

TAURON POLSKA ENERGIA S.A.

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

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I. GENERAL NOTES

1. Background

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

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

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

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

The principal activities of the Company are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

2. Financial Statements

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

2.1 Auditors' opinion and audit of financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.2 Representations provided and data availability

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

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

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

2.3 Financial statements for prior financial year

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

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

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

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

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

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

3. Analytical Review

3.1 Basic data and financial ratios

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

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

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

3.2 Comments

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

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

3.3 Going concern

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

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

II. DETAILED REPORT

1. Accounting System

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

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

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

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

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

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

3. Additional Notes

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

4. Directors' Report

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

5. Conformity with Law and Regulations

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

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

Key certified auditor

Artur Żwak
Certified auditor No. 9894

Warsaw, 6 March 2012