quarterly report

- On 17 November 2010, the Company received two notifications in accordance with Article 160 of the Act on trading in financial instruments from a member of the Supervisory Board. The first

notification concerns the purchase and sale of shares of the Company by a member of the Supervisory Board. Transactions took place between 10,12 and 16 November 2010 on a regulated market in regular session mode. Detailed information on the transactions from 10 November 2010 - sale of 600 shares at a price of PLN 6.84, 12 November 2010 - purchase of 600 shares at a price of PLN 6.75 and 16.11.2010 - purchase of 500 shares at a price of PLN 6.58. The second notification concerns purchase of shares by a person closely related to a member of the Supervisory Board referred to above. The purchase of 660 shares of the Company at a price of PLN 6.70 took place on 10 November 2010 on a regulated market in regular session mode (current report No. 55/2010 dated 10 November 2011).

- On 24 November 2010, the Company was informed about purchase by a member of the Supervisory Board of TAURON Polska Energia S.A. of 1,900 shares of the Company during ordinary sessions on regulated market on days 17, 19 and 23 November 2010, including: on 17 November 2010 - 500 shares of the Company at a price of PLN 6.52 per share, on 17 November 2010 - 500 shares of the Company at a price of PLN 6.48 per share, on 19 November 2010 - 370 shares of the Company at a price of PLN 6.43 per share, on 23 November 2010 - 530 shares of the Company at a price of PLN 6.29 per share, the notification referred to above also included information on the sale of 600 shares during ordinary session on regulated market on 23 November 2010, at a price of PLN 6.58 per share (current report No. 57/2010 dated 24 November 2011).
- On 1 December 2010, the Company received notification in accordance with Article 160 of the Act on trading in financial instruments from a member of the Supervisory Board. The notification concerns purchase and sale of shares of the Company by a member of the Supervisory Board. Transactions took place on 24, 26, 29 November and 1 December 2010 on a regulated market in regular session mode. Detailed information about the transactions: 24 November 2010 - purchase of 3 700 shares at a price of PLN 6.48, 26 November 2010 - purchase of 600 shares at a price of PLN 6.38, 29 November 2010 - purchase of 500 shares at a price of PLN 6.35, 29 November 2010 - sale of 1 500 shares at a price PLN 6.39, 29 November 2010 - purchase of 1 500 shares at a price of PLN 6.29, 29 November 2010 - sale of 450 shares at a price of PLN 6.33, 29 November 2010 - sale of 1 050 shares at a price of PLN 6.36, 29 November 2010 - purchase of 600 shares at a price of PLN 6.32, 1 December 2010 - sale of 600 shares at a price of PLN 6.43.
- On 3 December 2010, the Company received notification in accordance with Article 160 of the Act on trading in financial instruments from a member of the Supervisory Board. The notification concerns purchase and sale of shares of the Company by a person closely related to the member of the of the Supervisory Board. The transactions took place on 1, 2 and 3 December 2010 on a regulated market in regular session mode. Detailed information about the transactions: 1 December 2010 - purchase of 810 shares at a price of PLN 6.44, 2 December 2010 - sale of 810 shares at a price of PLN 6.56, 3 December 2010 - purchase of 813 shares at a price of PLN 6.49.
- On 21 December 2010, the Company received two notifications in accordance with Article 160 of the Act on trading in financial instruments from a member of the Supervisory Board. The first notification concerns the purchase and sale of shares of the Company by a member of the Supervisory Board. Transactions took place on 14,15 and 16 December 2010 on a regulated market in regular session mode. Detailed information about the transactions: 14 December 2010 - purchase of 500 shares at a price of PLN 6.53, 15 December 2010 - sale of 1 500 shares at a price of PLN 6.59, 15 December 2010 - purchase of 1 500 shares at a price of PLN 6.55, 16 December 2010 - sale of 1 500 shares at a price of PLN 6.70, 16 December 2010 - sale of 1 500 shares at a price of PLN 6.72. The second notification concerns purchase and sale of shares of the Company by a person closely related to the member of the of the Supervisory Board referred to above. Transactions took place on 16, 17 and 20 December 2010 on a regulated market in regular session mode. Detailed information about the transactions: 16 December 2010 - purchase of 8,327 shares at an average price of PLN 6.761, 16 December 2010 - sale of 5 000 shares at a price of PLN 6.79, 17 December 2010 - purchase of 309 shares at a price of PLN 6.78, 20 December 2010 - purchase of 891 shares at an average price of PLN 6.81.

- On 22 December 2010, the Company was informed on purchase by a Member of the Supervisory Board of TAURON Polska Energia S.A. of 3 905 shares of the Company during ordinary sessions on regulated market on days 17, 20 and 21 December 2010, including: on 17 December 2010 - 3 000 shares of the Company at an average price of PLN 6.84 per share; on 20 December 2010 - 700 shares of the Company at a price of PLN 6,87 per share; on 21 December 2010 - 205 shares of the Company at a price of PLN 6.86 per share.
- On 10 January 2011, the Company received notification in accordance with Article 160 of the Act on trading in financial instruments from a Member of the Supervisory Board. The notification related to sales of 7 905 shares of the Company at a price of PLN 6.63 per share. The transaction took place on 7 January 2011 on a regulated market in regular session mode (current report No. 1/2011 dated 10 January 2011).
- On 18 January 2011, the Company received the following notification concerning the acquisition of shares of the Company in the initial public offering from the Company's supervisors and managers :
  - 1) on 18 January 2011, the Company received a notification on purchase by a member of the Supervisory Board of the Company of 935 shares at a price of PLN 5.13 per share. The transaction took place on 25 June 2010 (the date of the allotment of shares) on the Stock Exchange in the initial public offering of the Company;
  - 2) on 18 January 2011, the Company received a notification on purchase by a person closely related to a member of the Supervisory Board of 935 shares at a price of PLN 5.13 per share. The transaction took place on 25 June 2010 (the date of the allotment of shares) on Stock Exchange in the initial public offering of the Company;
  - 3) on 18 January 2011, the Company received a notification on purchase by a member of the Board of the Company of 934 shares of the Company at a price of PLN 5.13 per share. The transaction took place on 25 June 2010 (the date of the allotment of shares) on Stock Exchange in the initial public offering of the Company;
  - 4) on 18 January 2011, the Company received a notification on purchase by a member of the Board of the Company of 935 shares of the Company at a price of PLN 5.13 per share. The transaction took place on 25 June 2010 (the date of the allotment of shares) on Stock Exchange in the initial public offering of the Company;
  - 5) on 18 January 2011, the Company received a notification of purchase by a member of the Board of the Company of 935 shares of the Company at a price of PLN 5.13 per share. The transaction took place on 25 June 2010 (the date of the allotment of shares);
  - 6) on 18 January 2011, the Company received a notification of purchase by the Company Proxy of a total of 1,866 shares of the Company, including 934 shares acquired on 25 June 2010 (the date of the allotment of shares) at a price of PLN 5.13 per share in the initial public offering of the Company, 932 shares were acquired on 5 July 2010, at a price of PLN 5.06 per share in regular session on regulated market (current report No. 4/2011 dated 18 January 2011).
- On 25 January 2011, the Company received a notification of purchase by a Member of the Board of the Company of 934 shares of the Company at a price of PLN 5.13 per share. The transaction took place on 25 June 2010 (the date of the allotment of shares) on Stock Exchange in the initial public offering of the Company (current report No. 6/2011 dated 25 January 2011).
- On 23 March 2011, the Company received a notification from a Member of the Supervisory Board. The notification concerns purchase of 1 700 shares of the Company by a member of the Supervisory Board of the Company at a price of PLN 6.20 per share. The transaction took place on 23 March 2011 on a regulated market on regular session mode (current report No. 10/2011 of 23 March 2011).

- On 7 April 2011, the Company received a notification from a Member of the Supervisory Board. The notification concerned purchase of 3 800 shares of the Company by the member of the Supervisory Board of the Company at a price of PLN 6.23 per share. The transaction took place on 6 April 2011 on a regulated market on regular session mode (current report No. 20/2011 of 7 April 2011).

## 5 Other relevant information and events

### 5.1. Appointment of the Management Board for another term

On 24 February 2011, the Supervisory Board passed a resolution on the appointment of the following persons for the third term of office 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 Development), Mr. Dariusz Stolarczyk (as Vice President of Corporate Affairs), Mr. Krzysztof Zamasz (as Vice President for Commercial Affairs), Mr. Krzysztof Zawadzki (as Vice-President for Economic and Financial Affairs). Resolutions of the Supervisory Board to appoint the above persons to the Management Board of the Company entered into force upon their adoption with effect from the Ordinary General Meeting approving financial statements for the fiscal year 2010 (current report No. 8/2011 of 24 February 2011).

### 5.2. Proceedings pending in the court, competent arbitration authority or public authority

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

### 5.3. Information about transactions with related entities

All transactions with related parties are concluded on arm's length basis. Detailed information about transactions with related parties are set out in note No. 29 to the consolidated financial statements for the 3 months period ended 31 March 2011.

### 5.4. Information on extended guarantees, credit or loan sureties

In the first quarter of 2011 TAURON Polska Energia S.A. and its subsidiaries have not provided sureties for a credit or loan and did not provide guarantee – to a single entity or its subsidiary of a total value equivalent to at least 10% of the equity of TAURON Polska Energia S.A.

### 5.5. Other information, which in the opinion of the Issuer is essential for the evaluation of the personnel, property, finance, financial result and their changes, and which is essential to assess the possibility of fulfilment of obligations by the Capital Group of the Issuer

#### 5.5.1. The macroeconomic situation

The TAURON Capital Group operates mainly in the territory of Poland, and therefore macro-economic trends in Poland are important. One can observe that there is a positive correlation between the increase of electricity demand and economic growth; therefore the macroeconomic situation of the country has a direct impact on the financial performance achieved by the Group TAURON. In the first quarter of 2011 the upward trend in demand for electricity in National Power System continued, which resulted in an increase in electricity sales by the Group.

### **5.5.2. Termination of long-term contracts**

In connection with the termination of long term contracts (LTC) according to the the "Law on covering the costs incurred by producers in connection to the early termination of long-term contracts for sale of power and electricity" (The Act on LTC), the generation companies who were already party to those agreements were granted the right to receive compensation for covering so-called stranded costs (generation company's costs resulting from expenditure borne by the generating company before 1 May 2004, on assets associated with the generation of electricity not covered by revenue generated from the sales of generated electricity, reserve capacity and system services in a competitive market after the premature termination of the long term contract). The Act on LTC limits the total amount of measures that may be paid to all manufacturers for covering the stranded costs, discounted for 1 January 2007, to the amount of PLN 11.6 billion.

### **5.5.3. Basic data on the generation companies from the TAURON Group subject to the Act on LTC**

Impact of compensations under termination of LTC on the results achieved by the TAURON Group was described in Note 26 to interim condensed consolidated financial statement that complies with International Financial Reporting Standards for the 3 month period ended on 31 March 2011. For the three month period ended on 31 March 2011, the company of the Generation segment - Południowy Koncern Energetyczny S.A. recognised the income from compensation in the amount of PLN 73.5 million.

### **5.5.4. Position on the market**

The TAURON Capital Group is one of the two largest utility companies in the country. It is a leader in terms of distribution and the second largest electricity producer in Poland. Outside the production and distribution of electricity, the core activity of the TAURON Group includes trade of electricity, coal, heat generation and distribution and supply of heat.

### **5.5.5. Potential**

TAURON Capital Group is a key player in the energy sector and an important link in the system of Polish energy security. Holding operates in the area equal to nearly one-fifth of the country. Corporate Strategy of the TAURON Capital Group assumes a systematic development of the company in Poland and abroad.

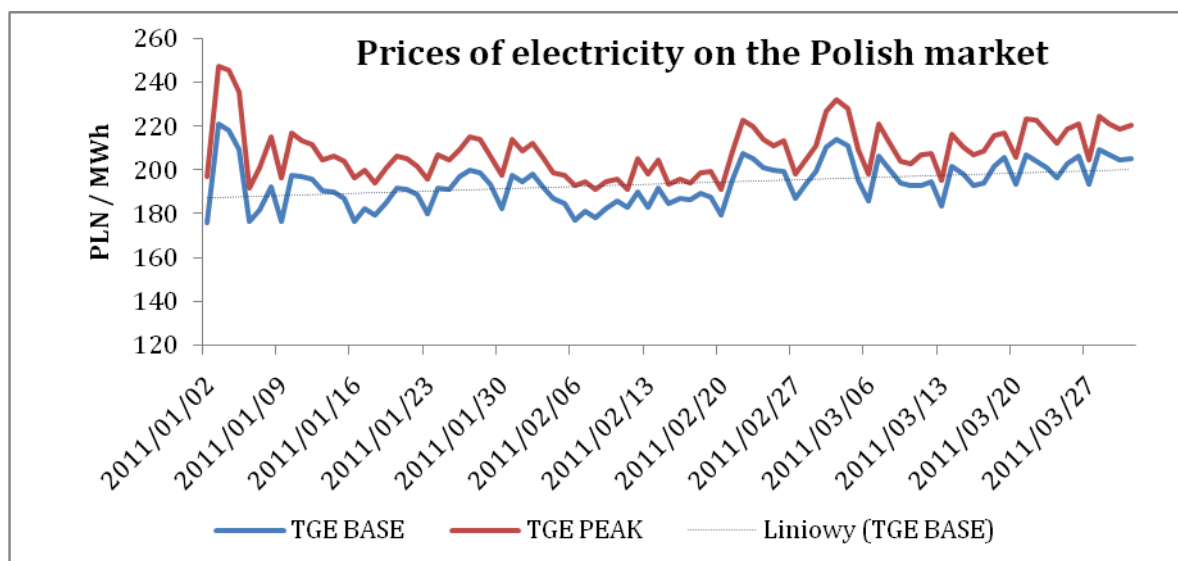
In the entire value chain TAURON Capital Group holds assets that largely cover the needs of the business.

### **5.5.6. The National Allowance Allocation Plan for CO<sub>2</sub> Emission for the years 2008-2012**

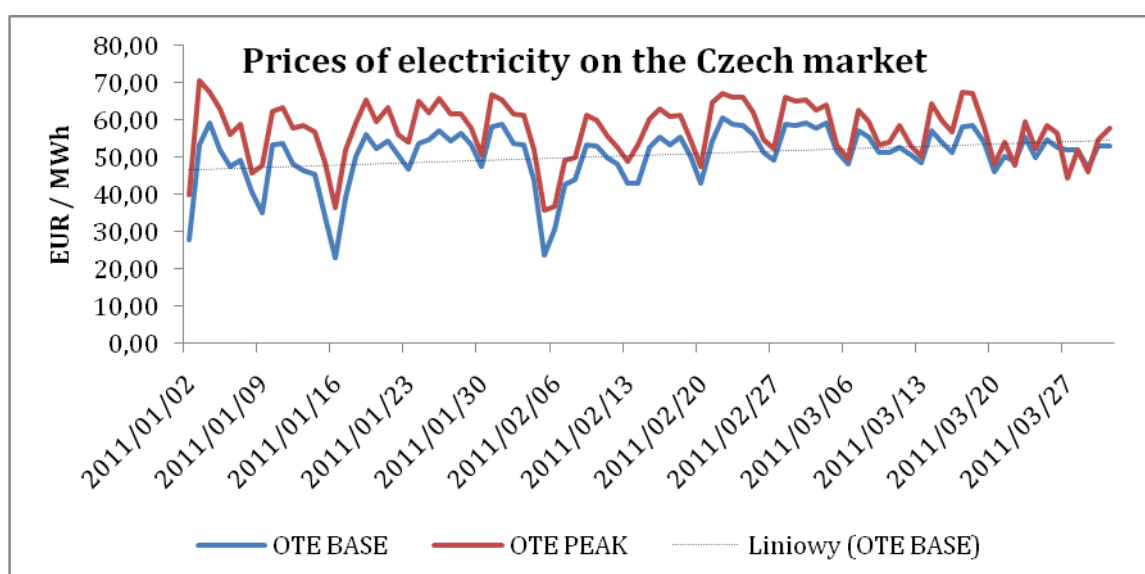
The National Allocation Plan for CO<sub>2</sub> emissions (NAP) in relation to Community emissions trading, is subject to notification to the European Commission. In view of the fact that the European Commission on the occasion of the two previous settlement periods has limited the amount allocated to Poland for allowances of CO<sub>2</sub> emission in relation to the proposed in the NAP, the granted limits are a major constraint for the electricity sector. For the reference period, which covers years 2008-2012 (NAP II), Poland sought the granted limit in the amount of 284 million tonnes of CO<sub>2</sub>. A European Commission decision granted Poland the annual average limit in the amount of 208.5 million tonnes. In accordance with the current NAP II for power plants accounts only 110.8 million tonnes of CO<sub>2</sub>, while CO<sub>2</sub> emissions under normal conditions are estimated for around 120 million tonnes.

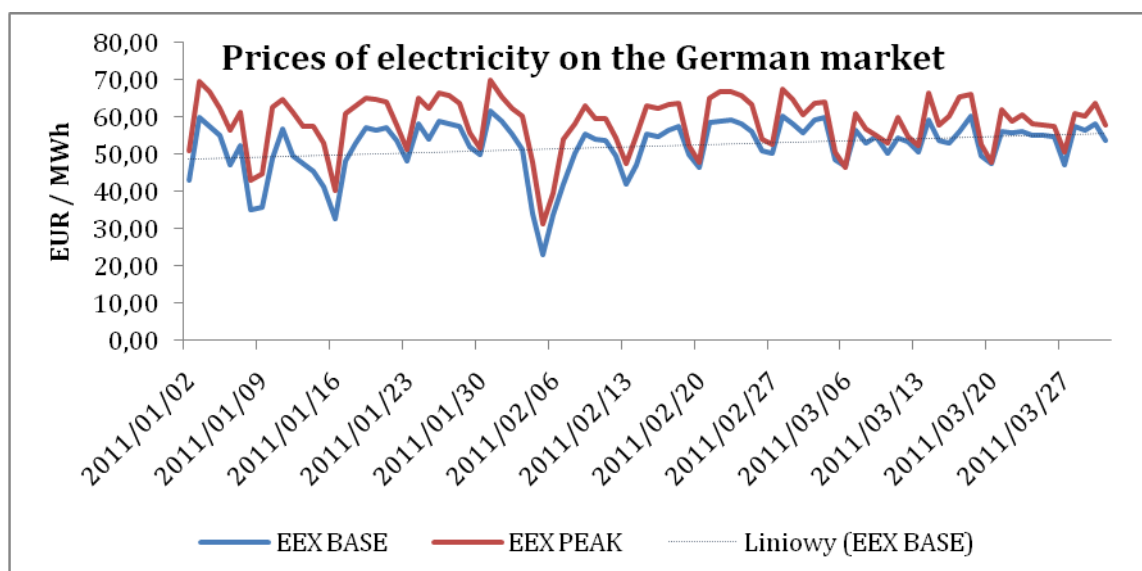
### 5.5.7. Wholesale trade – prices of electricity and CO<sub>2</sub> emission allowances on the Polish, Czech and German market

Electricity prices for the Polish market in the first quarter of 2011 showed a rising trend. Although in relation to December 2010, there was a decline in prices, after a month stabilization period prices began to rise. Average prices in January and February were at a similar level, and in March the average price of a "base" contract increased by over 5% compared to prices of the the first two months of this year. In addition, one could observe large fluctuations in prices in early January and late February and early March. The chart below presents the evolution of spot prices for "day ahead" contracts listed on Towarowa Giełda Energii S.A. (Polish Power Exchange) during the first quarter of this year.



Electricity prices for Czech and German markets were similar and showed a gentle upward trend. At the end of March there was a small decline in prices especially for the Czech market. In addition, a systematic decline in fluctuation in prices over the course of the first quarter of this year was observed. The following charts present the evolution of spot prices for "day ahead" contracts listed on the Czech and German stock exchange OTE and EEX during the first quarter of 2011.





With regard to the past quarter, an unusual phenomenon was the rise in prices on SPOT markets in March, which deviated from the standard changes resulting from seasonality (at the end of the winter season, with an increase in average temperature the trend should be opposite). Despite the improving weather conditions, the demand for power in National Power System has increased and remained above levels seen in the same period of previous years. This had obviously a direct impact on the electricity price increases on the wholesale market.

The consequence of these phenomena was the increase in variable costs associated with the sale of electricity on the retail market. This resulted first of all from the increased short position of the portfolio (increasing demand of TAURON Sprzedaż clients), and secondly from higher prices.

Due to maintaining a small open position in the portfolio of electricity the impact of the price increase on the financial results of the Capital Group was minimal. This ensures a system of risk limits consistent with the strategy of trade, ensuring a stable level of performance of the Capital Group in the area of trade.

In the next quarter on the wholesale market is expected a slight decline in prices due to seasonality phenomenon, which can be negatively adjusted by persistently high demand in National Power, higher than in previous years.

On the market of CO<sub>2</sub> emission allowances as well as the electricity markets during the first quarter of 2011 dominant was an upward trend. In the first two months the increase was low. A decisive leap in the price was in mid-March and since then prices started to evolve broadly at a higher level. This resulted from the events that took place in Japan and the declaration on limiting the production of nuclear energy, primarily in Germany.

### 5.5.8. Retail sales

An important factor influencing the activity of retail sales of electricity is the increase in costs associated with the obligation to redeem the certificates of origin from RES. This is due to the increased share of purchased property rights in relation to the replacement charges included in the planned cost. The market purchase price is higher than the discounted value of replacement fee by excise duty. Since this tax is recovered at the time of redemption, the real effect of increasing the amount of the purchase of the above rights for the cost of obligations will be visualized by reducing the amount of excise duty discharged in the subsequent months of the year. Current market prices of property rights are beneficial for the buyers, which means they are lower than the discounted cost of the replacement fee.

Higher costs of purchasing electricity arise from the higher sales volume and higher purchase price of energy. Unit cost of purchase is higher than planned mainly due to the high fluctuation in prices on the spot market caused by meteorological factors and the situation on the European energy market. Important is the fact that the billing cycle of purchasing electricity in the first quarter of 2011 has not yet

been completed, and billing adjustments on the balancing market for January 2011, will be included in April.

The Management Board of TAURON Polska S.A. is of the opinion that information presented in this report describe their human, material and financial resources in a comprehensive manner, and there were no other incidents, withheld by the Company, which could be relevant to the assessment of the situation.