



**Report of the Management Board
on operations of
TAURON Polska Energia S.A.
Capital Group
for the financial year 2011**

MARCH 2012

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Schedule A: Glossary of terms and list of abbreviations

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1. ORGANISATION OF TAURON CAPITAL GROUP

1.1. Basic Information on TAURON Capital Group

Key companies of TAURON Capital Group, besides the parent company, TAURON Polska Energia S.A. (hereinafter referred to as the Company or TAURON) also include 21 subsidiaries listed in item 1.2.2. of this report.

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

The parent company TAURON Polska Energia Spółka Akcyjna was established on 6 December 2006 under the implementation of the *Programme for Power Engineering*. The founders of the Company included: State Treasury represented by the Minister of Treasury, EnergiaPro S.A. (EnergiaPro) with the seat in Wrocław, ENION S.A. (ENION) with the seat in Kraków and Elektrownia Stalowa Wola S.A. (ESW) with the seat in Stalowa Wola. The Company was registered in the National Court Register on 8 January 2007 under the name of enterprise Energetyka Południe S.A. The change of the enterprise to its current name, i.e. TAURON Polska Energia S.A., was registered on 16 November 2007. It should be mentioned that the company does not have any branches (plants).

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

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

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

- 1) Vattenfall Distribution Poland S.A. (Vattenfall Distribution Poland)¹ - providing electric energy distribution services,
- 2) Vattenfall Network Services Poland sp. z o.o. (Vattenfall Network Services Poland)² - dealing with maintenance of facilities included in the distribution grid of Vattenfall Distribution Poland,

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

² On 15 February 2012, the District Court in Gliwice registered the change of company name to TAURON Service GZE S.A. in the National Court Register

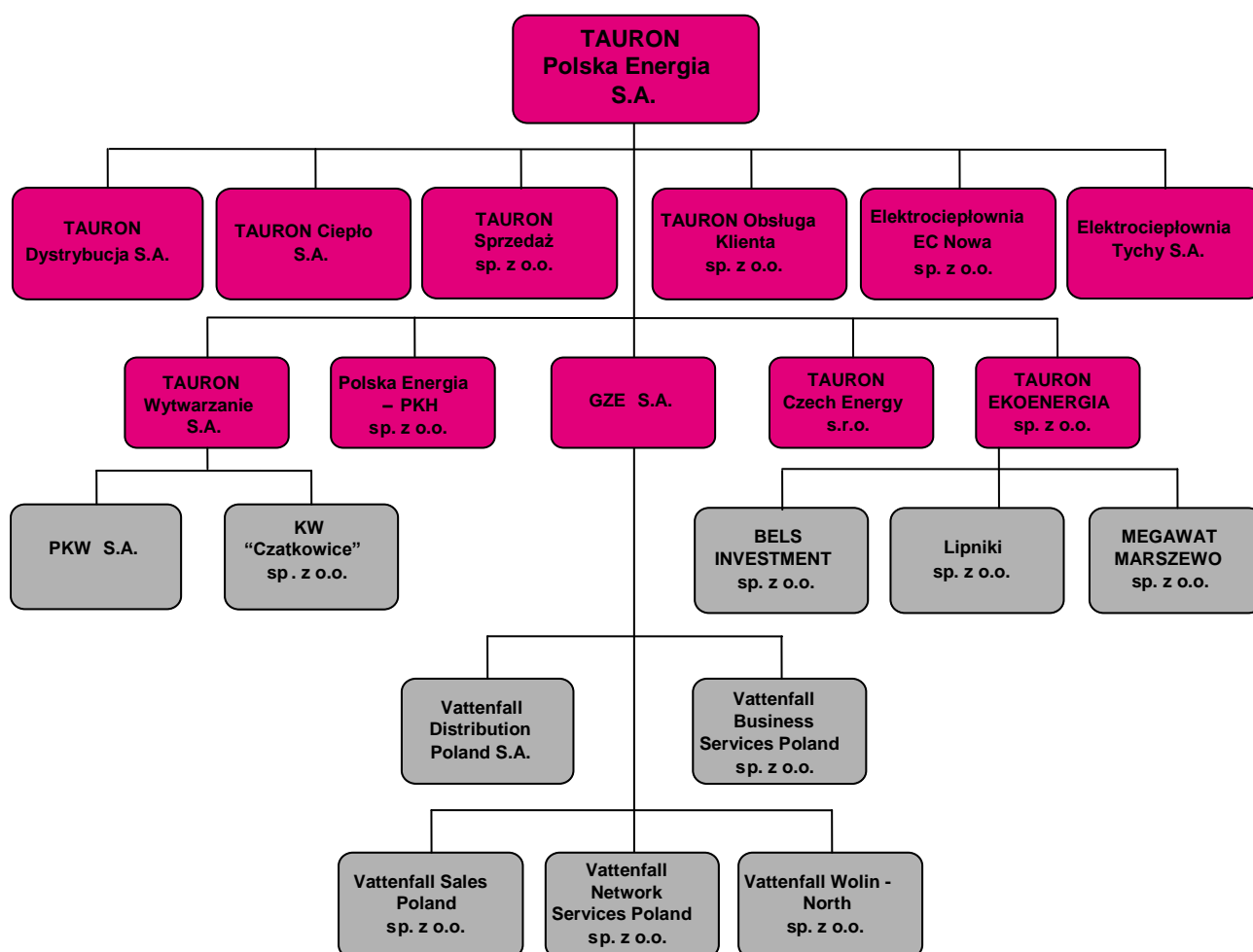
- 3) Vattenfall Wolin – North sp. z o.o. (Vattenfall Wolin – North)³ - dealing with generation of power from renewable sources,
- 4) Vattenfall Sales Poland sp. z o.o. (Vattenfall Sales Poland) - dealing with sales of electric energy,
- 5) Vattenfall Business Services Poland sp. z o.o. (Vattenfall Business Services Poland) - dealing with customer service.

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

1.2. Structure of TAURON Capital Group

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

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



Direct share of the Company in the share capital

Indirect share of the Company in the share capital

³ On 27 February 2012, the District Court in Gliwice registered the change of company name to TAURON Ekoenergia GZE S.A. in the National Court Register

Information concerning the level of capital interest in the share capital and in the governing body of individual companies is included in item 1.4 of this report.

1.2.1. Changes in organisation of TAURON Capital Group

In 2011 the following changes in proprietary structure of TAURON Capital Group subsidiaries took place:

Purchase of shares or stocks of other companies

1. On 13 December 2011, the Company acquired 1,249,693 shares from Vattenfall AB at par value of PLN 100.00 for each share, constituting 99.98% of the GZE company share capital. Before concluding of the aforementioned agreement, the Company did not hold any GZE shares whereas after their acquisition, it holds 99.98% of shares in the GZE company share capital and it is authorised to execute 99.98% of votes for at the General Meeting (GM) of GZE. As a result of acquisition of the shares, the Company has indirectly become the owner of shares or stocks, respectively, of the following GZE subsidiaries:
 - 1) Vattenfall Distribution Poland,
 - 2) Vattenfall Sales Poland,
 - 3) Vattenfall Network Services Poland,
 - 4) Vattenfall Wolin-North,
 - 5) Vattenfall Generation Poland,
 - 6) Vattenfall Business Services Poland.

The aforementioned acquisition is compliant with the Corporate Strategy for TAURON Group for 2011-2015, with estimates up to the year 2020 (Corporate Strategy) and it has contributed to the strengthening of the Company position in the area of electric energy distribution and sales.

2. On 28 September 2011 TAURON EKOENERGIA company acquired 400,000 shares of Lipniki sp. z o.o. company (Lipniki) from the German energy corporation WSB Neue Energien GmbH (i.e. 100% of shares), at par value of PLN 50.00 for each share, including the Lipniki wind farm. The entity acquired is a special purpose vehicle that was established to construct and operate the wind park Lipniki including 15 wind turbines of the total capacity of 30.75 MW, launched in July 2011.

The purchase is compliant with implementation of the Corporate Strategy in the area of investment in generating capacity in wind energy and biogas energy. As a result, the generating capacity held by the group has been increased by wind-based renewable energy sources, which will contribute both to the competitiveness of electric energy sales offer as well as to enhancement of the TAURON Capital Group image.

3. On 26 July 2011 between the Company and Południowy Koncern Energetyczny S.A. (PKE), the agreement was concluded concerning disposal of shares of the company Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. (PEPKH), pursuant to which, the Company purchased 700 of PEPKH company shares at par value of PLN 6,000.00 each, held by PKE. As a result of the aforementioned actions, the Company increased its direct share in the capital and in the governing body of PEPKH.

The objective of this acquisition was to adjust the proprietary structure of TAURON Capital Group.

4. In connection with agreements concluded in August 2011 concerning purchase of shares of companies PKE and ENION, held by minority shareholders, the Company purchased 9,447 PKE shares at par value of PLN 10.00 each, constituting 0.0061% of the company share capital, at the price of PLN 235 thousand as well as 6,149,541 of ENION shares at par value of PLN each, at the price of PLN 676 thousand, constituting 0.0245% of the company share capital. The compensation for the shares purchased was paid in August 2011.

The objective of the aforementioned acquisition was to adjust the proprietary structure of TAURON Capital Group.

5. On 31 August 2011, the Company established the following single-person limited liability companies:
 - a) Enpower sp. z o.o. with the seat in Katowice,
 - b) Enpower Service sp. z o.o. with the seat in Katowice,
 - c) Energopower sp. z o.o. with the seat in Stalowa Wola,
 - d) Poen sp. z o.o. with the seat in Katowice,In each of the aforementioned companies, the Company took over 100 shares at par value of PLN 50 each.

The aforementioned actions were connected with the expected restructuring processes in TAURON Capital Group as well as with establishment of the Tax Capital Group (PGK) for tax optimisation and reduction of tax risk in TAURON Capital Group. All the companies indicated above are included in the PGK. Detailed information on PGK is presented in item 2.7.1 of this report.

Merger and division of companies

1. On 31 August 2011, the District Court Katowice – Wschód in Katowice, 8th Commercial Division of the National Court Register issued its decision on merger of PKE company (acquiring company) and ESW company (acquired company). Accordingly, the share capital of the acquiring company was increased from PLN 1,559,231,860.00 to PLN 1,662,622,990.00, i.e. by PLN 103,391,130.00. As a result of the aforementioned process, the share of the Company in the share capital and in the governing body of the acquiring company was increased from 99.46% to 99.49%. Simultaneously, as of 1 September 2011, the change of name of the acquiring company to TAURON Wytwarzanie took place.
2. On 1 September 2011 the District Court for Wrocław – Fabryczna in Wrocław, 6th Commercial Division of the National Court Register issued its decision on incorporation of the merger of the companies EnergiaPro (acquiring company) and ENION (acquired company). Accordingly, the share capital of the acquiring company was increased from PLN 82,081,118.70 to PLN 167,748,363.81, i.e. by PLN 85,667,245.11. As a result of the aforementioned process, the share of the Company in the share capital and in the governing body of the acquiring company was increased from 99.00% to 99.38%. Simultaneously, as of 1 September 2011, the change of name of the acquiring company to TAURON Dystrybucja took place.
3. On 1 September 2011 the District Court Katowice – Wschód in Katowice, 8th Commercial Division of the National Court Register issued its decision on incorporation of the merger of the companies Przedsiębiorstwo Energetyki Ciepłej Katowice S.A. (PEC Katowice) (acquiring company) and Przedsiębiorstwo Energetyki Ciepłej in Dąbrowa Górnicza S.A. (PEC in Dąbrowa Górnicza) (acquired company). Consequently, the share capital of the acquiring company was increased from PLN 211,000,000.00 to PLN 444,663,500.00, i.e. by PLN 233,663,500.00. As a result of the aforementioned process, the share of the Company in the share capital and in the governing body of the acquiring company was decreased from 95.66% to 90.06%. Simultaneously, as of 1 September 2011, the change of name of the acquiring company to TAURON Ciepło took place.

The mergers of companies referred to in items 1-3 above were mergers through acquisition, i.e. pursuant to Article 492 § 1 item 1 of the Act of 15 September 2000, Code of Commercial Companies, by transfer of the whole assets of the acquired company to the acquiring company in exchange for the shares of the acquiring company, which were issued to the shareholders of the acquired company. As a result of the merger, the acquired companies were dissolved without performing of the liquidation.

As a result of the aforementioned actions, the number of entities operating within the individual Business Area was decreased. Moreover, the activities listed above, being part of the Corporate

Strategy, allowed for implementation of the process of reorganization of TAURON Capital Group structure in individual Business Areas.

4. During the reporting period, registration of the division of the company TAURON Obsługa Klienta took place, through transfer of a part of assets of this company, constituting the organised part of the enterprise, consisting of tangible and intangible assets as well as liabilities associated with the supply of electric energy, to TAURON Sprzedaż. The division was performed pursuant to Article 529 § 1 item 4 of the Act of 15 September 2000 Code of Commercial Companies. On 3 January 2011, the increase of the share capital of the TAURON Sprzedaż company, associated with the acquisition of a part of assets of TAURON Obsługa Klienta, was incorporated by the Regional Court in Kraków.

The aforementioned division was performed within the implementation of the strategic project in TAURON Capital Group, the major objective of which in 2010 was the improvement of the quality and effectiveness of performance through focussing and development of particular competence within the mass customer service and supply of electric energy to end customers within one entity of TAURON Capital Group, and the competence in the area of electric energy sales - within another entity.

Decrease in share capital of the companies

Within the process of forced repurchase of shares from minority shareholders, executed pursuant to Article 418¹ § 4 of the Act of 15 September 2000 Code of Commercial Companies, the value of share capital took place in three companies.

1. On 8 February 2011, the decrease in share capital of ENION company occurred - from the amount of PLN 252,961,720.56 to the amount of PLN 252,897,508.08, as a result of redemption of 6,421,248 of treasury stocks with a par value PLN 0.01 for each share. Accordingly, the share of the Company in the share capital and in the governing body of ENION company was increased from 99.68% to 99.70%.
2. On 7 April 2011, the decrease in share capital of EnergiaPro company occurred - from the amount of PLN 82,282,436.18 to the amount of PLN 82,081,118.70, as a result of redemption of 20,131,748 of treasury stocks with a par value PLN 0.01 for each share. Accordingly, the share of the Company in the share capital and in the governing body was increased from 98.76% to 99.00%.
3. On 23 December 2011, the decrease in share capital of TAURON Wytwarzanie company occurred - from the amount of PLN 1,662,622,990.00 to the amount of PLN 1,658,793,390.00, as a result of redemption of 382,960 of treasury stocks with a par value PLN 10.00 for each share. Accordingly, the share of the Company in the share capital and in the governing body was increased from 99.49% to 99.72%.

Redemption of shares

On 31 March 2011 redemption of 200 of treasury shares with a par value of PLN 6,000.00 per share was performed, held by the previous shareholders of the PEPKH company, i.e.: Katowicki Holding Węglowy S.A and KWK Kazimierz Juliusz sp. z o.o., as a result of which the aforementioned entities lost the status of PEPKH shareholders.

As a result of the above transaction:

- a) share of the Company in the share capital of PEPKH increased from 10.00% to 12.50%, and in the governing body – from 27.78% to 31.25%,
- b) share of PKE in the share capital of PEPKH increased from 70.00% to 87.50%, and in the governing body – from 61.11% to 68.75%.

Simultaneously, considering usufruct by the Company of the total shares in PEPKH held by PKE, the actual share of the Company in the PEPKH capital increased from 80.00% to 100.00%, and in its governing body – from 88.88% to 100.00%.

The action referred to above resulted in TAURON Capital Group having taken full control over PEPKH company, which subsequently allowed for acquisition of PEPKH shares by the Company.

Cancellation of privileged votes

On 28 June 2011, amendments to the PEPKH company Articles of Association were registered, among others, in the scope of cancellation of privileged shares in terms of votes, consequently:

- a) the Company share in the governing body of PEPKH decreased from 31.25% to 12.50%,
- b) the share of PKE in the governing body of PEPKH increased from 68.75% to 87.50%.

Establishment of the usufruct of shares

On 30 August 2011 between the Company and ENION, PKE as well as PKW, agreements were concluded concerning usufruct of shares of the company Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia (Enterprise of Health Services and Promotion) Elvita - Jaworzno III sp. z o.o. (PŚZiPZ Elvita - Jaworzno III). Pursuant to the said agreements, the Company has become the user of the total of 14,984 shares, of the par value of PLN 500.00 for each share, constituting 99.74% of shares of the company PŚZiPZ Elvita - Jaworzno III and providing for 99.74% shares at the Shareholders' Meeting (GM) of the company PŚZiPZ Elvita - Jaworzno III.

The aforementioned activity allows for direct supervision over performance of the company PŚZiPZ Elvita - Jaworzno III, including influencing the strategic and business decisions of the company as well as determination of goals to be implemented.

1.2.2. Entities subject to consolidation

As of 31 December 2011, within the TAURON Capital Group, financial statements of the following subsidiaries have been covered by consolidation with the financial statement of the Company, by applying the full consolidation method:

1. TAURON Wytwarzanie S.A. (TAURON Wytwarzanie),
2. TAURON Dystrybucja S.A. (TAURON Dystrybucja),
3. TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż),
4. TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta),
5. TAURON Ciepło S.A. (TAURON Ciepło),
6. TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA),
7. TAURON Czech Energy s.r.o. (TAURON Czech Energy),
8. Elektrociepłownia Tychy S.A (EC Tychy),
9. Elektrociepłownia EC Nowa sp. z o.o. (EC Nowa),
10. Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. (PEPKH),
11. Południowy Koncern Węglowy S.A. (PKW),
12. Kopalnia Wapienia Czatkowice sp. z o.o. (KW Czatkowice),
13. BELS INVESTMENT sp. z o.o. (BELS INVESTMENT),
14. MEGAWAT MARSZEWO sp. z o.o. (MEGAWAT MARSZEWO),
15. Lipniki sp. z o.o. (Lipniki),
16. Górnośląski Zakład Elektroenergetyczny S.A. (GZE),
17. Vattenfall Business Services Poland sp. z o.o. (Vattenfall Business Services Poland),
18. Vattenfall Distribution Poland S.A. (Vattenfall Distribution Poland),
19. Vattenfall Network Services Poland sp. z o.o. (Vattenfall Network Services Poland),
20. Vattenfall Sales Poland sp. z o.o. (Vattenfall Sales Poland),
21. Vattenfall Wolin – North sp. z o.o. (Vattenfall Wolin – North).

Detailed information on companies covered by consolidation as well as on the Company's share in their issued capital and in their governing body, is presented in item 1.4 of this report.

1.3. TAURON and TAURON Capital Group management concept

1.3.1. TAURON and TAURON Capital Group management principles

TAURON management principles

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

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

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

Vice-Presidents of the Management Board:

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

Directors of Departments:

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

“TAURON Group” management principles

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

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

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

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

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

No.	Company enterprise
1.	TAURON Polska Energia S.A. (parent company)
2.	TAURON Sprzedaż
3.	TAURON Obsługa Klienta
4.	TAURON EKOENERGIA
5.	TAURON Wytwarzanie
6.	EC Nowa
7.	TAURON Czech Energy
8.	EC Tychy
9.	PEPKH
10.	TAURON Dystrybucja
11.	TAURON Ciepło
12.	KW Czatkowice
13.	PKW

Due to acquisition of shares of GZE company, described in detail in item 1.2.1 and 1.5.1 of this report and taking of indirect control over the GZE subsidiaries by the Company, including:

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

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

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

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

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

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

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

1.3.2. Changes in TAURON and TAURON Capital Group management principles

Changes in TAURON management principles

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

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

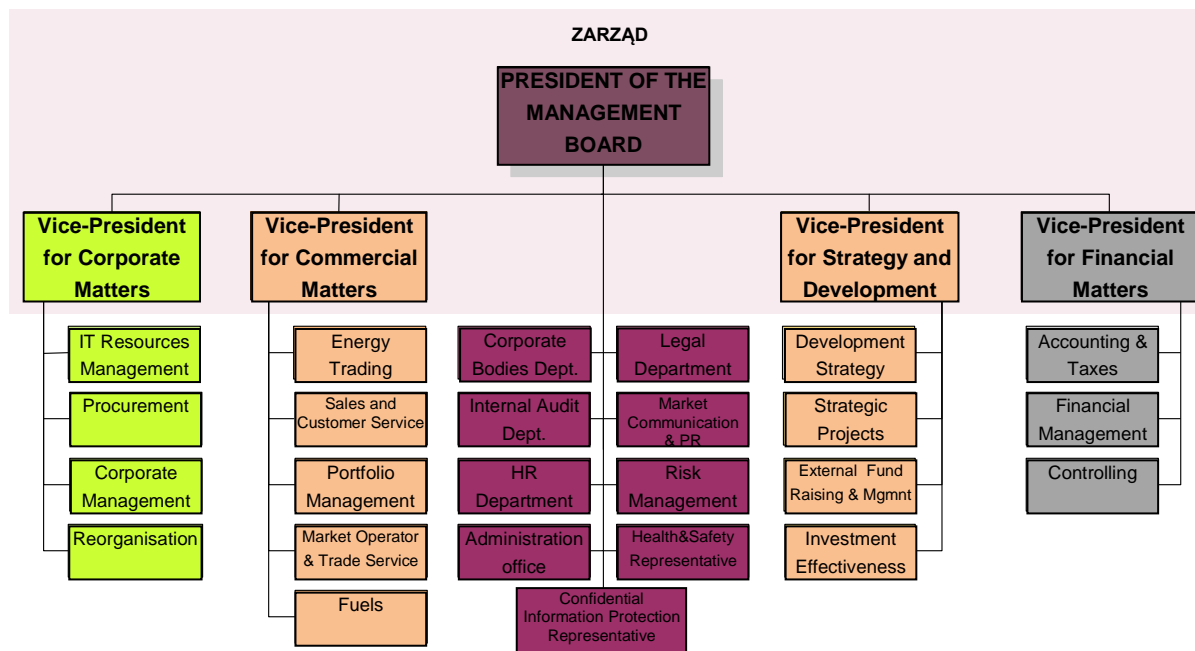
Amendments to the By-laws were adopted by the resolution of the Supervisory Board of 28 April 2011

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

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



Schemat struktury organizacyjnej TAURON Polska Energia S.A.



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

Changes in "TAURON Group" management principles

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

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

Development and implementation of Cooperation Principles in Management Areas

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

- 1) designing of strategy and development methods;
- 2) trading of fuel, energy and related products;
- 3) strategic investment projects;
- 4) management of stock exchange information and investor relations;
- 5) international cooperation;
- 6) research and development projects, including projects in the area of new technologies and environmental protection;
- 7) external and internal communication;

- 8) management of information and communication technology systems;
- 9) financial management;
- 10) controlling and management reporting;
- 11) accounting and taxes;
- 12) image marketing;
- 13) management of project implementation;
- 14) proceedings, legal counselling and internal regulations.

1.4. Organisational or capital relationships

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

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

No.	Company name	Address	Core business area	Direct share in the company equity	Entity holding stocks/shares as of 31 December 2011	Direct share in the company governing body	Entity holding stocks/shares as of 31 December 2011
1.	TAURON Wytwarzanie	40-389 Katowice ul. Lwowska 23	Generation, transmission and distribution of electric energy and heat	99.72%	Company – 99.72%	99.72%	Company – 99.72%
2.	TAURON Dystrybucja	30-390 Kraków ul. Zawila 65 L	Distribution of electric energy	99.38%	Company – 99.38%	99.51%	Company – 99.51%
3.	TAURON Sales	30-417 Kraków ul. Łagiewnicka 60	Sales of electric energy	100.00%	Company – 100.00%	100.00%	Company – 100.00%
4.	TAURON Customer Service	53-128 Wrocław ul. Sudecka 95-97	Services (customer service)	100.00%	Company – 100.00%	100.00%	Company – 100.00%
5.	TAURON EKOENERGIA	58-500 Jelenia Góra ul. Obrońców Pokoju 2B	Generation and trading of electric energy	100.00%	Company – 100.00%	100.00%	Company – 100.00%
6.	EC Tychy	43-100 Tychy ul. Przemysłowa 47	Generation of electric energy, production and distribution of heat	95.47%	Company – 95.47%	99.05%	Company – 99.05%
7.	PEPKH	40-389 Katowice ul. Lwowska 23	Electric energy trading	100.00%	Company – 100.00%	100.00%	Company – 100.00%
8.	TAURON Heat	40-126 Katowice ul. Grażyńskiego 49	Production and distribution of heat	90.06%	Company – 90.06%	91.76%	Company – 91.76%
9.	EC Nowa	41-308 Dąbrowa Górnicza al. J. Piłsudskiego 92	Generation of electric energy, production of heat and technical gases	84.00%	Company – 84.00%	84.00%	Company – 84.00%
10.	TAURON Czech Energy	720 00 Ostrava Na Rovince 879/C Czech Republic	Electric energy trading	100.00%	Company – 100.00%	100.00%	Company – 100.00%
11.	GZE	44-100 Gliwice ul. Barlickiego 2	Activity of financial holdings	99.98%	Company – 99.98%	99.98%	Company – 99.98%

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

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

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

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

In the consolidated financial report of TAURON Capital Group for the year ended on 31 December 2011, the investment in the joint venture Elektrociepłownia Stalowa Wola S.A. has also been recognised. (EC Stalowa Wola), which was evaluated by application of the ownership rights method. TAURON Wytwarzanie and PGNiG Energia S.A. - each holds 50% each of shares in the equity and in the governing company of EC Stalowa Wola company (indirect share of the Company is 49.86%).

1.5. Major domestic and foreign investment

1.5.1. Purchase of shareholding securities

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

Purchase of GZE shares

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

Purchase of the special purpose vehicle Lipniki

On 28 September 2011 TAURON EKOENERGIA company acquired 100% shares of Lipniki company from the German energy corporation WSB Neue Energien GmbH, including the wind farm. Lipniki company is a special purpose vehicle which was established to construct and operate the wind park Lipniki including 15 wind turbines of the total capacity of 30.75 MW. The Lipniki wind farm was commissioned in July 2011. The sales price was established at PLN 93,317 thousand. The Lipniki wind farm is the first wind park within the structures of TAURON Capital Group.

Increase of share in PEPKH company

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

1.5.2. Purchase of debt securities and other securities

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

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

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

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

Moreover, in connection with acquisition of the part of Vattenfall AB assets, in the period from the day of taking over the control to the balance sheet day, the companies of GZE group invested in State Treasury bonds. As of the balance sheet day, companies of GZE group held the following bonds:

Table No. 5 Investment of companies of GZE group in State Treasury bonds

No.	Company	Par value, in PLN thousand	Date of redemption
1.	Vattenfall Distribution Poland	8,999	02.01.2012
2.	Vattenfall Sales Poland	90,499	02.01.2012

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

1.5.3. Implementation of strategic investment

In 2011, the following strategic investment projects were continued in TAURON Capital Group:

- 1) construction of steam and gas fired unit, including the heat generation component at Stalowa Wola - the investment is implemented with participation of the strategic partner - PGNiG S.A. The investment is aimed at construction and commissioning of the new steam and gas fired unit of 400 MWe power capacity and 240 MWt heating capacity. On 15 April 2010 the Implementation Agreement was signed between the Company, PGNiG S.A., PGNiG Energia S.A. and ESW, which specifies, in particular, the rules of preparation and execution of the investment process. Delivery of the project is scheduled in 2015;
- 2) construction of 50 MW_e/182 MW_t power unit, adjusted to electric energy and heat generation within the area of Zespół Elektrociepłowni Bielsko-Biała (ZEC in Bielsko-Biała) belonging to TAURON Wytwarzanie. The investment is aimed at replacement of exploited generation units of low capacity by a high performance unit, complying with all environmental protection requirements concerning emissions of NO_x, SO₂ and dust. Delivery of the investment is planned in mid-2013;
- 3) construction of a 40 MW wind farm in the location of Wicko. The investment has already been approved by relevant corporate bodies. The process of selection of the General Contractor is underway. Concluding of the agreement is scheduled at the end of the first quarter of 2012, and completing of the investment is scheduled in 2013;
- 4) construction of an 82 MW wind farm in the location of Marszewo. On 19 January 2012, the agreement with the General Contractor was signed. The delivery of the Site to the Contractor is scheduled in March. Commissioning is planned in 2014;

- 5) construction of steam and gas fired unit at EC Katowice, including the 135 MW_e/90 MW_t capacity unit. In January 2012, the utilities contract concerning implementation of the above investment was published. Delivery of the project has been planned at the turn of 2015/2016;
- 6) construction of the 50 MW_e/45 MW_t co-generating biomass-fuelled unit at Elektrownia Jaworzno III belonging to TAURON Wytwarzanie. The investment is under implementation. Completion of construction works is scheduled at the end of 2012;
- 7) modernisation of one of the boilers at Elektrownia Stalowa Wola belonging to TAURON Wytwarzanie, in order to adjust it to biomass burning. The investment has been commenced and completion of construction works is scheduled in 2012;
- 8) construction of new generating capacity in co-generation at the level of 50 MW_e and 86 MW_t in EC Tychy and modernisation of the existing unit in order to adjust it to biomass burning. This investment has already been approved by competent corporate bodies, and delivery of this investment is scheduled at the beginning of 2016;
- 9) construction of the new 910 MW power unit with supercritical parameters at Elektrownia Jaworzno III belonging to TAURON Wytwarzanie. It is expected that the new unit will demonstrate high performance and availability as well as low levels of emissions of NO_x, SO₂, CO₂, and dust. Completing of this investment project has been planned at the turn of 2016/2017;
- 10) construction of installation for denitrification of combustion gases in 6 units at Elektrownia Jaworzno III and 4 units at Elektrownia Łaziska belonging to TAURON Wytwarzanie. This investment will enable to reduce the NO_x emission in these units to the levels which will be binding for Poland from 2018. The construction works have already been commenced and they will be continued until 2015;
- 11) construction of the new 850 MW steam and gas fired unit, natural gas burning, at Elektrownia Blachownia - within the actions undertaken by the Company and TAURON Wytwarzanie in the scope of the project on reconstruction of generating capacity at Elektrownia Blachownia, with participation of the strategic partner KGHM Polska Miedź S.A. Commissioning of the project has been planned at the turn of 2015/2016.

In 2011, the investment expenditure of TAURON Capital Group amounted to about PLN 2,504 M and it was higher by approximately 56.2% as compared to expenditure incurred in 2010, which amounted to about PLN 1,603 M. This results mainly from intensification of strategic investment in the Business Areas of Generation and Distribution. In terms of value, the main investment outlays in 2011 was incurred for:

- construction of new generating capacity (PLN 528 M),
- construction of installations for reduction of NO_x emission (PLN 185 M),
- construction of new junctions in the Business Area of Distribution (PLN 386 M),
- modernisation of existing distribution grids (PLN 556 M).

Moreover, expenses were incurred for construction of underground excavations in the Business Area of Mining (PLN 55 M).

2. OPERATIONS OF TAURON CAPITAL GROUP

2.1. Timeline of key events

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

Table No. 6 Timeline of key events

Month	Events
January	<ul style="list-style-type: none"> Incorporation of PKW and KW Czatkowice to "TAURON Group" established by the Management Board of the Company based on the Code.
February	<ul style="list-style-type: none"> Appointment of members of the Management Board for the third term by the Supervisory Board.
March	<ul style="list-style-type: none"> Signing of Agreements by the Company concerning the project of construction of the steam and gas fired unit at Stalowa Wola (for operation of the EC Stalowa Wola, supply of electric energy, supply of gas fuel). Registration of the decrease in share capital of the Company by the District Court Katowice - Wschód in Katowice, 8th Commercial Division of the National Court Register performed through decrease in par value of the shares in order to restructure the equity of the Company. Signing of loan agreement between EC Tychy and the Regional Fund for Environmental Protection and Water Management (WFOSiGW) involving reconstruction of the fluidized bed boiler and construction of installation of biomass-fuelled boilers.
April	<ul style="list-style-type: none"> Signing of agreement by the Company, based on which the decision has been taken that further construction works of the unit of 800-910 MW at Elektrownia Blachownia in Kędzierzyn-Koźle will be conducted based on the assumption of selection of the gas fuel. Adopting of updated Corporate Strategy.
May	<ul style="list-style-type: none"> Appointment of members of the Supervisory Board for the third term by the GM. Convening of Ordinary General Meeting of the Company for the financial year 2010.
June	<ul style="list-style-type: none"> Withdrawal of Kompania Węglowa from the Agreement on Joint Venture of 8 April 2010, based on which the Company and Kompania Węglowa S.A. (Kompania Węglowa) undertook the commitment to commence actions aimed at contribution of the enterprise KWK "Bolesław Śmiały" by Kompania Węglowa to the special purpose vehicle and, subsequently, contribution of shares in this special purpose vehicle as well as all PKW shares held by Kompania Węglowa to the Company, in exchange for new in-kind contribution of stocks at the increased share capital of the Company addressed to Kompania Węglowa.
July	<ul style="list-style-type: none"> Confirmation of the long-term foreign and local currency ratings for the Company at BBB level, with stable outlooks by the Fitch Rating Agency. Signing of agreement of CC Poland Plus sp. z o.o. (CC Poland Plus) by the Company, in order to conduct research and coordinate activities in the area of the so-called clean coal technologies. Signing of agreement on purchase of PEPKH shares by the Company. Signing of agreement between EC Nowa and ArcelorMittal Poland S.A. on sales of energy media, purchase of gas fuel, implementation of investment involving modernisation of the OPG 430 boiler and construction of turbo generator of 50 MW capacity, and establishing the principles of settlements between EC Nowa and ArcelorMittal concerning the CO₂ emission.
August	<ul style="list-style-type: none"> Signing of preliminary agreement between the Company and Vattenfall AB on sales of GZE stocks in favour of the Company. Confirmation of maintenance of the long-term foreign and local currency ratings for the Company at BBB level, with stable outlooks by the Fitch Rating Agency, in connection with GZE acquisition from Vattenfall AB. Establishment of TAURON Wytwarzanie, as a result of registration by the District Court Katowice – Wschód in Katowice, 8th Commercial Division of the National Court Register, of the merger of PKE and ESW companies.

Month	Events
September	<ul style="list-style-type: none"> • Signing of agreement on establishment of Tax Capital Group. • Establishment of TAURON Dystrybucja, as a result registration by the District Court Wrocław-Fabryczna in Wrocław, 6th Commercial Division of the National Court Register, of the merger of EnergiaPro and ENION companies. • Establishment of TAURON Ciepło, as a result registration by the District Court Katowice - Wschód in Katowice, 8th Commercial Division of the National Court Register, of the merger of PEC Katowice oraz PEC in Dąbrowa Górnicza. • Purchase of the whole shares of Lipniki company holding the wind farm by TAURON EKOENERGIA.
October	<ul style="list-style-type: none"> • Signing of the agreement by the Company, on the basis of which the value of bond programme of the Company was increased by tranche C at the value of PLN 3,000,000 thousand, i.e. to the total amount of PLN 4,300,000 thousand. • Entering of the Company into the agreement on cooperation under the form of a special purpose vehicle holding the name of Pierwiastki i Surowce Krytyczne sp. z o.o. providing the platform for cooperation in the scope of research on optimum technology for production of solar panels.
November	<ul style="list-style-type: none"> • Registration of the Tax Capital Group by the Head of Tax Office in Sosnowiec. • Registration of significant amendment to the Subject of Company Operations by the District Court Katowice - Wschód in Katowice, 8th Commercial Division of the National Court Register.
December	<ul style="list-style-type: none"> • Issue of bonds by the Company at the total value of PLN 3,300,000 thousand. • Signing of agreement on sales of GZE stocks in favour of the Company.

2.2. Core business areas

TAURON Capital Group is a vertically integrated energy utility enterprise holding the leading position in generation, distribution and supply of electric energy in Poland and in Central and Eastern Europe. TAURON Capital Group conducts its operations within the following Core Business Areas (hereinafter also referred to as Segments):

Mining, comprising mainly mining, preparation and sales of hard coal in Poland, the activity provided by PKW.

Generation, comprising mainly generating of electric energy and heat from conventional sources, as well as generating of electric power and heat using biomass co-burning, the activity provided by TAURON Wytwarzanie, EC Tychy and EC Nowa.

Renewable Energy Sources (RES), comprising generating electric energy from renewable sources (excluding generation of electric energy using biomass co-burning attributed to the Generation Segment), as well as managing of the TAURON Capital Group projects in the area of energy generating from other renewable energy sources. This activity is provided by TAURON EKOENERGIA as well as companies acquired in 2010: BELS INVESTMENT and MEGAWAT MARSZEWO, as well as companies acquired in 2011: Lipniki and GZE subsidiary - Vattenfall Wolin - North.

Distribution, covering distribution of electric energy using distribution networks located in southern Poland, the activity provided by TAURON Dystrybucja and the subsidiary of GZE acquired in 2011: Vattenfall Distribution Poland. This area also covers the company Vattenfall Network Services Poland and GZE – jointly presented as Business Unit Distribution.

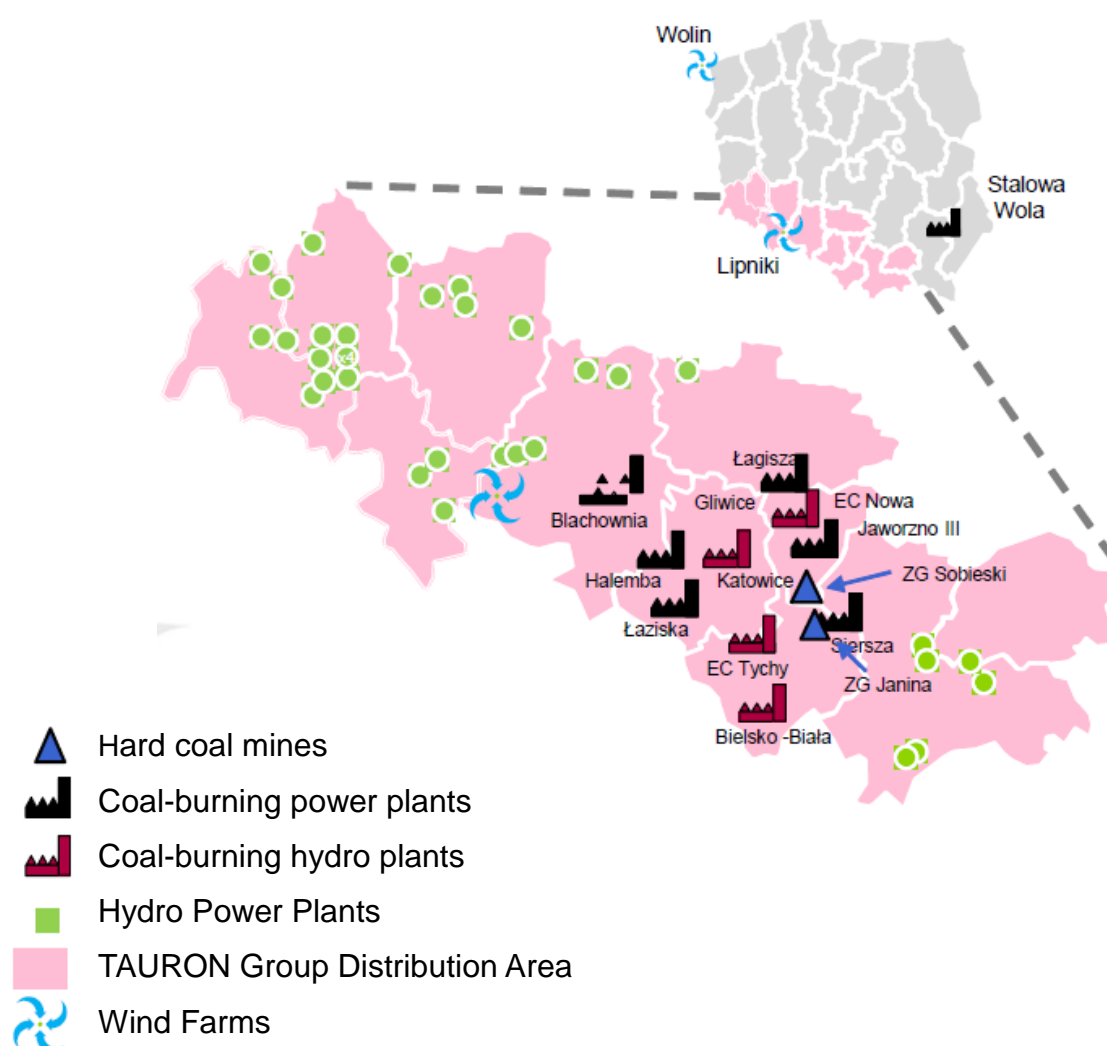
Trading, comprising sales of electric energy to end-customers and wholesale trading of electric energy, as well as trading and management of CO₂ emission allowances and the proprietary rights arising from the energy certificates of origin. Operations in this area are provided by the companies: TAURON Polska Energia S.A., TAURON Sprzedaż, PEPKH, TAURON Czech Energy and the GZE subsidiary acquired in 2011: Vattenfall Sales Poland. The company dealing with customer service of the companies is also included in this Core Business Area: TAURON Sprzedaż and TAURON Dystrybucja, i.e. TAURON Obsługa Klienta.

Other, comprising mainly distribution and sales of heat (provided by the company TAURON Ciepło) as well as other activities in the area of extraction of stone, including limestone, for power industry, metallurgy, construction and road building as well as production of sorbents for flue gas desulphurization installations using the wet method and for the use in the fluidized bed boilers (provided by the company KW Czatkowice). The GZE subsidiary company acquired in 2011 is also allocated to this Core Business Area: Vattenfall Business Services Poland.

TAURON Capital Group conducts its operations and acquires its revenues mainly from generating, sales and distribution of electric energy and heat as well as from sales of hard coal.

The map below shows the location of key assets of TAURON Capital Group as well as areas within which the companies of TAURON Capital Group (TAURON Dystrybucja, Vattenfall Distribution Poland) have been appointed as Distribution System Operators (DSOs).

Figure No. 3 Location of key assets of TAURON Capital Group



2.3. Financial results by business areas

The table below shows the results of TAURON Capital Group by individual Core Business Areas (Segments) for the years 2011 and 2010. Data for individual Business Areas do not cover consolidation exclusions.

Table No. 7 The table below shows the results of TAURON Capital Group by Business Areas (Segments) for the years 2011 and 2010.

Specification (PLN thousand)	Year 2011	Year 2010	Dynamics (2011/2010)
Coal mining			
Revenue on sales	1,171,213	1,081,398	108.3%
Operating profit	4,805	5,908	81.3%
Amortisation	99,840	104,706	95.4%
EBITDA	104,645	110,614	94.6%
Generating electric energy and heat from conventional sources			
Revenue on sales	6,435,851	5,863,208	109.8%
Operating profit	621,061	656,169	94.6%
Amortisation	565,973	541,778	104.5%
EBITDA	1,187,034	1,197,947	99.1%
Generating electric energy and heat from renewable sources			
Revenue on sales	180,674	167,202	108.1%
Operating profit	100,578	89,407	112.5%
Amortisation	25,414	25,538	99.5%
EBITDA	125,992	114,945	109.6%
Distribution of electric energy			
Revenue on sales	4,668,237	4,509,033	103.5%
Operating profit	614,205	509,281	120.6%
Amortisation	665,611	628,523	105.9%
EBITDA	1,279,816	1,137,804	112.5%
Supply of energy and other products of the energy market			
Revenue on sales	13,841,745	12,093,842	114.5%
Operating profit	278,835	183,934	151.6%
Amortisation	9,819	8,095	121.3%
EBITDA	288,654	192,029	150.3%
Other			
Revenue on sales	594,162	597,963	99.4%
Operating profit	71,692	35,445	202.3%
Amortisation	44,890	50,587	88.7%
EBITDA	116,582	86,032	135.5%
Non-attributable items and exemptions			
Revenue on sales	(6,136,660)	(8,883,767)	69.1%
Operating profit	(79,687)	(80,885)	98.5%
Amortisation	0	0	-
EBITDA	(79,687)	(80,885)	98.5%
Total EBITDA	3,023,036	2,758,486	109.6%

Coal mining

In 2011 revenue on sales from the Mining Segment increased by about 8.3% as compared to 2010 which results from the increase in average price of the coal sold as well as the increase in sales volume. Decrease in EBIT (Earnings Before Interest and Taxes) by about 18.7% in relation to 2010 results mainly from higher costs of material consumption, caused by increase of market prices above the inflation rate as well as unfavourable mining and geological conditions (increased deposit of sandstone, inflow of groundwater and lengthening of ventilation ducts).

In 2011, the total production of commercial coal amounted to about 4.6 million t, i.e. by about 1.8% more in relation to 2010. In spite of the growth of production year to year, in 2011 the risks of unfavourable geological and mining conditions materialised as well as the natural hazards which were difficult to foresee. In order to prevent that, available geological data is analysed on an on-going basis. Moreover, the planning process in the mining sector is mainly based on forecast of deposit composition, covering, among others, tectonic parameters, level of formation and slope of the deposits, physical and chemical parameters of the fossil and the rocks, expected natural hazards and their intensity level. Research is also conducted - surface and underground drilling, as well as preparatory works.

Generating electric energy and heat from conventional sources

In 2011 revenue on sales from the Generation Segment increased by about 9.8% as compared to 2010 which results from the increase in sales volume of electric energy, in particular within trades concluded at the Polish Power Exchange (Towarowa Giełda Energii S.A.) (TGE). Moreover, as compared to the previous year, the price trends at TGE were favourable. This business area has also reached higher revenue on sales of proprietary rights arising from energy certificates (irrespective of significant decrease of prices of red certificates in 2011 from about 27 PLN/MWh to about 9 PLN/MWh), revenue of sales of RUS and power reserves, in connection with the increasing demand of the Electric Power National System (KSE) as well as increasing demand of the Transmission System Operator in the scope of commissioning of units which were not classified for emergency shutdown before. The lower level of revenue on sales of heat was caused by unfavourable atmospheric conditions in 2011.

The operating result EBIT of the Generation Area reached almost 96% of the level achieved a year before, EBIDTA (Earnings before Interest, Taxes, Depreciation, and Amortization) in 2011 reached the level close to 2010. The results achieved were positively influenced by higher volume of sales of electric energy from own production as well as higher sales price of electric energy, while the negative impact was mainly attributed to the increased unit floating generation costs (mainly costs of consumption and purchase of production fuel, including the biomass). The increased costs in this area were also influenced by the extended down time of the 460 MW unit in Elektrownia Łagisza, which has enforced the necessity to relocate the production of electric energy from this unit to generating units of worse indicators of emission and unit fuel consumption.

The margin on floating costs on sales of heat has slightly increased, while the margin on sales of wind of blast furnace and compressed air stayed at the level comparable to 2010. The revenue on compensation to cover stranded costs resulting from termination of long-term contracts (LTC) was lower, which is mainly attributed to the change of result set in accordance with the provisions of the Act of 29 June 2007 on principles of covering of the costs incurred by producers due to the premature termination of long-term contracts for sales of power and electric energy, i.e. with excluding of revenue-cost streamline related to activities other than production and sales of electric energy and RUS. The mechanism for calculating and disbursement of funds to cover the stranded costs occurring in connection with termination of LTC assumes that in case of deterioration of market conditions, the amount of compensation will grow (with the limitation of the maximum ceiling), and if the result is better than forecasted, the level of compensation will decrease. Therefore, this mechanism has a neutralising impact on potential negative market events. Year 2012 is the last year of participation of the company TAURON Wytwarzanie in the programme of compensation of stranded costs.

The implementation of transactions of exchange of EUA (European Union Allowances) to the CER units Certified Emission Reduction, had positive impact on the results achieved. Within such transactions, companies of the Generation Segment sold the emission allowances EUA, granted within KPRUII (National Plan of Allowances Distribution), to the Company, simultaneously

repurchasing the units of certified emission CER/ERU (Emission Reduction Unit). In the second settlement period (2008-2012), the Polish legislation permits individual installations included in the Community system of CO₂ emission trading to cover 10% of the emission with the CER units. The value of these units at European markets is lower than the value of emission allowances EUA, and the difference in price allows the companies participating in the emission trade system to gain profit. On the other hand, the decreased results may be attributed to higher fixed costs, mainly costs of outsourced services (including renovations and repairs).

Generating electric energy and heat from renewable sources

In 2011 revenue on sales in the RES Segment increased by about 8.1% as compared to 2010 which results mainly from the increase in electric energy sales.

The operating result EBIT and EBITDA result of RES Business in 2011 reached higher level than in 2010 (by about 12.5% and 9.6%, respectively). Results of this Segment are significantly determined by the electric energy production volume. Due to unfavourable atmospheric conditions which occurred mainly in the 2nd and 3rd quarter of 2011 (long periods without rain), the production volume of electric energy was by about 0.1 TWh lower than in 2010, which was reflected in the lower sales of electric energy and proprietary rights arising from energy certificates. Other factors positively influencing the result included higher sales price of proprietary rights arising from energy certificates as well as including of results of the following companies in the results of RES Segment in 2011: Lipniki and Vattenfall Wolin-North (since the moment of their acquisition).

Distribution of electric energy

In 2011, as compared to 2010, the Distribution Segment of electric energy reached the increase in revenue by about 3.5%, increase of results at the operating level by about 20.6%, and EBITDA result by about 12.5%. The improved result of EBIT in 2011 may be mainly attributed to the following reasons of changes in the revenue and cost levels.

The total revenue reached in 2011 is higher than in 2010 due to the increase in revenue on sales of distribution services to end consumers (growth of sales volume at the decreased unit rate for distribution services), increased export sales (growth of price and volume) as well as increased value of other revenue related to distribution activities, including mainly connection fees and excessive reactive power intake. In terms of value, sales to end consumers in 2011 increased in relation to 2010 in tariff groups B and C, while it decreased quantitatively in group G. In terms of sales to other DSO, the value balance of energy transits in 2011 is positive, which means profit on purchase and sales operations of distribution services from/to other DSO, however, this result is lower than in 2010.

In addition, higher value of sales in 2011, as compared to 2010, was influenced by acquisition of GZE companies in the middle of December 2011, and recognising of result of GZE distribution companies in the result of the Distribution Business Area.

The level of EBIT operating profit achieved by Distribution Business Area in 2011 was higher by about 20.6% than a year ago, and EBITDA result was higher by about 12.5%. Besides higher revenue, lower operating costs had positive impact on increased results of this Business Area. Floating costs of the Business Area decreased in 2011 mainly due to lower level of energy purchase for the needs of balance differences. The decrease in purchase costs due to reduced level of grid losses indicator, totally levelled off the effect of growth in electric energy prices which occurred in 2011. Within fixed costs, their level was minimally increased in relation to 2010, however, main growths involved amortisation and costs of outsourced services which include costs of customer service since 2011. The level of EBIT was also positively influenced by results on other operating activity as well as other statutory activity (unrelated to distribution activities, covering, among others, street lighting).

Supply of energy and other products of the energy market

In 2011 the Trading Segment reached revenue on sales at the level higher by 14.5% y/y, which mainly resulted from the growth of retail sales volume of electric energy (by about 3.4%). The revenue of the Segment was also increased due to gaining the revenue on the services of comprehensive customer service provided in favour of TAURON Dystrybucja. Year 2011 was the first year when actions related to comprehensive customer service of appointed companies of TAURON Capital Group were concentrated in the company TAURON Obsługa Klienta.

The operating result (EBIT) in 2011 reached significantly higher level than in 2010 (increase by about 51.6%). EBIDTA result of the Trading Business Area increased by about 50.3% as compared to the previous year. The Segment achieved higher margin on electric energy sales, which was positively influenced mainly by the increased volume of sales and increased sales prices, while the negative impact may be attributed to the increased wholesale price of electric energy purchase.

Revenue on other operations

In 2011, revenue on other operations reached the level of 99.4% of revenue of the previous year. It is the result of lower revenue reached by the heat generation companies (by about 4.8%) - due to sales of heat generated and purchased, as well as heat transmission. In every case, the factor decreasing revenue was the decreased volume of sales caused by higher average ambient temperatures in 2011, as compared to 2010. The decrease in sales was partly compensated by the increase in average sales price of trading heat, which also referred to heat purchase price.

On the other hand, in 2011, in relation to 2010, revenues of the company attributed to this Segment (KW Czatkowice) increased significantly, which was mainly related to the aggregate and resulted from the increased demand connected with implementation of the governmental programme of development of roads and motorways.

The above changes in levels of revenues and costs influenced the increase in EBITDA level in 2011 by about 35.5% in relation to 2010. In addition, the EBIT result was positively influenced by results of other statutory activities (increase by about 102.3% y/y) (unrelated to heat sales) as well as other operating activity, including the reversal of impairment losses of fixed assets in the area of operations of one of the companies. As of 31 December 2011, considering the assumptions effective on that day, including those resulting from effects of merger of the aforementioned companies within TAURON Ciepło, the analysis conducted has confirmed the lack of necessity to recognise the impairment losses.

2.4. Basic products, goods and services

The table below presents volumes of production and sales in TAURON Capital Group for 2011 and 2010.

Table No. 8 Volumes of production and sales for 2011 and 2010.

Volumes of production and sales	unit	Year 2011	Year 2010	Change
Commercial coal production	M Mg	4.58	4.50	1.8%
Generation of electric energy (net production of the Group), including:	TWh	21.38	21.33	0.2%
<i>Net production of Generation Area</i>	<i>TWh</i>	<i>21.00</i>	<i>20.85</i>	<i>0.7%</i>
<i>Net production of RES Area</i>	<i>TWh</i>	<i>0.37</i>	<i>0.48</i>	<i>-22.9%</i>
Generation of electric energy from renewable sources	TWh	0.99	1.10	-10.0%

Volumes of production and sales	unit	Year 2011	Year 2010	Change
of the Group, including:				
<i>Production of biomass from Generation Area</i>	<i>TWh</i>	0.61	0.62	-1.6%
<i>Production of hydro plants and wind farms of the RES Area</i>	<i>TWh</i>	0.38	0.48	-20.8%
Heat generation by the Group, including:	PJ	15.96	18.29	-12.7%
<i>Production of heat from Generation Area</i>	<i>PJ</i>	15.08	17.25	-12.6%
<i>Production of heat from Area: Other</i>	<i>PJ</i>	0.88	1.04	-15.4%
Distribution of electric energy	TWh	38.24	37.52	1.9%
Retail sales of electric energy	TWh	35.52	34.34	3.4%
Number of clients - Distribution	thou.	4,143	4,115	0.7%

Volumes indicated in items distribution and sales of electric energy do not contain sales volumes of GZE companies taken over in December 2011, conducting operations in the area of distribution and sales of electric energy, in order to provide for comparability of the data for TAURON Capital Group for 2011 and 2010.

Data concerning volumes of supply and sales of electric energy and number of clients for the whole 2011 for GZE companies (thus, also for the period when the companies belonged to Vattenfall group) are presented in the table below.

Table No. 9 Volumes of sales of GZE companies in 2011

Volumes of production and sales	Unit	2011
Distribution of electric energy	TWh	14.6
Sales of electric energy	TWh	9.5
Number of clients - Distribution	thou.	1,133

2.5. Potential customers market and sources of supply

TAURON Capital Group is a vertically integrated energy enterprise controlling the whole value chain from coal mining to supplying of electric energy to end consumers. Therefore, TAURON Capital Group performs its operations within all key segments of the energy market (excluding electric energy transmission which is the exclusive responsibility of the Transmission System Operator), i.e. in the area of coal mining, generation, distribution as well as sales and trading of electric energy and heat. Vertical integration of TAURON Capital Group allows for decreasing of dependence of TAURON Capital Group on external suppliers of hard coal, increasing the stability of the revenue and margins achieved by TAURON Capital Group.

In 2011, about 27% of the current demand of TAURON Capital Group for fuel required for generation of electric energy and heat was satisfied by hard coal coming from own mining plants of TAURON Capital Group.

Business Area: Mining

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

- energy value from 19 MJ/kg to 23 MJ/kg,
- ash content from 9% to 16%,

- sulphur content from 1.0% to 1.4%.

PKW conducts the sales of coal in two directions:

- sales of fine coal and coal sludge to power plants and cogeneration plants,
- sales of thick, medium and small amount of fine coal sizes through the organized sales network all over the country.

Sales of coal from PKW is mainly provided in the region of southern and central Poland in particular the following provinces: Śląskie, Małopolskie, Podkarpackie, Świętokrzyskie and Dolnośląskie.

In 2011, sales of hard coal by PKW amounted to 4.6 million Mg, including 3.1 million Mg (69%) - to companies of Generation Segment of TAURON Capital Group.

Business Area: Generation

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

In 2011, the substantial majority of electric energy production of the Generation Area was sold based on transactions concluded at TGE, in accordance with the provisions of art. 49a, of the Act of 10 April 1997: *Energy Law*, effective as of 9 August 2010. This Act has bound the energy enterprises dealing with generation of electric energy and entitled to receive funds to cover stranded costs to sell the electric energy generated (after taking into consideration contracts concluded before the introduction of amendments to the aforementioned Act as well as energy excluded from this obligation pursuant to legal regulations), in the manner providing for equal, public access to this energy, i.e. through open tender, on Internet trading platform on the regulated market or at TGE.

Due to the revision of the aforementioned Energy Law, sales of electric energy produced by Generation Area in 2011 to the Company was reduced and amounted to about 1.4 TWh. Limited volume of the generated electric energy is also sold to independent consumers connected in the past to the power plant and cogeneration plant installations of the TAURON Capital Group.

Heat produced by Generation Business Area is sold to TAURON Capital Group companies which deal with distribution and sales of heat, as well as to external consumers.

Moreover, companies of Generation Area obtain, due to electric energy generation from RES as well as from cogeneration, certificates of origin, which are purchased and submitted to the President of the Energy Regulatory Office (URE) to be redeemed by the companies of the Trading Business Area.

Business Area: RES

Electric energy generated in 2011 by the RES Area was sold to TAURON Sprzedaż (about 92%) and to the Company (about 8%). The proprietary rights obtained due to production of electric energy in RES Area were sold completely to TAURON Sprzedaż, in order to redeem them.

Business Area: Distribution

Within the Distribution Area, the companies TAURON Dystrybucja and Vattenfall Distribution Poland operate as DSO, on the basis of decision of the Regulator.

TAURON Dystrybucja provides services to about 4.1 million end consumers, to whom it supplied 33.6 TWh of electric energy in 2011, of the total volume of energy of 38.2 TWh, supplied by the company in 2011. TAURON Dystrybucja covers with its operations the area of about 53 thousand km², located mainly in the provinces of Śląskie, Małopolskie, Dolnośląskie and Opolskie and, in addition, in the provinces of Podkarpackie, Łódzkie and Świętokrzyskie. The operating functions are carried out by five branches of the company, located in: Bielsko-Biała, Będzin, Częstochowa, Jelenia Góra, Kraków, Legnica, Opole, Tarnów, Wałbrzych and Wrocław.

Vattenfall Distribution Poland provides services to about 1.1 million of end consumers, to whom during the whole 2011, including the period when it was still the property of Vattenfall AB, it provided about 11.3 TWh of electric energy, of the total volume of electric energy supplied in 2011, amounting to about 14.6 TWh. This company covers with its operations the area of about 4.2 thousand km² located in Śląskie province.

Electric energy is supplied to consumers classified to the following tariff groups:

- A Group – consumers connected to high-voltage power grid,
- B Group – consumers connected to medium-voltage power grid,
- C, D and R Groups – consumers connected to low-voltage power grid,
- G Group – consumers using energy for household needs, irrespective of the voltage of the power grid.

Sales of distribution services is carried out on the basis of comprehensive agreements as well as agreements on provision of distribution services concluded with consumers. The first of the aforementioned types of agreements covers both sales of electric energy by the companies of the Trading Area (in 2011 they included TAURON Sprzedaż and Vattenfall Sales Poland) as well as supply of the energy by DSO companies (TAURON Dystrybucja and Vattenfall Distribution Poland, respectively). The second type of the agreements is the so-called split agreements, which refer only to the sales of distribution service. Under this type of agreements, consumers purchase electric energy in a selected individual sales company, on the basis of a separate agreement.

Sales value share as a part of the comprehensive agreements, within the total value of distribution services sales to end consumers fluctuates around 75%. On the other hand, the volume of supply as a part of comprehensive agreements within the total volume of supply to end consumers is about 50%.

Business Area: Trading

Companies which operate in the area of electric energy sale are mainly responsible for sales of electric energy via two channels.

- through TAURON Sprzedaż - to consumers from all tariff groups, including end consumers (since the middle of December 2011, also through the company Vattenfall Sales Poland),
- through the Company - to the biggest clients of TAURON Capital Group, the so-called strategic clients.

In 2011, the total sales of electric energy carried out by these companies for over 4.1 million end consumers amounted to 34.5 TWh (value without the company Vattenfall Sales Poland). TAURON Sprzedaż Group buys electric energy mainly from the Company (about 95%).

The company Vattenfall Sales Poland in the whole 2011, i.e. also at the time when it belonged to Vattenfall AB, sold about 9.5 TWh of electric energy. The company provides services to about 1.1 million clients.

Income generated from sales of electric energy depends, to certain extent, on the electric energy tariff approved by the President of Energy Regulatory Office for electric energy sold to clients in households (the so-called tariff group G). Whereas, prices of electric energy for the remaining tariff groups, i.e. A, B and C, do not require approval of the President of Energy Regulatory Office.

In the past, companies conducting operations in the scope of electric energy sales to end business consumers used the so-called A tariff group for consumers connected to the high-voltage power grid (WN), B tariff group for consumers connected to the medium-voltage power grid (SN) and C tariff group for consumers other than households, connected to the low-voltage power grid (nN). In connection with energy market liberation and the need to offer prices and products tailored to the end consumers' individual needs, TAURON Capital Group negotiates conditions of electric energy sales agreements individually with the clients. The client segmentation used, allocates them to the strategic, business and mass segment, depending on the level of electric energy consumption. Simultaneously, parallel classification of clients into three categories is applied, depending on the type of power grids they are connected to, i.e.:

- WN consumers, covering consumers of A tariff group as well as TPA (Third-party Access) consumers connected to high-voltage power grids,
- SN consumers, covering consumers of B tariff group as well as TPA consumers connected to medium-voltage power grids, and
- nN consumers, covering consumers of C tariff group as well as TPA consumers connected to low-voltage power grids.

In this way, companies carrying out operations in the scope of electric energy sales gradually withdraw from offering their consumers electric energy prices which are based on tariff groups applied to consumers charged for the electric energy distribution service.

Currently, end consumers, except for households, negotiate prices of electric energy sales. In case of households, the default G tariff, approved by the President of ERO is applied. Simultaneously, there is a possibility to resign from tariff G in favour of the price list offered by the vendor. An example of such actions include the promotion "Guarantee of lower price" addressed to persons being the shareholders of the Company as a result of purchase of stocks under public offering, or price lists applied in case of change of electric energy seller by a household. Each consumer category is offered a different range of products and for each of them TAURON Capital Group adopts a different marketing approach.

The table below presents categories of TAURON Capital Group end consumers, depending on voltage type and specific nature of their business:

Table No. 10 Categories of end consumers of TAURON Capital Group

Group of clients	Description of clients
WN Clients	Consumers representing sectors of heavy industry, metallurgical industry, chemical industry, mining industry, automotive industry
SN Clients	Clients representing other sectors of industry, producers of equipment, consumers from food industry, public sector, construction sector and public utilities sector
nN Clients	Clients dealing with sales, services, banking, catering and small businessmen
Tariff Group G	Households
Other clients	TPA consumers not connected to TAURON Capital Group distribution network

The table below presents information on the volume of electric energy sold by companies operating in the area of electric energy sales to end consumers, as well as numbers of clients of these companies, divided into individual consumers' categories in 2011.

Table No. 11 Volume of electric energy sold and number of clients in 2011

Kind of clients	Volume of sold electric energy in TWh	Percentage of sold electric energy in total sales	Number of clients in thousand
WN Clients	5.40	15.2%	0.05
SN Clients	9.49	26.7%	7.39
nN Clients	5.04	14.2%	361.86

Kind of clients	Volume of sold electric energy in TWh	Percentage of sold electric energy in total sales	Number of clients in thousand
Tariff Group G	7.68	21.6%	3,743.55
Other clients	7.91	22.3%	0.01
Total	35.52	100.0%	4,112.86

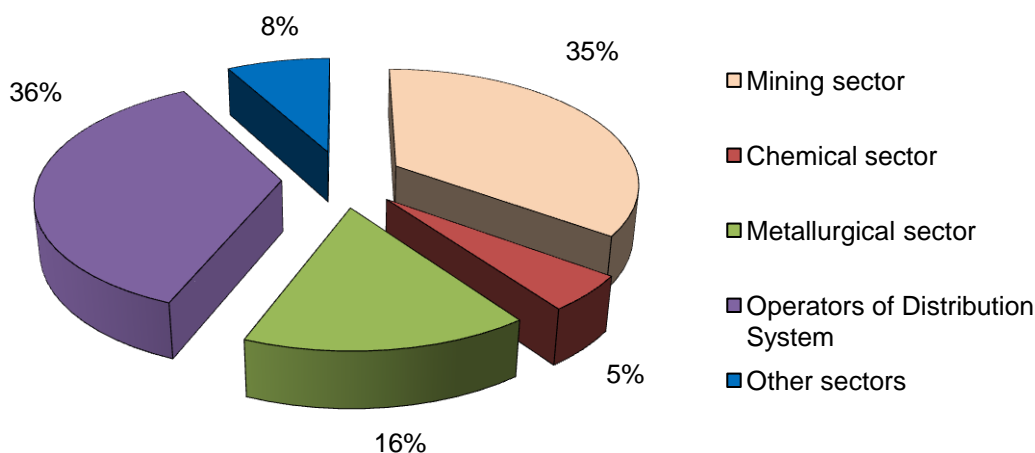
TAURON Group retail sales went up by about 1.2 TWh, i.e. by 3.4%, from 34.4 TWh in 2010 to 35.5 TWh in 2011.

The highest growth in sales, amounting to 4.11 TWh in relation to 2010, was observed by TAURON Capital Group in the category of other clients, i.e. TPA clients in DSO area outside TAURON Capital Group. This increase makes about 12% of the total sales of 2011 and it resulted from the conducted intensive sales activities. During this time, TAURON Capital Group noted decrease of sales in WN clients group by 3.26 TWh, as compared to 2010, which was the result of competition at the retail sales market. The above-mentioned decrease in volume corresponds to about 9.2% of sales reached in 2011. Simultaneously, growth of sales to SN clients by 0.67 TWh and to nN clients by 0.12 TWh was recorded, constituting, respectively, 1.9 % and 0.3 % of total sales in 2011. The above situation resulted from increased consumption connected with the improved economic conditions as well as from the implemented sales actions focussing on maintenance of the hitherto clients and regaining of previously lost clients. Decrease of sales in the G tariff group by 0.21 TWh, i.e. by about 0.6% of total sales, results from lower average consumption per client in this tariff group.

In 2011, the value and volume of electric energy sales for the biggest client of TAURON Capital Group did not exceed, respectively, 10% of total electric energy sales value and 10% of total volume of the electric energy sold. Only the share of two biggest clients of TAURON Capital Group in electric energy sales exceeded 5% of total value and 5% of total volume of the electric energy sold. The biggest clients of TAURON Capital Group are ArcelorMittal Poland S.A., CMC Zawiercie S.A., Górażdże Cement S.A., ISD Huta Czêstochowa sp. z o.o., KGHM Polska Miedz S.A., Kompania Wêglowa S.A., Zaklady Azotowe in Tarnów-Mościce S.A.

The volume of sales to strategic clients, reached by the Company in 2011 amounted to about 7.9 TWh, and sales according to individual sectors is shown in the figure below.

Figure No. 4 Structure of Sales of the Company in 2011, according to sectors



Electric energy sales market is competitive and the consumers have the opportunity of choosing electric energy supplier among many suppliers of electric energy. As a result, on one hand, TAURON Capital Group sells electric energy also to consumers in areas other than the area covered by TAURON Capital Group distribution network, and on the other hand, it competes with other electric energy suppliers for clients who are located within the area covered by TAURON Capital Group distribution network. In 2011, TAURON Capital Group undertook intensive actions in order to maintain its hitherto clients and to acquire new clients. New product offers were launched for sales and loyalty programmes for clients were implemented. In 2011, widespread sales action was undertaken, related to acquisition of small and medium-sized enterprises (Tariff Groups C). Promotional actions were also conducted for the hitherto clients, which allowed for reaching the coverage of limited time contracts with clients at the level of 84% of the volume of sales in tariff groups A, B and C according to the status at the end of 2011, accordingly, reducing the risk of losing the sales margin and sales volume.

In connection with the stock exchange debut of the Company in 2010, in the previous year, promotion of "Guarantee of lower price" for individual clients group was continued in the previous financial year. The promotion was addressed to shareholders of the Company who purchased shares in public offering. Within the promotion, over 8 thousand clients were acquired in total, including 800 clients so far supplied with electricity by other vendors.

Business Area: Other

The core activity of TAURON Ciepło in the Business Area: Other, carried out on the basis of concessions granted by the President of ERO covers:

- heat generation,
- heat trading,
- heat transmission and distribution.

The activity is performed within the area of Śląskie and Małopolskie provinces. TAURON Ciepło holds its own heat sources of the total installed heat capacity of 195.9 MW. The share of heat produced by own sources in the total volume of heat sales is about 14%. Other heat sold by this company is purchased from the following entities: TAURON Wytwarzanie, EC Nowa and heating - energy company - Spółka Ciepłowniczo-Energetyczna Jaworzno III sp. z o.o. as well as from heat generating companies outside TAURON Capital Group, including mainly the following entities:

- Elektrociepłownia "Będzin" S.A.,
- Fortum Częstochowa S.A. in Częstochowa,
- Elektrociepłownia EC Wojkowice sp. z o.o.,
- Elektrociepłownia Chorzów "ELCHO" sp. z o.o.,
- Zakłady Energetyki Ciepłej sp. z o.o.,
- Elektrociepłownia "Szopienice" sp. z o.o.,
- Ciepłownia Siemianowice sp. z o.o.

In 2011, the company TAURON Ciepło sold, together with the heat generated, produced, 9.4 PJ of heat and 1,626 MW of heat energy.

The core activity of KW Czatkowice, included in the Business Area: Other is extraction, crushing and pulverising of limestone, as well as extraction of stone for construction industry. In 2011 the company sold 550.6 thousand Mg of stone, 1,016.3 thousand Mg of aggregate (grits and mixed stone) and 708.9 thousand Mg of limestone dust and sand. The main consumers of stone and aggregate are the companies from construction sector (including road building), metallurgical and chemical sector, and the main consumers of ground products of this company (limestone dust and sand) - are the companies of Generation Segment of TAURON Capital Group included in TAURON Wytwarzanie: Elektrownia Jaworzno III, Elektrownia Łagisza, Elektrownia Łaziska, EC Katowice) and outside the Group: Knauf-Jaworzno III sp. z o.o., VG ORTH Polska sp. z o.o., Elektrownia Bełchatów.

TAURON Group conducts its operations mainly on the territory of Poland. In 2011 and 2010, the value of sales for foreign clients reached PLN 665,279 thousand and PLN 228,867 thousand, respectively.

2.6. Significant events and achievements of TAURON Capital Group influencing its operations

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

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

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

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

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

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

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

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

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

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

Payment of dividend by the Company

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

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

Construction of a new cogeneration unit at EC Tychy – obtaining a loan from WFOŚiGW.

On 29 March 2011, WFOŚiGW and EC Tychy) signed a preferential loan contract at the level of PLN 30,000 thousand for the project involving reconstruction of the fluidized bed boiler and construction of installation of biomass supply. In EC the new power unit with heating - condensation turbine, of the nominal electric power (at condensing work) of 50 MWe and maximum heat capacity of about 86 MWt shall be constructed. To provide for operating of the existing unit BC-35, after implementation of the new, stricter emission standards, modernisation of the existing fluidised bed boiler has been planned, in order to adapt it to combustion of biomass.

The Company informed of this event in the consolidated interim report for the first half of 2011.

Selection of technology for the new power unit at Elektrownia Blachownia

On 13 April 2011, the management boards of: the Company, KGHM Polska Miedź S.A. and PKE signed the agreement pursuant to which they had decided that further design work concerning construction of the 800-910 MW unit at the Elektrownia Blachownia in Kędzierzyn-Koźle would be conducted with the assumption of the choice of the gas fuel.

The Company informed of this event in the consolidated interim report for the first half of 2011.

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

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

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

Maintenance of the BBB rating for the Company

On 1 July 2011, the Fitch rating agency informed of their decision to sustain the rating for the Company in foreign and local currency at the BBB level, with stable perspective. According to Fitch agency, the ratings reflect the strong position of the Company at the Polish electric energy market as well as its prudent financial policy.

The Company informed of this event in the current report No. 40/2011 of 01 July 2011.

Incorporation of ESW by PKE

On 31 August 2011, the District Court for Katowice – East in Katowice, 8th Commercial Division of the National Court Register issued its decision on registration of the merger of PKE company (acquiring company) and ESW company (acquired company). Simultaneously, as of 1 September 2011, the change of enterprise of the acquiring company to TAURON Wytwarzanie took place. Detailed information on incorporation of ESW by PKE is included in item 1.2.1 of this report.

Incorporation of ENION by EnergiaPro

On 1 September 2011 the District Court for Wrocław – Fabryczna in Wrocław, 6th Commercial Division of the National Court Register issued its decision on incorporation of registration of the merger of the companies EnergiaPro (acquiring company) and ENION (acquired company). Simultaneously, as of 1 September 2011, the change of enterprise of the acquiring company to TAURON Dystrybucja took place. Detailed information on incorporation of ENION by Energiapro is included in item 1.2.1 of this report.

Incorporation of PEC in Dąbrowa Górnicza by PEC Katowice

On 1 September 2011, the District Court for Katowice – East in Katowice, 8th Commercial Division of the National Court Register issued its decision on registration of the merger of PEC Katowice company (acquiring company) and PEC in Dąbrowa Górnicza company (acquired company). Simultaneously, as of 1 September 2011, the change of enterprise of the acquiring company to TAURON Ciepło took place. Detailed information on incorporation of PEC in Dąbrowa Górnicza by PEC Katowice is included in item 1.2.1 of this report.

Purchase of the special purpose vehicle Lipniki

On 28 September 2011 TAURON EKOENERGIA company acquired 100% shares of Lipniki company from the German energy corporation WSB Neue Energien GmbH, including the wind farm. Lipniki company is the special purpose vehicle which was established to construct and operate the wind park Lipniki, including 15 wind turbines of the total capacity of 30.75 MW. Detailed information on purchase of the special purpose vehicle Lipniki is included in items 1.2.1 and 1.5 of this report.

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

On 12 December 2011, within the programme of issue of the Company bonds, tranches B and C of bonds at total value of PLN 3,300,000 thousand were issued. The issue was aimed at raising of financial resources to fund acquisition of GZE from Vattenfall AB. The Company informed of this event in the current report No. 60/2011 of 12 December 2011.

Raising of subsidiary funds

TAURON Capital Group acquires financial resources for many investments within the *Operational Programme Infrastructure and Environment 2007–2013*, and it also applies for financing of the National Fund of Environmental Protection and Water Management (NFOŚiGW) and from *Operational Programme Human Capital* (training projects). Two projects - construction of the biomass boiler of the capacity of 50 MW in Elektrownia Jaworzno III and the biomass boiler of the capacity of 20 MW in Elektrownia Stalowa Wola - received support at the level of about PLN 40 M for each project. The first contract on subsidy, concerning the investment in Stalowa Wola, was signed on 29 November 2011. the other one - for investment in Jaworzno - on 19 January 2012. Moreover, TAURON Capital Group received the co-financing from NFOŚiGW for construction of the installation of denitrification of combustion gases in Elektrownia Jaworzno III and Elektrownia Łaziska. The total value of funds acquired within the public assistance programmes, which will be allocated for investment in power generation assets, amounts to about PLN 116 million.

Exceeding of the 10% equity threshold of the Company within the trading turnover between TAURON Capital Group companies and Polskie Sieci Energetyczne S.A. (PSE Operator)

On 5 January 2012 the Company received data from PSE Operator concerning transmission services provided for the companies of TAURON Capital Group, enabling clearing with PSE Operator for December 2011. The net value of turnover generated during the last twelve months between the companies of TAURON Group and PSE Operator reached about PLN 1,758 M (including: PLN 1,508 M of costs for the companies of TAURON Capital Group, and PLN about 250 M of income), accordingly, the value of turnover has reached the material amount. Turnover of the highest value, i.e. about PLN 636.6 M net, was generated under the agreement of 15 January 2008, concluded between ENION and PSE Operator.

The Company informed of this event in the current report No. 1/2012 of 5 January 2012.

Other

In addition, events resulting from the concluded contracts and agreements significant for the operations, described in item 2.7.1 of this report should also be considered as important events of substantial impact on operations of TAURON Capital Group in the financial year 2011.

Information on significant events occurring after the balance sheet day until the day of this report has also been provided in note 42 of the Consolidated financial statement of TAURON Polska Energia S.A. Capital Group for the year ended on 31 December 2011.

2.7. Information on agreements concluded by companies of TAURON Capital Group

2.7.1. Agreements significant for operations of TAURON Capital Group

In the financial year 2011 Companies of TAURON Capital Group concluded the following agreements significant for operations of TAURON Capital Group:

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

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

1. Agreement on Operations of the EC Stalowa Wola, concluded between the Company, PGNiG S.A., PGNiG Energia S.A., ESW and EC Stalowa Wola. This project specifies the procedure of preparation and execution of the investment process of construction of the gas and steam unit in Stalowa Wola as well as rules of exploitation of the unit and trading of products of this exploitation. The Agreement was concluded for 25 years following the date of commissioning of the gas and steam unit. The value of the agreement was determined at the amount of PLN 1,95 billion net.
2. The Agreement on sales of electric energy concluded between PGNiG Energia S.A., the Company and EC Stalowa Wola, concerning the many years' sales of electric energy generated by EC Stalowa Wola in the steam and gas fired unit in Stalowa Wola to the Company and to PGNiG Energia S.A. The estimated value of the agreement during its whole effective period (14 years) will amount to PLN 6.78 billion net.
3. Agreement on supply of gas fuel concluded between PGNiG S.A. and EC Stalowa Wola, the subject of which is the supply of the gas fuel. The estimated value of the agreement during its whole effective period (14 years) will amount to PLN 9.66 billion net.

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

Concluding of significant contract with ArcelorMittal Poland S.A.

On 25 July 2011 the significant agreement was concluded between EC Nowa and ArcelorMittal Poland S.A., the subject of which is the sales of energy carriers by EC Nowa to ArcelorMittal, purchase of gas fuel by EC Nowa from ArcelorMittal, establishment of the principles of settlements between EC Nowa and ArcelorMittal concerning the CO₂ emission, and implementation of investment by EC Nowa involving modernisation of the OPG 430 boiler and construction of turbo generator of 50 MW capacity. The contract was concluded for the period of 65 months. The estimated value of this contract during its entire effective period was determined at the level of about PLN 2.13 billion.

The Company informed of this event in the current report No. 42/2011 of 25 July 2011.

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

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

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

Signing of the Annex to Agreement concluded between PKE and Kompania Węglowa

On 14 October 2011 between TAURON Wytwarzanie and Kompania Węglowa, Annex was signed to the agreement of 1 December 2010, concluded between PKE (currently TAURON Wytwarzanie) and Kompania Węglowa, the subject of which is sales of coal for energy generation purposes, coming from coals and mining plants of Kompania Węglowa, designed for consumption in power plants and cogeneration plants belonging to TAURON Wytwarzanie. Pursuant to the said annex, the parties undertook, among others, to launch actions enabling purchasing of coal by TAURON Wytwarzanie within the procedure of excise tax exemptions, pursuant to the Act of 6 December 2008 on excise tax, as well as assumed that supplies of coal performed after 1 January 2012 would be performed applying the excise tax exemption, provided that application of such exemption is possible in compliance with the binding regulations. Moreover, the provision has been waived that "parties foresee the possibility to terminate the contract by giving a notice, in case if no agreement is reached resulting in concluding of the annex until 15 October 2011, concerning the price of coal, considering the final legal status in scope of excise tax."

The Company informed of this event in the current report No. 49/2011 of 14 October 2011.

Concluding of agreement increasing the value of the bond issue programme

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

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

Concluding of agreement on establishment of PGK

On 26 September 2011 the PGK agreement was signed, entered by the Company as the representing entity, as well as the selected companies of TAURON Capital Group, i.e.:

- 1) TAURON Wytwarzanie,
- 2) TAURON Dystrybucja
- 3) TAURON Sprzedaż,
- 4) TAURON Obsługa Klienta
- 5) TAURON EKOENERGIA

- 6) PEPKH
- 7) POEN sp. z o.o.,
- 8) ENPOWER sp. z o.o.,
- 9) ENPOWER Service sp. z o.o.,
- 10) ENERGOPOWER sp. z o.o.

The Agreement was concluded for the period of three fiscal years, i.e. from 1 January 2012 to 31 December 2014. The Head of the First Tax Office in Sosnowiec registered the Capital Tax Group on 28 November 2011.

PGK was established in order to optimise execution of the obligations connected with clearing of the corporate income tax by the key companies of TAURON Capital Group, and it enables, among others:

- acceleration of settlement of tax losses, i.e. compensation of tax losses of one of the companies is executed through tax profit of other company over the same fiscal year,
- common application at the level of PGK for individual interpretation of tax law within the scope of corporate income tax which, in case of favourable interpretation, will result in relevant protection for all entities included in PGK.

Concluding of significant agreement with Electrabel NV/SA

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

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

Purchase of GZE stocks

On 13 December 2011 ING Securities S.A., acting on account of the Company, concluded the sales disposal contract as a buyer, with Vattenfall AB as the seller, concerning sales of 1,249,693 shares in the GZE share capital at par value of PLN 100.00 each and at the total par value of PLN 124,969.3 thousand, constituting 99.98% of GZE share capital. The total value of the transaction amounted to PLN 4,625,955 thousand. Detailed information on purchase of GZE shares is included in items 1.2.1 and 1.5 of this report.

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

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

All transactions of TAURON Capital Group with affiliated entities are concluded under market conditions. Information on significant transactions with affiliated entities has been provided in note 36 of the Consolidated financial statement of TAURON Polska Energia S.A. Capital Group for the year ended on 31 December 2011.

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

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

- ZEC in Bielsko-Biała - the loan at the level of PLN 300,000 thousand to finance the construction of high performance coal-fired unit in cogeneration, with the accompanying infrastructure, and

- Elektrownia Jaworzno III - the loan at the level of PLN 210,000 thousand, allocated for construction of the new biomass-fuelled boiler of 50 MW_e and 45 MW_t as well as renovation of the steam turbine.

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

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

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

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

Table No. 12 Specification of credit agreements related to cash pooling, concluded by the Company in 2011

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

The central financing model binding in TAURON Capital Group, assumes acquisition of financial resources by the Company and their re-distribution to subsidiaries. The subsidiaries acquire funds from NFOŚiGW and WFOŚiGW exclusively. The consequence of the approach adopted is the lack of new bank credits and loans raised by subsidiaries and the limited level of subordinated debts.

In 2011 companies of TAURON Capital Group concluded loan agreements with WFOŚiGW as specified in the table below:

Table No. 13 Specification of loan agreements with WFOŚiGW concluded in 2011

No.	Company	Amount of the loan	Currency	Date of agreement	Date of repayment	Interest rate
1	PEC Katowice	18,929	PLN	08.04.2011	15.01.2013	Ratio*bill rediscount rate, not lower than 3%
2	PEC in Dąbrowa Górnicza	773,116	PLN	25.02.2011	30.11.2013	Ratio*bill rediscount rate, not lower than 3%
3	EC Tychy	30,000,000	PLN	29.03.2011	15.12.2022	Ratio*bill rediscount rate, not lower than 3%

Due to implementation of the central model of financing as well as refinancing of part of the debt of subsidiary companies by the Company, in 2011 EnergiaPro (currently TAURON Dystrybucja) repaid its investment loan before the maturity date, at the initial value of PLN 80,000 thousand, raised at Bank Zachodni WBK S.A., with the maturity date on 1 August 2013, with the interest rate based on WIBOR 1M and fixed margin during the term of the agreement.

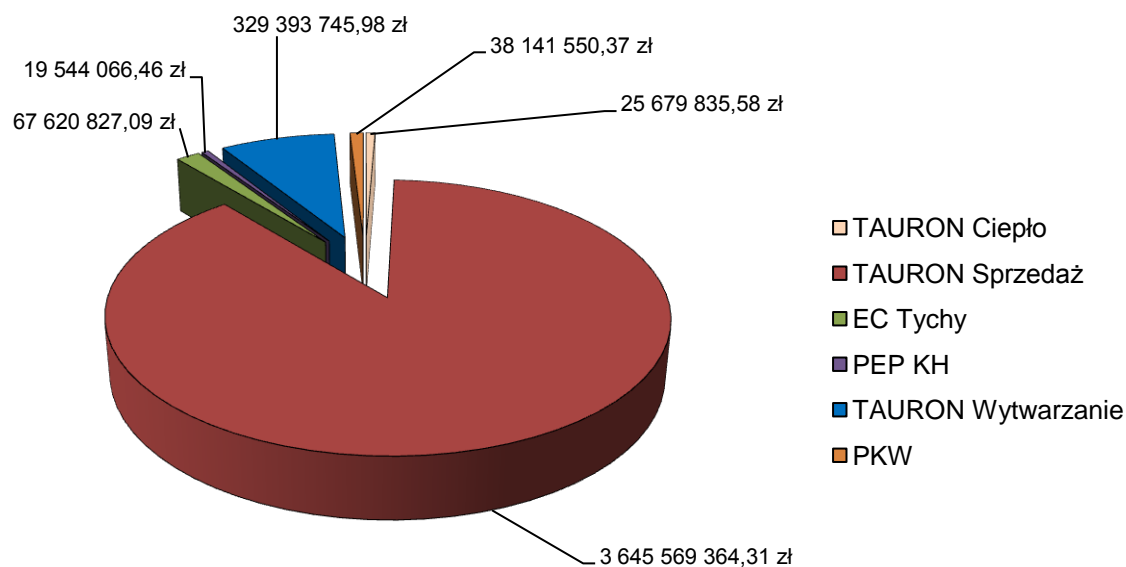
It should be stressed that in connection with the transaction of taking over part of the assets of Vattenfall AB, on 12 December 2011, GZE granted a loan of PLN 10,000 thousand to the company Vattenfall Wolin-North, of maturity date falling on 30 June 2012, at interest rate based on WIBOR 3M plus fixed margin.

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

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

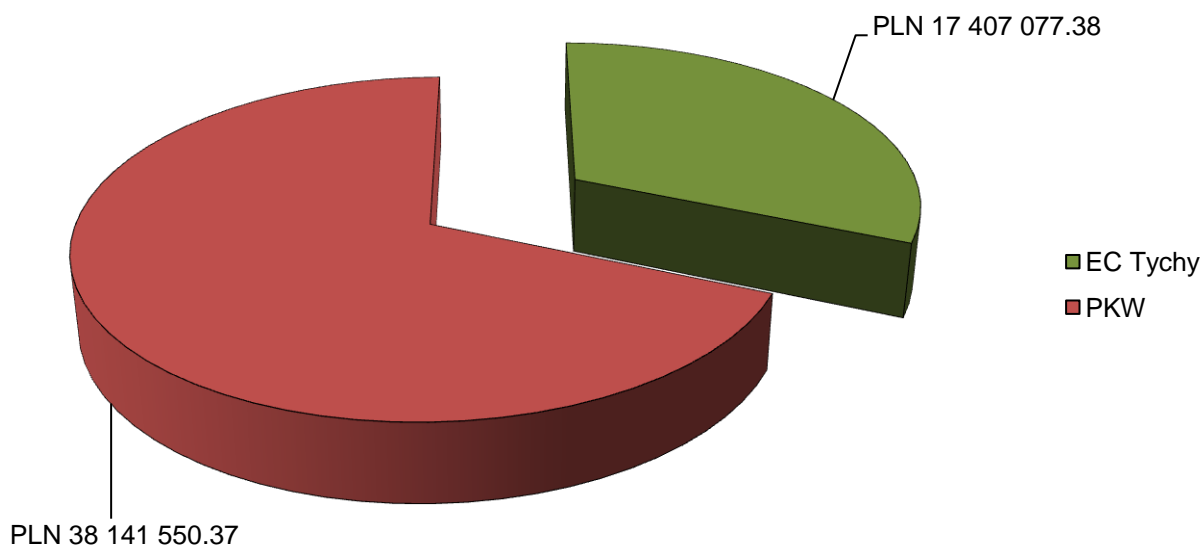
The total amounts of loans granted by the Company in 2011, within the cash pooling structure, i.e. the aggregate amount of all multiple loans granted during the year, subjected to multiple repayment - arising from the applied cash pooling model, in favour of individual companies of TAURON Capital Group,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

Figure No. 5 Total amounts of loans granted by the Company in 2011 within the cash pooling structure



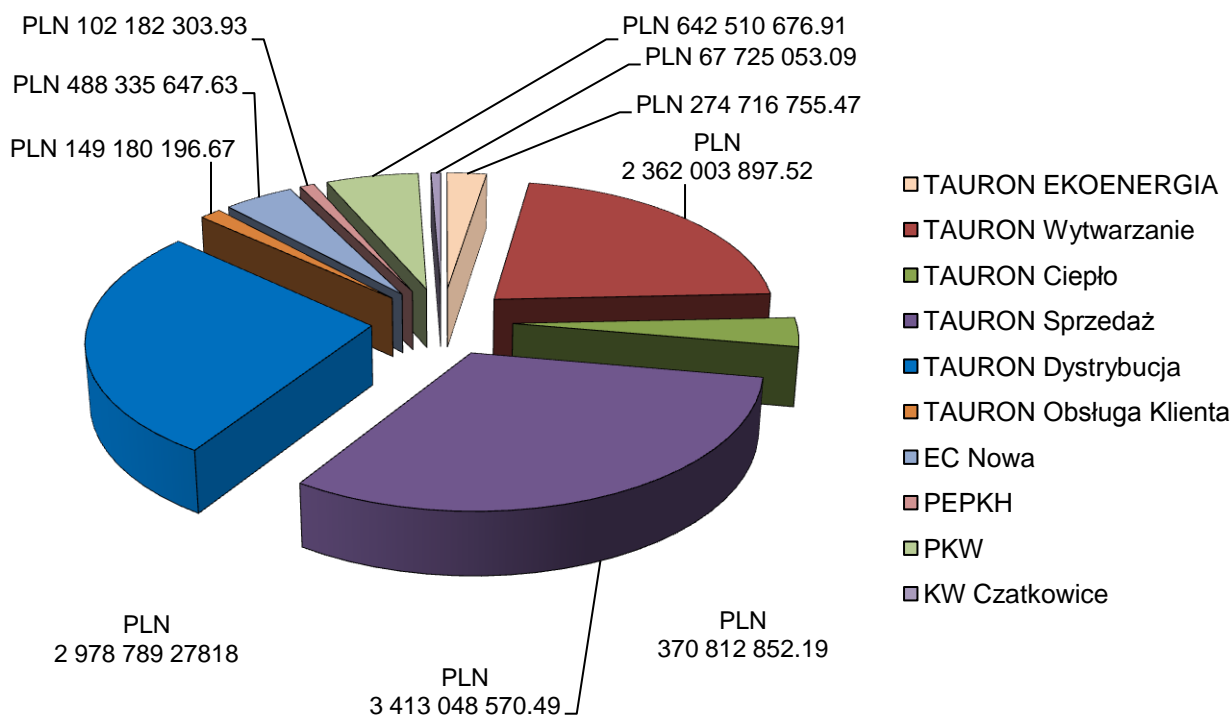
As of 31 December 2011, the balance of loans granted by the Company amounted to PLN 55,548.627.75 and it involved the companies presented in the figure below.

Figure No. 6 Balance of loans granted by the Company as of 31 December 2011



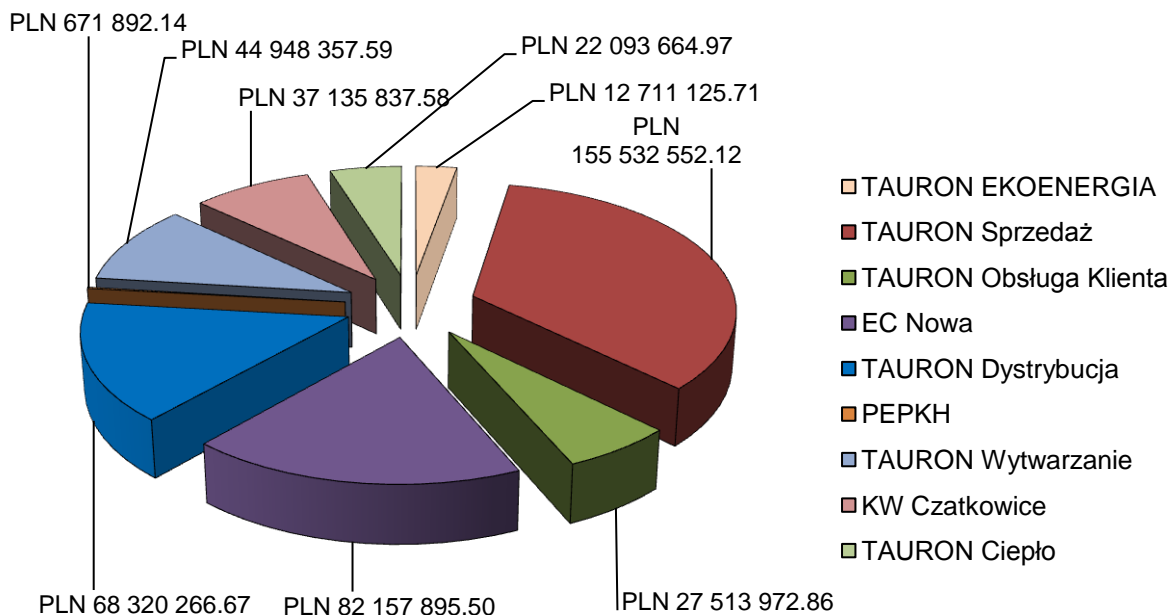
On the other hand, the total amount of loans granted to the Company by its subsidiaries, i.e. the aggregate amount of all multiple loans granted during the year, subjected to multiple repayment within the cash pooling, is presented in the figure below.

Figure No. 7 Total amounts of loans granted to the Company by the subsidiaries in 2011 within the cash pooling structure



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

Figure No. 8 Balance of loans granted to the Company by subsidiaries as of 31 December 2011



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

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

The guaranties, sureties and commitments granted in 2011 arise from the adopted financing model of TAURON Capital Group and they were provided on account of the conducted trading operations and as the collateral for repayment of loans granted, among others by WFOŚiGW.

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

Table No. 14 Specification of guaranties, sureties and commitments binding in 2011

No.	Beneficiary	Agreement	Party to the agreement	Amount in thousand PLN	Currency	Effective term
1	(PSE Operator)	Agreement on collateral	TAURON Wytwarzanie	4,000	PLN	Indefinite time
2	WFOŚiGW	Agreement on financing commitment	EC Tychy	87,040	PLN	24.02.2012
3	UniCredit Bank Czech Republic	Guarantee Agreement	TAURON Czech Energy	20,000	CZK	08.06.2012

No.	Beneficiary	Agreement	Party to the agreement	Amount in thousand PLN	Currency	Effective term
4	Ministry of Economy	Agreement on financing surety	TAURON Wytwarzanie	200,000	PLN	31.12.2012
5	WFOŚiGW	Aval agreement	EC Tychy	30,000	PLN	15.12.2022
6	CEZ a.s.	Guarantee Agreement (annex No. 3)*	TAURON Czech Energy	500	EUR	31.12.2012
7	Nordea Bank Polska	Collateral Agreement	Vattenfall Network Services Poland	672.1	PLN	31.03.2014
8	Nordea Bank Polska	Collateral Agreement	Vattenfall Sales Poland	4,000	PLN	31.12.2011

*Guarantee issued on 14.12.2011 effective from 01.01.2012

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

Table No. 15 List of guarantees raised under the limit

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

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

Table No. 16 List of guarantees raised under the limit

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

*Guarantee issued on 28.11.2011 effective from 01.01.2012

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

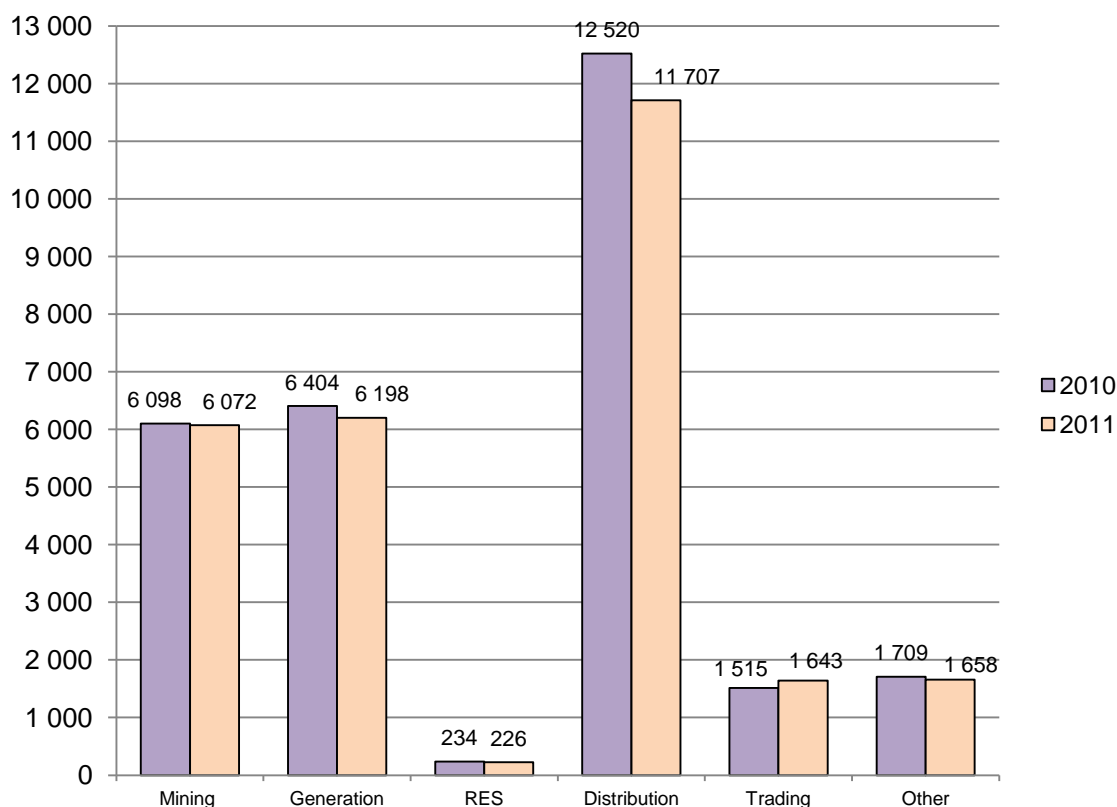
Moreover, in connection with the tenders executed and contracts concluded, in 2011 the companies of TAURON Capital Group received bank guarantees and insurance avals as well as due performance guarantees, or defects remediation guarantees.

2.8. Information concerning employment

The average employment in TAURON Capital Group in FTEs (rounded to the full FTE), divided into Segments of operations, is presented in the figure below.

It should be mentioned that within the individual business areas, the average employment in GZE subsidiaries should be considered since the moment they were acquired, i.e. since 13 December 2011.

Figure No. 9 Average employment in FTEs in TAURON Capital Group in 2011 and 2010



Changes in employment in individual Business Areas in 2011 result, among others from the implemented Programmes of Voluntary Resignations in the Business Areas: Distribution, Generation and RES, as well as from mobility of employees between individual Business Areas of TAURON Capital Group. The aforementioned allocation of employees between the Business areas influenced, among others, increase in average employment in Trading Business Area in 2011, in relation to 2010.

The total average employment in TAURON Capital Group in 2011 reached 27,504 FTEs, as compared to 28,480 FTEs in 2010.

2.9. Development policy of TAURON Capital Group

2.9.1. Characteristics of the policy in the area of development directions

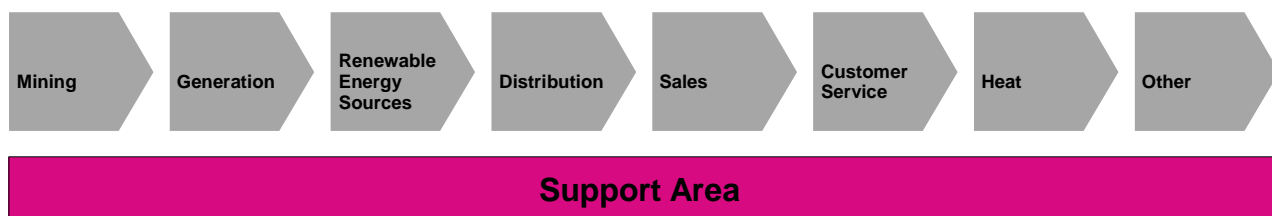
The analysis of the broadly understood external environment of TAURON Capital Group as well as standing and possibilities of TAURON Capital Group itself led to verification of strategic goals in 2011, as well as prompted the updating of their accomplishment. As a result, the Management Board adopted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

The overriding strategic goal of TAURON Capital Group is to provide for constant increase of value ensuring the secure return on the invested capital for shareholders. The implementation of the aforementioned goal will be measured on the basis of basic ratios of value development, i.e. EBITDA growth and ROIC level (Return On Invested Capital). Detailed information on the development directions resulting from the update of the Corporate Strategy is presented in item 2.9.3 of this report.

2.9.2. Planned Structure of TAURON Capital Group

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

Figure No. 10 Value chain in TAURON Capital Group



2.9.3. Implementation of Corporate Strategy

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

As a follow-up of implementation of the Corporate Strategy, in 2011 its implementation was based on adjustment of strategic priorities to the changing environment. The key direction of the Corporate Strategy is to focus on growth in the areas of operations where the highest potential for achieving

high rates of return on investments exists and diversification of the generation portfolio. In addition, the objective of further improvement of the efficiency and building of effective organization has been sustained.

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

I. Growth in the most attractive Areas of Business

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

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

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

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

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

III. Management of exposure to market and regulatory risks

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

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

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

IV. Building of effective organisation

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

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

2.9.4. Factors essential for development

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

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

2.10. Assessment of implementation opportunities of investment projects

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

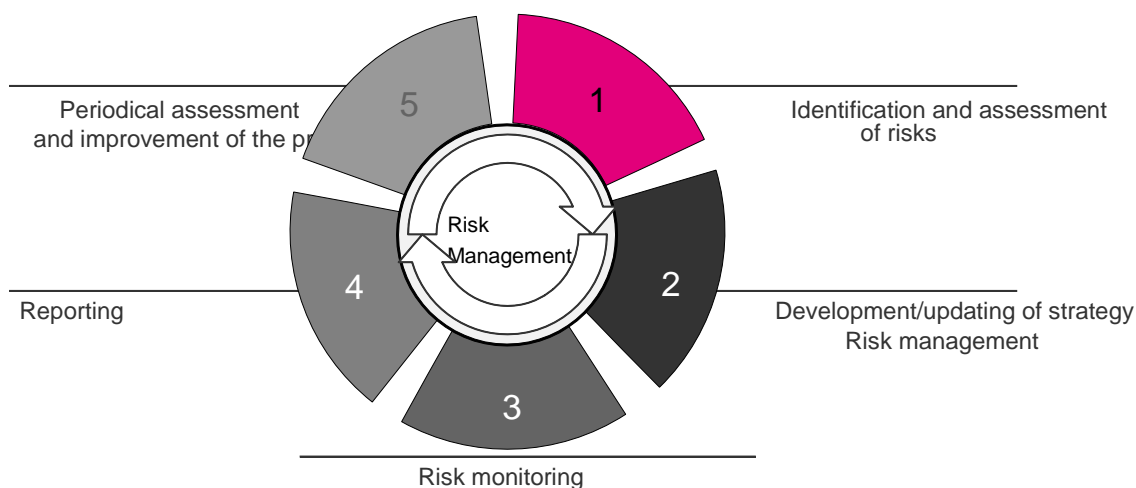
2.11. Risk and threat factors

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

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

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

Figure No. 11 Processes within corporate risk management in TAURON Capital Group.



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

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

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

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

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

Risk of non-compliance with the requirements of ERO/ UOKiK/ and the Instruction of transmission grid operation and maintenance (IRIESD) - a risk of recognising by ERO that the DSO is not independent or does not treat entities on the market equally, infringement of antimonopoly regulations or overusing the dominating position. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through imposing of financial penalties.

Risk of Capital Group organisation and corporate management – risk connected with ineffective cooperation between the Group companies, reporting process, management processes and information management. Risk factors may have adverse effect on TAURON Capital Group operations, its financial situation or results of its activities by incomplete transposition of the parent company strategic objectives to subsidiary companies, or prolonged period of decision execution.

Competition risk – connected with the progressing liberalization of the energy market, especially with the planned release of electric energy prices for G group consumers and releasing heat prices, as well as with changes on the retail market and the consumers' right to change a provider. Risk factors may have adverse effect on TAURON Capital Group operations, its financial situation or results of its activities by or losing its hitherto consumers.

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

Risk connected with the termination of LTC - a risk of questioning by the President of the ERO of the amounts due to cover stranded costs as well as of the obligation to return advance payments received. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through the possibility of the European Commission to qualify the rules of utilising the resources of the programme as public aid which is in non-compliance with the Common Market. Such a qualification may imply the necessity to return the received aid with interest.

Environmental risk, including the risk of atmospheric conditions - there is a possibility to incur losses resulting from non-compliance with legal regulations, the way of implementing the European legislation into Polish legislation and administrative decisions and including the possibility of occurrence of environmental damage and serious industrial failure. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through the necessity to pay indemnities, risk of implementation of production tasks as well as local/regional inhabitants' protests.

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

Risk of approval of tariffs by the President of ERO - the risk is connected with the process of approval of tariffs on electric energy, heat and distribution services by the President of URE. The main threat involves the risk of refusal to approve the tariff. Besides, the regulator may refuse to recognise investment expenditure in the development plan. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through higher cost of operations and loss of revenue.

Property failure risk - the risk of occurrence of significant and/or permanent failures and damages of equipment used by the TAURON Capital Group companies. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through the need to bear additional costs of grid and non-grid infrastructure overhaul, blackouts and disruptions in operations as well as with the need to offer discounts or pay fines.

Purchase of materials/fuels risk - the risk connected with significant and/or unexpected changes of the prices of coal and other fuels. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through the need to bear higher costs or imposing a fine in case of failure to fulfil these conditions.

Risk of the process of contract granting / procurement process of supplies / services – the risk is associated with a possibility of significant growth of prices of supplies/services provided by contractors, or their decreased availability. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through increased costs, extension of the process of preparation and conducting of the proceedings, granting of contract unfavourable for the Company or delay in implementation of investment.

Risk of unregulated legal status of the property utilised - the risk is connected with a possibility of occurrence of massive claims of land owners. The reason of this kind of risk may be the unregulated legal status of foundation of a building on the land without holding proprietary rights. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through increased costs or interruption of business continuity due to undermining of the legal status and claims of the third parties.

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

Information concerning financial risk, understood as currency risk and interest rate risk is presented in item 3.8.2. of this report.

3. ANALYSIS OF ASSETS AND FINANCIAL SITUATION OF THE CAPITAL GROUP

3.1. Principles of preparation of the annual consolidated financial statements

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

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

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

The accounting principles (policy) adopted for drawing up of the financial statements have been provided in note 11 of the Consolidated financial statement of TAURON Polska Energia S.A. Capital Group for the year ended on 31 December 2011.

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

Consolidated statement on financial situation

In the table below, the annual consolidated statement on financial situation is presented.

Table No. 17 Annual consolidated statement on financial situation (data in PLN thousand)

Statement on financial situation	Status as of 31 December 2011	Status as of 31 December 2010
ASSETS		
Fixed Assets	23,248,498	18,334,911
Tangible fixed assets	21,911,047	17,524,936
Intangible assets	988,950	346,340
Shares in affiliated companies and joint ventures recognised applying the equity method	22,717	764
Other long-term financial assets	197,470	177,452
Other long-term non-financial assets	96,349	123,613
Deferred Income tax assets	31,965	161,806
Current assets	5,156,082	5,090,976
Short-term intangible assets	870,954	624,190
Inventory	574,790	408,560
Receivables due to income tax	64,266	74,749
Trade receivables and other receivables	2,743,344	2,273,145
Other short-term financial assets	108,024	28,193
Other short-term non-financial assets	289,034	208,158
Cash and equivalents	505,670	1,473,981
Fixed assets classified for trade	8,951	4,397
TOTAL ASSETS	28,413,531	23,430,284
LIABILITIES		
Equity	16,139,068	15,212,071
Equity attributable to shareholders of the parent Company	15,677,721	14,704,825
Share capital	8,762,747	15,772,945
Supplementary capital	7,412,882	475,088
Hedging tools revaluation reserve	-	-
Foreign Exchange differences due to translation of foreign entities	87	(271)
Retained profits / Uncovered losses	(497,995)	(1,542,937)
Non-controlling shares	461,347	507,246
Long-term liabilities	7,431,923	4,070,063
Loans, credits and debt securities	4,251,944	1,076,178
Liabilities due to leasing and lease contracts with purchase option	56,232	67,810
Long-term provisions and employee benefits	1,202,840	1,059,028
Long-term prepayments and governmental subsidies	642,549	644,522
Trade liabilities and other financial long-term liabilities	7,968	6,910
Provision for deferred tax assets	1,270,390	1,215,615
Short-term liabilities	4,842,540	4,148,150

Statement on financial situation	Status as of 31 December 2011	Status as of 31 December 2010
Trade liabilities and other liabilities	2,349,201	1,629,723
Current portion of interest-bearing credits, loans and debt Securities	214,169	325,027
Current portion of liabilities due to leasing and lease contracts with purchase option	14,761	23,452
Other short-term liabilities	644,910	752,819
Accruals and governmental subsidies	279,058	189,712
Liabilities due to income tax	163,437	68,672
Short-term provisions and employee benefits	1,177,004	1,158,745
TOTAL LIABILITIES	28,413,531	23,430,284

As of 31 December 2011 the balance sheet total of TAURON Capital Group was higher by about 21.3% in relation to the status as of 31 December 2010.

At the end of 2011, fixed assets of TAURON Capital Group were higher by about 26.8%, which is the result of increased tangible fixed assets due to implementation of investment in generation and distribution assets, as well as takeover of GZE companies assets.

Current assets of TAURON Capital Group, according to the status as of 31 December 2011 reached the level of 101.3% of the status as of 31 December 2010, mainly due to decrease in cash and increase of the level of receivables.

As of 31 December 2011 and as of 31 December 2010, the total equity, as the dominating source of financing of TAURON Capital Group assets, reached PLN 16,139,068 thousand and PLN 15,212,071 thousand, respectively, which constitutes about 57% and 65% of total liabilities. The decrease in share capital results from the reduction of the Company shares par value, which is described in item 2.6 of this report. The resulting difference of PLN 7,010,198 thousand supplied the supplementary capital.

The change in status of long-term liabilities during the financial year ended on 31 December 2011 results mainly from the increased level of debt due to bank credits, loans and securities (issue of bonds). Short-term liabilities increased by PLN 694,390 thousand (16.7%) against the status as of 31 December 2010, mainly in connection with the increase trade liabilities and provisions, in total by PLN 737,737 thousand (among others, due to use of provisions related to the obligation to present certificates for redemption by companies of the Trading Segment). The balance of short-term bank credits, loans and debt securities as of 31 December 2011 amounted to PLN 214,169 thousand, which means the decrease by PLN 110,858 thousand (34.1%) in relation to the status as of 31 December 2010.

Consolidated statement on comprehensive income

The table below presents annual consolidated statement of comprehensive income.

Table No. 18 Annual consolidated statement on comprehensive income

Consolidated statement on comprehensive income	Year 2011		Year 2010		Dynamics (2011/2010)
	in thousand PLN	% of total revenue on sales	in thousand PLN	% of total revenue on sales	
Continuing operations					
Sales of goods for resale, finished goods and materials without elimination of excise	16,282,481	78%	11,108,492	72%	146.6%
Excise tax	(393,757)	2%	(418,178)	3%	94.2%
Revenue on sales of goods, products and materials	15,888,724	77%	10,690,314	69%	148.6%

Consolidated statement on comprehensive income	Year 2011		Year 2010		Dynamics (2011/2010)
	in thousand PLN	% of total revenue on sales	in thousand PLN	% of total revenue on sales	
Revenue on sales of services	4,825,806	23%	4,698,111	30%	102.7%
Other revenue	40,692	0.2%	40,454	0.3%	100.6%
Revenue on sales	20,755,222	100%	15,428,879	100%	134.5%
Own cost of sales	(18,184,818)	88%	(13,089,128)	85%	138.9%
Gross profit (loss) on sales	2,570,404	12%	2,339,751	15%	109.9%
Other operating revenue	106,162	1%	105,186	1%	100.9%
Costs of sales	(283,684)	1%	(231,252)	1%	122.7%
Overheads	(664,350)	3%	(670,308)	4%	99.1%
Other Operating Expenses	(117,043)	1%	(144,118)	1%	81.2%
Operating profit (loss)	1,611,489	8%	1,399,259	9%	115.2%
<i>Operating profit margin (%)</i>	<i>7.8%</i>		<i>9.1%</i>		
Financial revenue	115,767	1%	92,284	1%	125.4%
Financial expenses	(160,274)	1%	(233,993)	2%	68.5%
Share in the profit (loss) of an affiliated entity and joint venture recognised by equity method	(1,046)	-	(236)	-	-
Gross profit (loss)	1,565,936	8%	1,257,314	8%	124.5%
<i>Gross profit margin (%)</i>	<i>7.5%</i>		<i>8.1%</i>		
Income Tax	(326,576)	2%	(265,931)	2%	122.8%
Net profit (loss) on continuing operations	1,239,360	6%	991,383	6%	125.0%
<i>Net profit margin (%)</i>	<i>6.0%</i>		<i>6.4%</i>		
Net profit (loss) on discontinued operations	0	-	0	-	-
Net profit (loss) for the financial year	1,239,360	6%	991,383	6%	125.0%
Other comprehensive income for the financial year including deduction of tax	358		630		56.8%
Total income for financial year	1,239,718	6%	992,013	6%	125.0%
Profit attributable to:					
Shareholders of the parent company	1,220,011		858,656		
Non-controlling interests	19,349		132,727		
Total income attributable to:					
Shareholders of the parent company	1,220,369		859,151		
Non-controlling interests	19,349		132,862		
EBIT and EBITDA					
EBIT	1,611,489		1,399,259		115.2%
EBITDA	3,023,036		2,758,486		109.6%

In 2011 the TAURON Capital Group recognised the total sales revenue at a level of PLN 20,755,222 thousand, which represents an increase of about 34.5%. Such a high growth in sales reached by TAURON Group in 2011, as compared to 2010, is associated with the obligation of conduct sales of the electric energy by the generators through power exchange - sales value makes about 21%. Taking this fact into account and bringing the data to comparability (in 2010 the sales of electric energy from Generation Segment was subject to exclusion within consolidation of revenues of the TAURON Capital Group - almost the whole volume of the produced energy was sold in TAURON Capital Group), the growth of revenue would reach 6.3%.

As compared to 2010, TAURON Capital Group reached higher revenue on sales in all operating segments, excluding the Segment: Other (change by about 0.6%). The highest dynamics of growth was recorded in the Trading Segment, mainly due to the increase in the volume of electric energy sales, as well as increase in sales price.

Increase in costs of operating activities is connected with the higher volume of sales, mainly of electric energy. In TAURON Capital Group companies, activities in the area of optimisation of fixed costs are on-going.

The lower dynamics of cost growth was reflected in improvement of EBIT and EBITDA ratios as well as net profit. The net profit margin in 2011 under the comparable conditions reached the level of 7.6%, which means the level higher as compared to 2010 (6.4%).

Statement of Cash Flow

The table below presents the cash flow statement

Table No. 19 Statement of Cash Flow (data in PLN thousand)

Statement of Cash Flow	Year ended 31 December 2011	Year ended 31 December 2010
Cash flows from operating activities		
Gross profit (loss)	1,565,936	1,257,314
Adjustments	647,715	1,263,031
Net cash from operating activities	2,213,651	2,520,345
Cash flows from investment activities		
Sales of tangible fixed assets and intangible assets	39,957	11,731
Purchase of tangible fixed assets and intangible assets	(2,302,270)	(1,518,088)
Sales of other financial assets	114,304	56,189
Purchase of other financial assets	(147,989)	(69,570)
Acquisition of shares in affiliated companies and joint ventures recognised applying the equity method	(23,000)	(1,000)
Acquisition of subsidiary following deduction of cash taken over	(3,379,615)	23
Dividend received	8,173	4,349
Interest received	666	1,377
Repayment of loans granted	240	1,475
Granting of loans	-	(1,400)
Other	-	6,438
Cash flows from investment activities	(5,689,534)	(1,508,476)
Cash flows from financial activities		
Repayment of liabilities due to financial leasing	(25,603)	(35,842)
Cash inflows due to loans/credits	87,254	167,115
Repayment of loans/credits	(467,183)	(744,020)
Issue of debt securities	3,300,000	848,200
Redemption of debt securities	-	(608,692)
Dividends paid to shareholders of the parent company	(262,882)	-
Dividends paid to minority shareholders	(13,676)	(5,573)
Interest paid	(52,292)	(115,820)
Purchase of non-controlling interest	(37,800)	(9,863)
Other	(17,779)	(8,369)
Net cash from financial activities	2,510,039	(512,864)
Increase/(decrease) in net cash and cash equivalents	(965,844)	499,005
Net exchange differences	(3)	(134)
Cash opening balance	1,471,660	972,655
Cash closing balance	505,816	1,471,660

Total cash flows from operating, investment and financial activity of TAURON Group for financial year ended on 31 December 2011 reached PLN (965,844) thousand, as compared to PLN 499,005 thousand for the year ended on 31 December 2010. The main factor influencing the change in value as compared to 2010 was the acquisition of GZE companies, which is recognised in investment activity and financial activity (issue of bonds, among others to finance the transaction).

Decrease of cash flows on operating activity in 2011 as compared to 2010, by about PLN 306,694 thousand is mainly the result of: higher gross profit (increase by about PLN 308,622 thousand), higher depreciation, change in the status of inventory and decrease in the status of liabilities, excluding loans and credits.

Negative net cash flows on investment activity for the financial year ended on 31 December 2011 reached PLN 5,689,534 thousand. The above situation results from increased investment expenses, including purchase of GZE shares.

Positive net cash flows on financial activity for the financial year ended on 31 December 2011 reached PLN 2,510,039 thousand, as compared to PLN -512,864 thousand for the financial year ended on 31 December 2010. It results mainly from issue of bonds in 2011 at the value of 3,300,000 thousand, which were used to finance transaction of purchase of GZE shares.

Cash flows reached by TAURON Capital Group correspond to the relevant picture of the developing enterprise: operating cash stream is positive, investment stream is negative and financial cash stream is positive. It means that investment expenses exceed operating inflows, therefore, acquisition of external financing sources is necessary for further development of TAURON Capital Group and for implementation of its investment plans.

3.3. Characteristics of assets and liabilities of the consolidated balance sheet

Structure of the consolidated statement on financial standing

In the table below, the structure of the annual consolidated statement on financial standing is presented.

Table No. 20 Structure of the annual consolidated statement on financial standing

Consolidated statement on financial standing	status as of 31/12/2011	status as of 31/12/2010
ASSETS		
Fixed Assets	82%	78%
Current assets	18%	22%
Fixed assets permanently classified for trade	0.03%	0.02%
TOTAL ASSETS	100%	100%
LIABILITIES		
Equity attributable to shareholders of the parent company	55%	63%
Non-controlling shares	2%	2%
Total equity	57%	65%
Long-term liabilities	26%	17%
Short-term liabilities	17%	18%
Total liabilities	43%	35%
TOTAL LIABILITIES	100%	100%
Financial liabilities	4,537,106	1,492,467
Net financial liabilities	4,031,436	18,486
Ratio net debt/EBITDA	1.33	0.01
Current liquidity ratio	1.06	1.23

In the structure of assets as of 31 December 2011 the fixed assets constitute about 82% of total assets in relation to 78% as of 31 December 2010.

Current assets as of 31 December 2011 constitute 18% of total assets, which means the decrease in current assets share in the structure in relation to the level as of 31 December 2010 amounting to 22%.

In the structure of liabilities as of 31 December 2011 the liabilities make about 43% of total liabilities, as compared to the status at the end of 2010, making about 35%, among which in 2011, the long-term liabilities make 26%, short-term liabilities make 17%, while in 2010 the share is comparable: 17% and 18%, respectively.

In relation to 2010, in 2011 the increase in net financial liabilities was noted, which resulted in the growth of net debt ratio to EBITDA - to the level of 1.33. The ratio of current liquidity decreased to the level of 1.06. Irrespective of the above figures, the liquidity of the Company is not at risk - the indicators are maintained at the safe level.

3.4. Significant off-balance sheet items

The significant conditional liabilities of TAURON Capital Group are related to the following issues:

- the use of the real estate without a contract,
- compensation due to stranded costs,
- claims of Huta Łaziska
- excise tax and real estate tax.

Use of real estate without a contract

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

Compensation for stranded costs

In accordance with enforcement of the Act of 29 June 2007 on *Principles for Covering Costs Incurred by Electricity Generators due to Early Termination of Long-term Electricity and System Services Agreements*, TAURON Wytwarzanie voluntarily joined the programme of early termination of LTC by signing an agreement to terminate such contracts. Concluding of such an agreement provides a basis for electricity generators to receive funds to cover their expenses which are not covered by the income derived from the sales of generated electricity, reserve capacity and system-related services on a competitive market after early termination of the LTC, resulting from the expenditures incurred by such companies for assets related to electricity generation up to 1 May 2004. In accordance with the aforementioned Act, the maximum amount of stranded costs and the values adopted in calculation of annual adjustments to the stranded costs were established for each electricity generator. After termination of LTC, starting from 2008, TAURON Wytwarzanie receives quarterly cash advances based on the submitted applications. Annual adjustments will be subsequently made to the stranded costs throughout the so-called adjustment period, lasting until the expiry of the longest long-term agreement held by the given company. The final adjustment to the stranded costs will be made in the year following the year in which the adjustment period of the given company ceases.

Pursuant to the decision of the President of ERO dated 31 July 2009, TAURON Wytwarzanie was required to return the amount of PLN 159,508 thousand to Zarządca Rozliczeń S.A. (Clearing Administrator) by 30 September 2009. The company appealed against the above decision to the District Court in Warsaw – the Court for Competition and Consumers Protection through the President of ERO and submitted a motion to suspend its execution. On 24 September 2009, the Court issued the verdicts to suspend the execution of the decision with regard to amounts exceeding the amount of PLN 79,754 thousand. In fulfilment of the verdict of the Court, the company paid the amount referred to above. According to the judgement of the District Court in Warsaw – the Court for Competition and Consumers Protection, dated 26 May 2010, the Court modified the challenged decision and acknowledged the company's right to make a positive adjustment to stranded costs of PLN 79,088 thousand. On 8 July 2010, the President of ERO lodged an appeal against the judgement of the Regional Court in Warsaw – the Court for Competition and Consumers Protection with the Court of Appeal in Warsaw (the 6th Civil Division). At the date of this report financial statements, the aforementioned court proceedings have not been resolved.

Claims of Huta Łaziska S.A.

During the recent years, the GZE subsidiary participated in the court claims with Huta Łaziska S.A. (Huta - Steelworks). The main reason for such situation was the suspension of electric energy supplies by GZE to the Steelworks in 2001 due to default in payment. According to the decision of 12 October 2001, the President of ERO ordered GZE to resume the electric energy supplies to the Steelworks under the conditions of the contract of 30 July 2001 at the price of 67 PLN/MWh until the final resolution of the dispute, and on 14 November 2001, he finally adjudicated the dispute, by issuing the decision stating that suspension of electric energy supplies was not justified. The Steelworks lodged an appeal against this decision. On 25 July 2006 the Court of Appeal in Warsaw issued the legally binding verdict concluding the dispute on legitimacy of the decision of the President of ERO of 14 November 2001. The Steelworks filed the cassation appeal against the aforementioned verdict of the Court of Appeal, which was dismissed with the verdict of the Supreme Court of 10 May 2007.

Due to suspension of energy supplies, the Steelworks submits numerous claims against GZE, none of which was acknowledged as legitimate by the Courts. Currently the case filed by the Steelworks on 13 March 2007 is pending, against GZE and the State Treasury, concerning payment of PLN 182,060 thousand with interest accrued since the day of filing of the application until the day of payment, due to compensation for the alleged losses arising from GZE failure to implement the provisions of the decision issued by President of ERO of 12 October 2001. In this case, on 26 October 2009 the District Court in Warsaw issued the verdict in which the application of the claimant was dismissed, and the Court of Appeal dismissed the appeal of the Steelworks, however, the Supreme Court waived the decisions of the Court of Appeal with its verdict of 29 December 2011 and submitted the case for judicial review.

Based on the legal analysis of the claims submitted by Steelwork's and its main shareholder - GEMI Sp. z o.o., - the Company states that the claims are not legitimate and the risk of necessity of their satisfying is remote. Consequently, there is no need to establish the provision for the related costs.

Excise tax and real estate tax

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

On 12 February 2009, the European Court of Justice issued the judgement confirming that Poland had breached the EU law by failing to adjust, until 1 January 2006, its electricity taxation system to the requirements of Article 21 paragraph 5 of the Council Directive 2003/96/EC of 27 October 2003

on *Restructuring the Community Framework for the Taxation of Energy Products and Electricity* (amended by the Council Directive 2004/74/EC dated 29 April 2004), as, in the period until 28 February 2009, the tax obligation in respect of excise on electricity in Poland occurred at the moment the electricity was released by the generator instead of at the moment of its supply by the distributor or re distributor. In the light of the above, basis exist for obtaining the refund of the excise paid in breach of the EU law. The Ministry of Finance, however, presents the opinion that such a refund would result in unjustified enrichment of electricity-generators and therefore it is groundless. For this reason, the process of excise recovery may extend until final court decisions are issued.

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

The other off-balance items are included in notes 35 and 35 of the Consolidated financial statement of TAURON Polska Energia S.A. Capital Group for the year ended on 31 December 2011.

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

The Management Board did not publish any forecasts of financial results of Share price / Book value per 1 share.

3.6. Financial and non-financial ratios

The table below presents the basic financial ratios of TAURON Capital Group.

Table No. 21 The table below presents the basic financial ratios of TAURON Capital Group.

Ratio	Definition	Year 2011	Year 2010
PROFITABILITY			
EBIT Margin	Operating result / Revenue on sales	7.8%	9.1%
EBITDA Margin	EBITDA/ Revenue on sales	14.6%	17.9%
Net Profitability	Net result/ Revenue on sales	6.0%	6.4%
Return on Equity (ROE)	Net profit/ equity	7.7%	6.5%
LIQUIDITY			
Current liquidity ratio	Current assets/ Short-term liabilities	1.06	1.23
DEBT			
General debt ratio	Total obligations/ total liabilities	0.43	0.35
Net debt/ EBITDA	(Financial liabilities - Cash)/ EBITDA	1.33	0.01
OTHER RATIOS			
Earnings per share (EPS)	Net result/ Number of ordinary shares	0.70	0.54
Price-earnings ratio (PE)	Share price / Earnings per share	7.69	10.61
Price book value ratio (PBV)	Share price / Book value per 1 share	1.07	0.67

During the first three quarters of 2010, the electric energy produced in Generation Segment was sold within TAURON Capital Group and was subject to consolidation exclusion. Starting from the 4th quarter of 2010 and during the whole 2011, the energy was sold through the so-called public trade and it was not subject to exclusion. It means that in case the profitability ratios recognised as revenue were brought to managerial comparability, their value would be higher. Accordingly:

- the operational profitability ratio (EBIT) would reach 9.8%. The indicator, calculated based on data from the financial statement, reached the level of 7.8%, which means that for each 1 million of revenue on sales, it provided operating profit of about PLN 78 thousand;
- the profitability ratio based on EBITDA would reach 18.4%. The indicator, calculated based on data from the financial statement, reached the level of 14.6%, which means that for each 1 million of revenue on sales, it provided operating profit of about PLN 146 thousand, adjusted by the costs which do not generate negative cash flows;
- the net profitability ratio would reach 7.6%. The indicator, calculated based on data from the financial statement, reached the level of 6.0%, which means that for each 1 million of revenue on sales, it provided net profit of about PLN 60 thousand.

The return on equity (ROA) increased to the level of 7.7% in 2011, which means that TAURON Capital Group generated for its owners the return of PLN 77 thousand on each invested 1 million PLN.

Current liquidity ratio reached the value of 1.06 in comparison with the value of 1.23 from the previous year which results from increased share of liabilities with short maturity period (up to one year in financing the current assets). Irrespective of decrease of this ration, in 2011 TAURON Group maintained its full capacity to cover short-term liabilities with cash held, and short-term current assets possible to liquidate in short time.

The total debt ratio as well as Net debt/EBITDA ratio reflect the increasing share of liabilities in TAURON Group financing. The reason of growth in this ratio is the issue of bonds to purchase GZE shares in December 2011. The current level of this ratio enables TAURON Capital Group to acquire external financing required to implement the investments planned by TAURON Capital Group.

The EPS ratio reached for 2011 at the level of 0.70 increased by about 29.8% in relation to 2010 when it amounted to 0.54. The level of this indicator is significantly influenced by the level of net profit attributable to shareholders of the parent company, which increased from PLN 858,656 thousand in 2010 to PLN 1,220,011 thousand in 2011.

3.7. Income from the bonds issue programme

In accordance with the information contained in item 2.7.1 of this report, on 28 October 2011, the contract was concluded between the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Nordea Bank Polska S.A., Nordea Bank AB, on the basis of which the value of bond programme of TAURON Polska Energia S.A. was increased by tranche C at the value of PLN 3 billion, i.e. to the total amount of PLN 4.3 billion. The primary agreement on the bond issue programme was signed on 16 December 2010 at the amount of PLN 1,300,000 thousand, consisting of two tranches: Tranche A of the value up to the value of PLN 850,000 thousand and Tranche B of the value up to PLN 450,000 thousand. In 2010 Tranche A was used for refinancing of partial debt of TAURON Group companies.

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

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

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

3.8. Financial instruments

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

TAURON Capital Group carries out on-going monitoring of credit risk generated within the conducted operations.

In 2011 the companies of TAURON Capital Group were exposed to credit risk of customers, resulting from the concluded contracts. In order to reduce it, based on regularly performed analyses of creditworthiness and financial standing of the contracting parties, in justified cases, appropriate collaterals are required from the customer, for example in the form of bank, insurance or corporate guarantees, avals, material collateral as well as regulations enabling to withhold deliveries of goods, products or rendering services in case of default in settling the accounts.

In 2011, in order to minimize the possibility of the occurrence of cash flows disruptions as well as the risk of losing liquidity, TAURON Capital Group implemented cash pooling mechanism, which irrespective of means contributed by particular members, has a flexible credit line in the form of overdraft, the amount of which was increased from PLN 100,000 in 2011 to PLN 300,000 thousand for the years 2012-2014.

Moreover, at the end of 2011, the instrument providing for liquidity safety for companies of TAURON Capital Group (simultaneously reducing the risk of loss of financial liquidity) was the available part of Tranche B of the 5-years programme of Company bonds issue, at the level of PLN 150,000, with a possibility to be launched at any moment, and covered by the bank guarantee. Irrespectively, the Company also held two contracts signed with the European Investment Bank (referred to in item 2.7.3) on the available financing at the level of PLN 510,000 thousand.

In 2011, TAURON Group concluded forward futures contracts, as a part of financial risk management to hedge the currency risk exposure arising during the trading operations of the companies. The aim of these transactions was securing of particular companies against the risk of exchange rate and interest rate changes resulting from currency rates volatility.

As of 31 December 2011, Companies of TAURON Capital Group had one active future derivative transaction specified in the table below.

Table No. 22 Information on forward transactions and derivatives as of 30 December 2011

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

3.8.2. Goals and methods of financial risk management

TAURON Capital Group manages financial risk, understood as currency risk and interest rate risk in accordance with the developed and adopted regulations *Policy of risk management specific for the financial area in TAURON Capital Group*, which is the collection of principles and standards compliant with the best practices in this area.

Due to correlation between the risk borne and the level of achievable income, these regulations are used to maintain the risks at the previously established, acceptable level. The main goal of financial risk management is to minimise TAURON Capital Group cash flows sensitivity to financial risk factors as well as to reduce financial costs and collateral costs as a part of transactions with the use of derivative instruments.

Simultaneously, the policy implements hedge accounting principles which determine the rules and types of hedge accounting policy as well as the booking approach to recognising of hedging instruments and items hedged under the hedge accounting, in compliance with IFRS. In accordance with the said policy, the Company (which is the only entity to conclude transactions with external entities, i.e. financial institutions) intends to use the derivatives the characteristics of which will allow for application of hedge accounting in the future.

Moreover, in the second half of 2011, the companies of TAURON Capital Group implemented *the Policy of Financial Liquidity Management in TAURON Group*. Due to the Policy implemented, based, among others on precise, weekly update of the financial plans, analysis of scenarios and comparative analyses, the Company optimises the management of the liquidity position of TAURON Capital Group, accordingly decreasing the risk of losing of the liquidity. Based on the policy adopted, the Company determines the optimum size and structure of liquidity provision of TAURON Capital Group as well as performs the measurements and assessment of liquidity at the level of TAURON Capital Group.

3.9. Present and forecast financial situation

Financial situation of TAURON Group is favourable. No events negatively influencing further operations of TAURON Group have been recorded.

The Company Management Board expects that TAURON Capital Group financial standing should not deteriorate.

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

3.10.1. Internal factors and their assessment

The results of TAURON Capital Group in 2011 were influenced by the following internal factors:

- restructuring processes of companies of TAURON Capital Group, including merger of generation, distribution and heat assets as well as change of the core activities in TAURON Sprzedaż and TAURON Obsługa Klienta;
- programmes of voluntary resignation of employees introduced in companies of TAURON Capital Group (TAURON Wytwarzanie, TAURON Dystrybucja, TAURON Ciepło, TAURON EKOENERGIA);
- changes in organisational and proprietary structure of companies of TAURON Capital Group;
- purchase of shares of GZE company and its subsidiaries;
- unfavourable geological and mining conditions as well as natural hazards occurring in deposits of mining plants which influenced the financial result of the companies of Mining Segment.

The aforementioned factors influenced the development of results of TAURON Capital Group companies

indirectly, creating mainly changes on the part of costs, the effect of which will be visible both in short-term and in long-term perspective.

3.10.2. External factors and their assessment

The results of TAURON Capital Group in 2011 were influenced by the following external factors:

Macroeconomic situation

TAURON Capital Group conducts its operations mainly on the Polish market, within which the Company takes advantage of positive market trends. Increased internal demand, mainly the positive correlation between the growing demand for electric energy and the economic growth, expressed by GDP, contributed to increased revenue of the Company.

According to the data of the Chief Statistical Office (GUS), the GDP of Poland went up by 4.3% in 2011, as compared to the corresponding period of previous year. In view of other EU Member States, the GDP growth achieved in Poland was significantly higher and its structure positively reflects the strength of the Polish economy, which is directly translated into growth of sales and revenues of the Company and TAURON Capital Group.

Year 2011 was the consecutive period in which the growing trend in demand for electric energy in KSE was observed. Consumption of electric energy in Poland, as compared to 2010 was higher by 1.9%.

Situation on the European energy market

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

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

Situation in electric energy sector

Year 2011 in Polish energy sector did not bring any significant changes, and the effects of activities undertaken in the previous years were continued. The stable situation in the sector providing hard

coal, the main fuel of conventional power industry, prevented dramatic changes of prices. Slight increase of raw material prices at the SPOT market had limited impact on energy generation costs.

During 2011 only one large unit of conventional energy generation was included in KSE. It was the 858 MW unit in Elektrownia Bełchatów, commissioned at the end of the third quarter of 2011. On the other hand, significant increase of the installed capacity was attributed to renewable energy whose volume exceeded 3 000 MW in total. The commissioned wind parks were dominating, which reached above 1 900 MW of the installed capacity until the end of 2011. Increased availability of power in KSE as well as the growing demand for energy were reflected by the growth of energy production which, according to the data provided by PSE Operator, increased by 4.36% in 2011, in relation to 2010. Analogically, the consumption of electric energy in 2011 increased by 1.9% year to year. The difference between the production growth and the domestic energy consumption was exported, which was supported by favourable price relations between the Polish market and the neighbouring Germany and Czech Republic. The total surplus of export over import of energy in the whole 2011 reached over 5 TWh and it was higher by over 3.5 TWh than in 2010.

The continued liberalisation of the energy market and campaigns promoting using TPA as a principle, accompanied by growing competition in order to acquire the retail client, resulted in significant number of energy consumers changing the supplier. According to the data of URE, until the end of 2011, this group reached almost 22 thousand business clients and over 14.3 thousand of households, which in case of G tariff means over ten-fold increase in relation to the end of 2010.

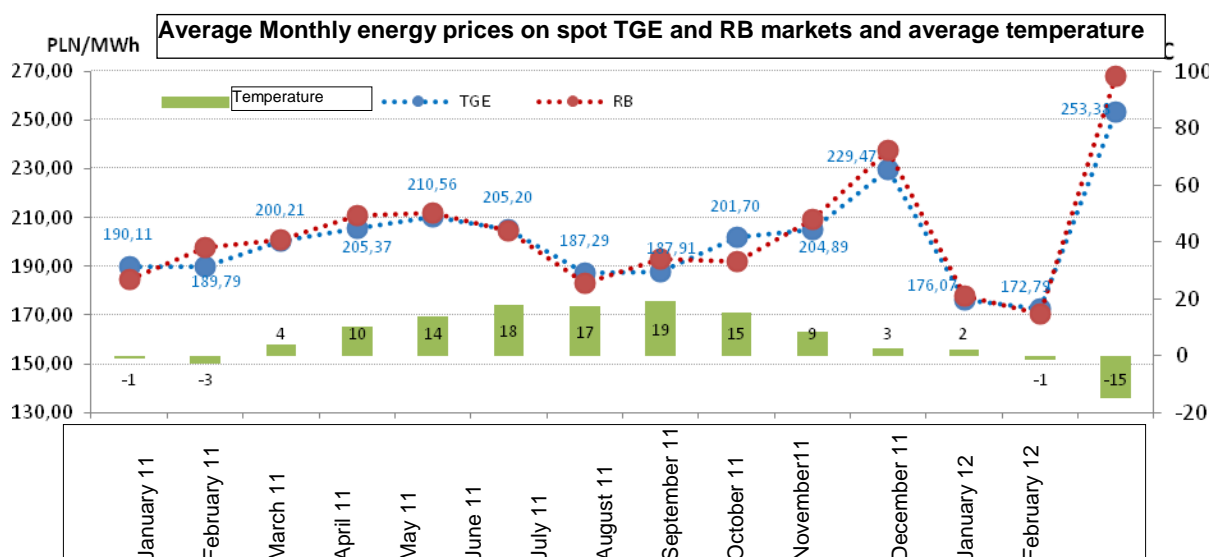
The year 2011 also brought the follow-up of legislative changes. The most important of them was the extension of possibilities of fulfilment of energy sales obligations by generators, introduced pursuant to the Act of 19 August 2011 on amendment of *the Act: Energy Law*. The amendment of the Energy Law has also introduced changes related to the definition of the end consumer, according to which the end consumer performs purchases of fuel or energy for own use, while electric energy purchased for the needs of its generation, transmission or distribution is not classified as energy for own use. The definition of market organised by entity providing regulated market on the territory of the Republic of Poland was also extended, by introducing the company carrying out the over-the-counter market.

Prices of electric energy and CO₂ emission allowances on the Polish, Czech and German market

In 2011 prices of energy on the Polish market did not follow the clear long-term trend. Low prices observed in the first quarter were changed as a result of the nuclear accident in Fukushima, which happened due to the earthquake in March 2011 as well as the decision of Germany on withdrawal from the nuclear energy. During the consecutive months it stimulated the growth of prices by over 10%. However, already in the summer season, due to low temperatures, the growths were strongly adjusted, which was additionally supported by the information on the downturn in the Eurozone. The slump in prices was also encouraged by large volumes of energy supplied to the balancing market by the newly commissioned power unit in Elektrownia Bełchatów. Starting from September 2011, the prices started to grow again in view of the threat of German deficits of energy in the 4th quarter, and consequently, higher probability of import of energy from Poland.

The highest growth in prices was observed in November 2011 when the availability of power in the National Power System (KSE) was low, due to numerous repairs of blocks of the Centrally Controlled Generating Units (JWCD). However, December 2011 turned out to be completely different than assumed and due to exceptionally high air temperatures for this season of the year, and the related decreased demand for electric energy, prices of electric energy dropped and reached the lowest level during the year. The average price of electric energy for the day-ahead market, executed one day before the physical delivery (SPOT market), was 199.04 PLN/MWh, i.e. less than 4% more than in 2010.

Figure No. 12 Average monthly energy prices on the SPOT, TGE and RB markets and the average temperature



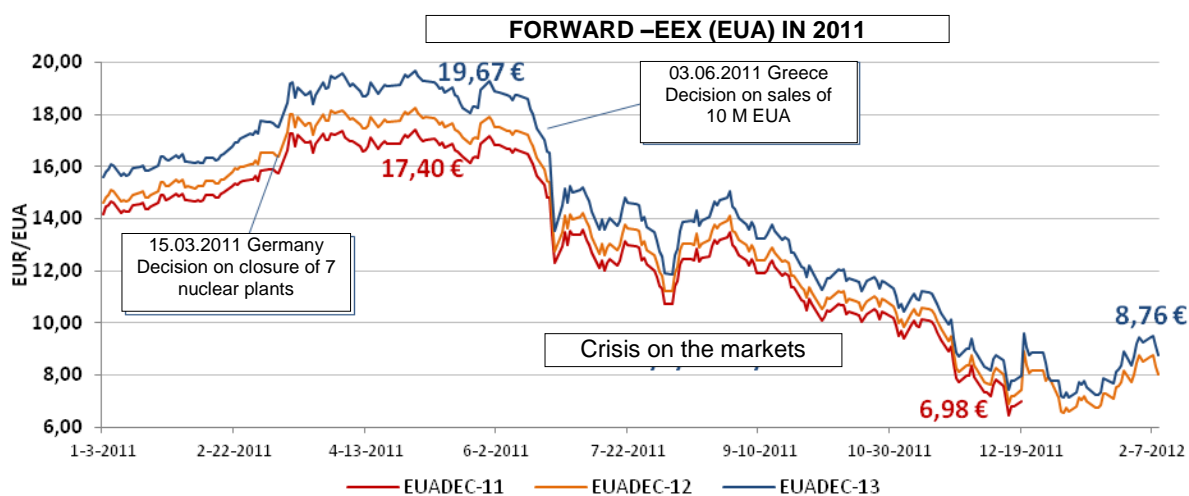
During 2010, at the forward market, the average annual price level for the band product of equal power on each hour of the year (BASE), with delivery in 2011 (BASE Y-11) reached about 193.40 PLN/MWh (based on the registered transactions on the exchange and on trading platforms publishing such data). The highest turnover of BASE Y-11 contract occurred in the period from September 2010. The majority of the turnover in public listing, i.e. about 90% of the contracting was performed at TGE at the average price of about 193.30 PLN/MWh and the volume of 53.6 TWh. Trade outside TGE (brokers' trading platforms: TFS (Traditional Financial Services), GFI (Global Financial Information Group), etc. reached 4.9 TWh at the average price at the level of about 194.00 PLN/MWh.

At the forward market, the most liquid contract was BASE Y-12. However, the volatility was not too high ranging from 200 PLN/MWh at the beginning of the year to 206 PLN/MWh recorded after the accident in the nuclear plant in Fukushima (Japan). In the second half of 2011, due to slumps in prices of CO₂ emission allowances and concern of serious slowdown in economy, the contract prices started to fall systematically, reaching the level of 201.50 PLN/MWh at the end of the year.

Energy prices on the neighbouring markets followed similar tendencies to those observed on the Polish market. In Germany and Czech Republic, strongly correlated in terms of prices, significant increase in prices was observed after the antinuclear decision of the German government. The situation stabilised in the middle of 2011 due to the crisis in Eurozone and cold summer. In the second half of 2011, like in Poland, November was the most expensive month while December was the cheapest. In addition, in December, the slump in prices was encouraged by very high generation of energy from wind and solar sources. In Germany, share of electric energy generated from renewable sources in the whole 2011 exceeded 20% of the total energy generated. The average SPOT price in Germany amounted to 51 EUR/MWh, while in Czech Republic it was lower by only 0.5 EUR.

Within the market of CO₂ emission allowances, at the beginning of 2011, reports of hackers' attacks on registers of Member States stimulated Poland to close its register of allowances for preventive reasons, and the European Commission decided to block the possibility to execute transfers in all community registers. This situation caused inertness of the market which happened at the beginning of February 2011. Then the accident in nuclear plant in Fukushima, leading to withdrawal from pro-nuclear energy policy, influenced the strengthening of prices which was additionally strengthened by incorporation of the aviation sector to the European Union CO₂ Emissions Trading System (EU ETS). In June, the alarming reports concerning the economic situation in Greece became the strong signal of economic decline, covering with its scope the growing number of countries and economic sectors, reflected in the systematic decrease of allowances prices. The average price of forward contracts with delivery in December 2011 (European Union Allowances December 2011 - EUADEC11) in the second half of 2011 decreased by 32% in relation to the average price of the first half of 2011, reaching the minimum at the level of 6.30 EUR/t EUA, and then oscillating above the value of 7 EUR/t EUA.

Figure No. 13 FORWARD – EEX (EUA) in 2011



Obligation of public sales of electric energy by generators

Year 2011 was the consecutive year of effectiveness of the so-called "exchange obligation", according to which the generating enterprises are obliged to sell the obligatory volume at TGE (for generators taking advantage of LTC compensations, it means 100% of the sold electric energy). The above-mentioned changes caused the enhancement of effectiveness of the Company-acting also in favour of companies of TAURON Capital Group - at TGE. Concluding of transactions at TGE is also associated with the necessity to maintain appropriate hedges and to maintain the deposit to be cleared during the execution of the forward transaction. Additional hedges influenced the growth of financial costs and operational costs connected with trading conducted by the Company. Simultaneously, such costs did not occur in companies of TAURON Capital Group.

Changes in regulations of the energy sector - decisions of the President of URE

In 2011 the President of ERO maintained the obligation to submit tariffs for households and, once again, resigned from liberalisation of this segment of electric energy consumers. Accordingly, the trading enterprises had limited influence on the margin generated in this sales segment (tariff G).

Prices of certificates of origin of energy from renewable and cogeneration sources

Quotes of prices of proprietary rights arising from certificates of origin of electric energy produced using the renewable energy sources, the so-called green certificates, and proprietary rights arising from certificates of origin of electric energy produced in high efficiency gas cogeneration, in the gas-fired unit or a unit of installed capacity below 1 MW, the so-called green certificates, were steadily growing during 2011. The prices were approaching the level determined by the substitution fees published by the President of URE, which in 2011, reached, respectively: 274.92 PLN/MWh and 127.15 PLN/MWh.

Figure No. 14 Indices of proprietary rights of the so-called green certificates - quotes in 2011

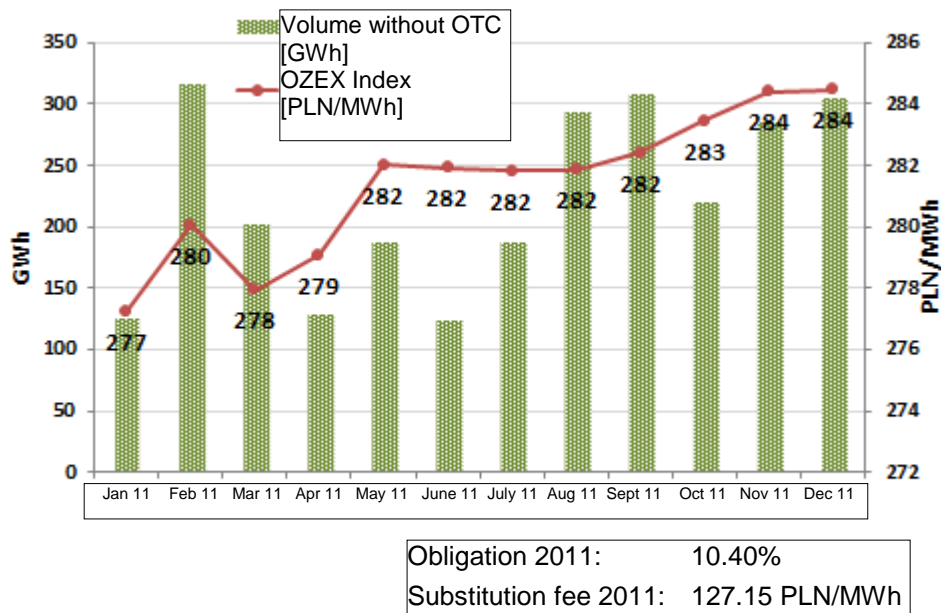
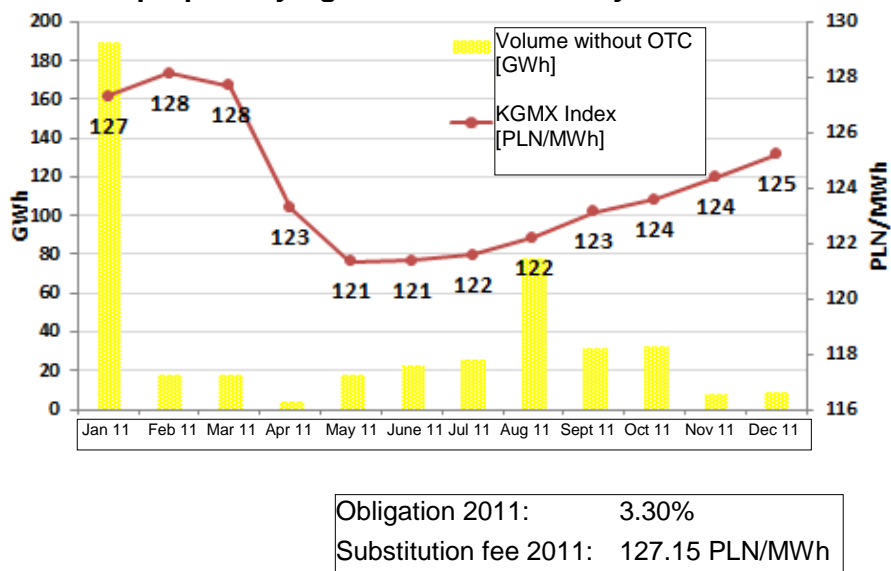
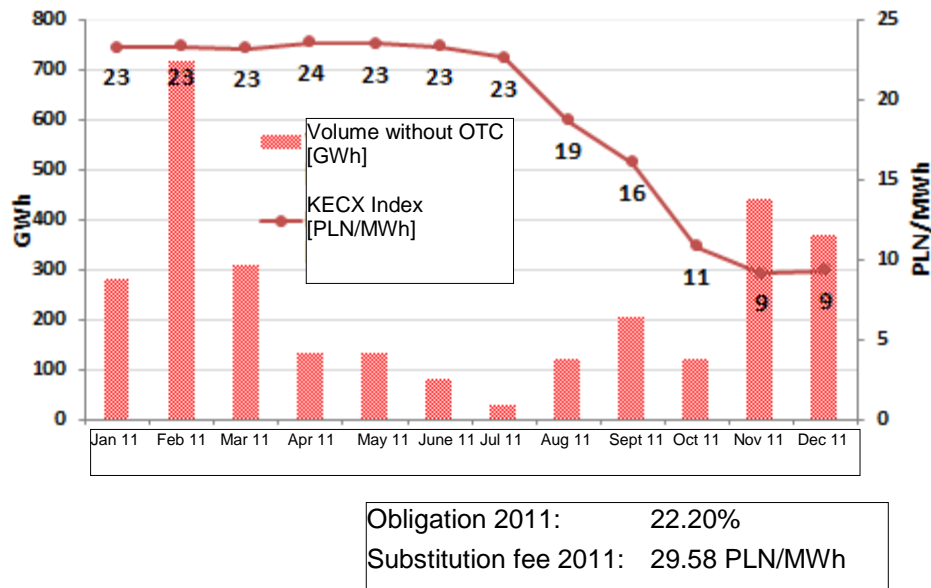


Figure No. 15 Indices of proprietary rights of the so-called yellow certificates - quotes in 2011



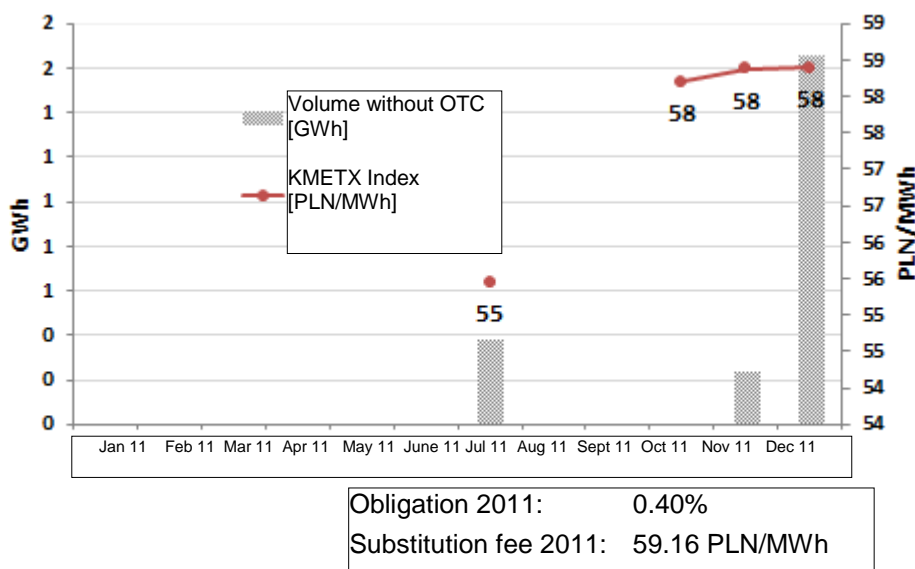
Different situation was observed at the market of proprietary rights resulting from certificates of origin of electric energy produced in high efficiency cogeneration, the so-called red certificates, where prices of certificates started to fall dramatically in the second half of the year. Finally, in November and December 2011 the prices stabilised at the level of 9 PLN/MWh. The reason for discounting of red proprietary certificates was the excessive supply resulting mainly from substantial number of rights of the previous years, collected by energy enterprises, in connection with lack of decision (legal acts) on continuation of the current support system for electric energy to be produced in cogeneration after 2012. The slump in prices of proprietary rights of the so-called red certificates caused significant decrease of the planned redemption costs, partly discounted in sales prices from end customers.

Figure No. 16 Indices of proprietary rights of the so-called red certificates - quotes in 2011



In addition, since 10 September 2011, electric energy sold by energy enterprises to end consumers, provides basis for calculation of the level of fulfilment of obligation of art. 9a item 8 of the Act of 10 April 1997 *Energy Law* within the scope of the so-called violet certificates (certificates of origin of electric energy produced in high efficiency gas cogeneration, in the methane- or biogas-fired unit) at the level of 0.4 % and the substitution fee of 59.16 PLN/MWh. Due to the low level of obligatory redemption of these rights, it had insignificant effect on floating costs of the trading enterprises.

Figure No. 17 Indices of proprietary rights of the so-called violet certificates - quotes in 2011



Competition on the energy market

Year 2011 has shown that the electric energy market is becoming more and more competitive which is influenced by, among others, growing activity of the suppliers and clients related to the possibility to select the supplier. It is particularly visible in case of large clients (connected mainly to high and medium voltage grids), where decrease in margin acquired from sales of energy is observed. Similar trend should be expected in other segments of clients.

Activities of competition determined the necessity of intensive actions to be taken by TAURON Capital Group companies in order to maintain the hitherto clients and acquire new ones. New product offers were launched for sales and loyalty programmes for clients were implemented by TAURON Capital Group companies. In 2011, widespread sales action was undertaken, related to acquisition of small and medium-sized enterprises (Tariff Groups C), purchasing energy from other suppliers, i.e. at the area of DSO, outside TAURON Capital Group. Moreover, in the business clients segment, intensive sales actions were conducted which were significantly reflected by the aforementioned growth of sales to TPA clients which are not connected to the distribution grid of TAURON Capital Group. Promotion actions were also conducted for current clients, consequently reducing the risk of loss of margin and sales volume.

Weather conditions

Weather conditions have the most significant impact on operations of the RES Segment as well as heat companies of the Segment: Other - due to dependence of the level of produced energy (from hydro plants) as well as heat generation on atmospheric conditions. Year 2011 differed significantly from the previous year in terms of temperatures and hydrological conditions and its was dominated by unusual distribution of temperatures and hydrological conditions in individual quarters of the year. This included, among others, positive ambient temperatures causing very fast snow melting and high level of water flows, as well as decreased demand for heat in the 1st quarter, long periods of drought in the 2nd and 3rd quarter as well as high temperatures and unfavourable hydrological conditions in the 4th quarter, much below the average of the previous years.

3.11. Assessment of financial resources management

In accordance with the adopted strategy, the Company centralised the area of financial management in TAURON Capital Group, at the same time maximising its capacity to fulfil the liabilities incurred. The main tools allowing for effective management of financial resources is the central financing model implemented in 2010 as well as the *Policy of Liquidity management in TAURON Group*, implemented in the second half of 2011, including the cash pooling operating in TAURON Capital Group. Moreover, the financial management system is supported by the central *Policy of managing risks specific in the financial area of TAURON Group* and the central *Insurance policy of TAURON Group*, in which the Company plays the role of manager and decision maker in the scope of directions of the actions undertaken, enabling to establish relevant limits of risk exposure.

In accordance with the adopted central model of financing, the Company is responsible for acquisition of financial resources for the companies of TAURON Capital Group. Resources acquired both internally (from companies of TAURON Capital Group generating financial surpluses), as well as externally (from the financial market) are subsequently transferred to companies of TAURON Capital Group, reporting the need for financing (for this purpose the programme of issue of intra group bonds was implemented in TAURON Capital Group).

Such model of acquisition of funding sources allows, among other things, for decreasing of the costs of capital, increasing of the possibility to obtain financing, it reduces the number and form of hedges established on assets of TAURON Capital Group (the Company acquired unsecured financing) and covenants required by financial institutions, as well as reduces administrative costs. The central model of financing also enables to acquire financial sources unavailable for individual companies, such as, for example, Euro bonds. Implementation of the central financing model effectively influenced the change of approach to investment funding in TAURON Capital Group. The financing is acquired based on consolidated balance sheet of the whole TAURON Capital Group, while the funding sources are not assigned to any specific investment projects, but they are incurred to cover the financial gap at the level of TAURON Capital Group. The structure of financing of investment projects in the specific period corresponds to the whole activity of TAURON Capital Group. The model adopted allows for implementation of investment plans in accordance with the approved Corporate Strategy.

The second essential element influencing the effectiveness of financial management is the policy of liquidity management. Through implementation of relevant forecasting standards it becomes possible to establish the precise liquidity position allowing for optimising of selection of the moment of fund raising as well as the maturity term and types of deposit instruments as well as the appropriate level of liquidity provision. The above factors influence both the cost reduction and safety enhancement. The current liquidity management is supported by the cash pooling mechanism implemented in 2010. Its overriding goal is to provide for current financial liquidity in TAURON Capital Group, with simultaneous limitation of costs of short-term external financing and maximising of financial revenue due to cash surpluses held. Owing to the cash pooling structure, the companies of TAURON Capital Group, facing short-term deficits of funds, may, at the first instance use the funds of companies recognising financial surpluses, without the need to acquire external financing.

Within the current financial activity, companies of TAURON Capital Group effectively managed the cycle of money flow through adjustment of payment terms of liabilities and receivables. Moreover, in 2011 the programme of bank guarantees was implemented which can be used by all companies of TAURON Capital Group,

In 2011, companies of TAURON Capital Group, among others due to the models and instruments of central financing, had full capacity to settle their liabilities according to their payment term.

3.12. Information concerning the entity authorised to examine financial statements

Information concerning the contract with entity authorised to examine financial statements was presented in note 41 of the Consolidated financial statement of TAURON Polska Energia S.A. Capital Group for the year ended on 31 December 2011.

4. SHARES AND SHAREHOLDERS

4.1. Structure of the share capital

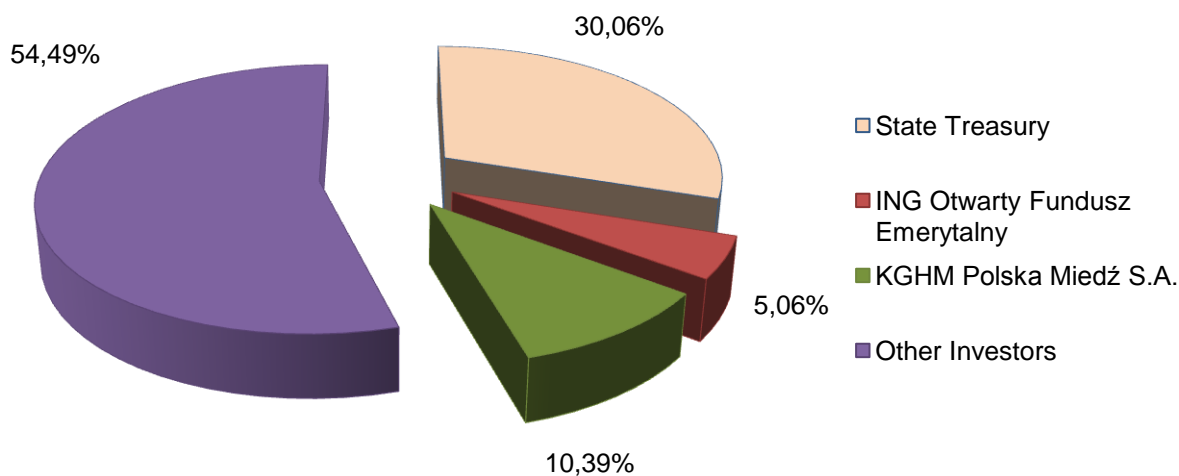
As of 31 December and on the day of this report:

- the share capital of the Company, in accordance with the entry to the National Court Register, amounted to PLN 8,762,746,970.00 and it was divided into 1,752,549,394.00 at par value of PLN 5 each, including 1,589,438,762 ordinary registered shares of AA series and 163,110.632 ordinary bearer shares of BB series.
- The structure of the share capital of the Company was as presented in the table below.

Table No. 23 Structure of the share capital of the Company as of 31 December and on the day of this report:

No.	Shareholder	Number of shares/ number of votes at GM	Share in share capital/ share in general number of votes
1.	State Treasury	526,883,897	30.06%
2.	KGHM Polska Miedź S.A.	182,110,566	10.39%
3.	ING Otwarty Fundusz Emerytalny (Open Pension Fund)	88,742,929	5.06%
4.	Other individual and corporate investors	954,812,002	54.49%

Figure No. 18 Structure of shareholding as of 31 December 2011 and as of the date of this report



4.2. Number and par value of the Company shares as well as shares and stocks in affiliated entities of the Company held by the members of the management and supervisory bodies

Proprietary status of the Company shares and share/stocks in entities affiliated with the Company, held by persons managing and supervising the Company, as of 31 December 2011 and as of the day of this report was as follows:

Table No. 24 Proprietary status of the Company shares and share/stocks in entities affiliated with the Company - managing persons

(name and surname, address)	TAURON shares		Share/stocks in entities affiliated with TAURON	
	Number	par value (PLN)	Number	par value (PLN)
as of 31/12/2011				
Dariusz Lubera	6,576	32,880	0	0
Joanna Schmid	0	0	0	0
Dariusz Stolarczyk	42,611	213,055	0	0
Krzysztof Zamasz	935	4,675	0	0
Krzysztof Zawadzki	27,337	136,685	0	0
as of the date of this report				
Dariusz Lubera	6,576	32,880	0	0
Joanna Schmid	0	0	0	0
Dariusz Stolarczyk	42,611	213,055	0	0
Krzysztof Zamasz	935	4,675	0	0
Krzysztof Zawadzki	27,337	136,685	0	0

Table No. 25 Proprietary status of the Company shares and share/stocks in entities affiliated with the Company - supervising persons

(name and surname, address)	TAURON shares		Share/stocks in entities affiliated with TAURON	
	Number	par value (PLN)	Number	par value (PLN)
as of 31/12/2011				
Antoni Tajduś	0	0	0	0
Agnieszka Trzaskalska	0	0	0	0
Leszek Koziorowski	0	0	0	0
Jacek Kuciński	935	4,675	0	0
Włodzimierz Luty	935	4,675	0	0
Michał Michalewski*	0	0	0	0
Jacek Szyke	0	0	0	0
Marek Ściążko	0	0	0	0
as of the date of this report				
Antoni Tajduś	0	0	0	0
Agnieszka Trzaskalska	0	0	0	0
Leszek Koziorowski	0	0	0	0
Jacek Kuciński	935	4,675	0	0

(name and surname, address)	TAURON shares		Share/stocks in entities affiliated with TAURON	
	Number	par value (PLN)	Number	par value (PLN)
Włodzimierz Luty	935	4,675	0	0
Jacek Szyke	0	0	0	0
Marek Ściążko	0	0	0	0
Rafał Wardziński**	0	0	0	0

*On 11 January 2012, Mr Michał Michalewski was dismissed from the Supervisory Board of the Company.

**On 11 January 2012, Mr Rafał Wardziński was appointed to the Supervisory Board of the Company.

4.3. Agreements concerning potential changes in shareholding structure

The Management Board does not have any information on existence of any agreements (including agreements concluded after the balance sheet day), as a result of which changes in ratio of the shares held by shareholders and bondholders may occur in the future.

4.4. Purchase of treasury shares

In 2011 the Company did not purchase treasury shares.

4.5. Programmes of employees shares

In 2011 the employees shares programmes did not operate.

4.6. Listing of shares at the Warsaw Stock Exchange (GPW)

Shares of the Company have been listed at the Primary Market of the Warsaw Stock Exchange since 30 June 2010

In 2011 the price of Company shares ranged from PLN 4.65 to PLN 6.81. In this period, irrespective of improvement of financial results by TAURON Capital Group in relation to 2010, the slump in the Company share price was close to the trend of indices WIG20 and WIG, which noted negative rate of return in this period. However, it should be indicated that the rate of return of the Company shares since the day of debut at GPW until the end of 2011 reached 6.7%, which made a better result as compared to index WIG20 and WIG Energia. Behaviour of share prices of companies listed at the Warsaw Stock Exchange in 2011 was mainly determined by macroeconomic factors related to the crisis in Eurozone as well as the uncertainty at the world markets. Slump at the stock markets which occurred in August 2011 caused significant losses on investors' portfolio, and it was impossible to remedy them until the end of the year due to the worsening macroeconomic situation, unresolved debt problems of the Eurozone countries and threat of recession in this region. Until the end of 2011 the most important European stock exchanges were following the sideways trend, while the prices of the securities listed showed significant volatility.

As of 31 December 2011, the Company was included in the following key exchange indices:

1. **WIG** - covering all companies listed at the Primary Market of GPW which meet the base criteria of participation in the indices,

2. **WIG20** - calculated based on the value of share portfolio of 20 biggest and most liquid companies of the Primary Market of GPW,
3. **WIG-Energia** - the sectoral index covering companies participating in WIG index and simultaneously classified to the "energy" sector,
4. **WIG-Poland** - the national index which includes only the shares of national companies listed at the Primary Market of GPW, which meet the base criteria of participation in the indices,
5. **MSCI Poland Standard Index** - index covering over 20 key companies listed at GPW.
6. **CECE Index** - index of the Vienna Exchange, covering the biggest companies of Central and Eastern Europe.

Table No. 26 Key data concerning shares

Key data concerning shares	2011	2010
Maximum price [PLN]	6.81	6.92
Minimum price [PLN]	4.65	4.96
Maximum price [PLN]	6.81	6.92
Maximum price [PLN]	5.35	6.57
Capitalisation at the end of the period [M PLN]	9,376	11,514
Capitalisation at the end of the period [%]	2.10	2.12
Book value [M PLN]	15,922.47	15,044.64
C/Z	8.10	14.30
C/WK	0.59	0.77
Rate of return at the end of the period [%]	-16.73	-
Dividend rate [%]	2.8	0.0
Value of turnover [M PLN]	5,574.82	8,821.85
Share in turnover [%]	2.21	1.99
Turnover ratio [%]	58.80	46.00
Average volume per session	3,721,539	5,624,588
Average number of transactions per session	1,373	2,431
Average spread [pb]	22	20
Value of turnover [M PLN]	18.45	2.83
Volume	3,027	204

Source: Statistical Bulletin of GPW

The figures below present the quotes of Company shares and value of turnover in 2011 as well as quotes of Company shares as compared to WIG20 index and WIG-Energia index in 2011.

Figure No. 19 Graph of quotes of Company shares and value of turnover in 2011

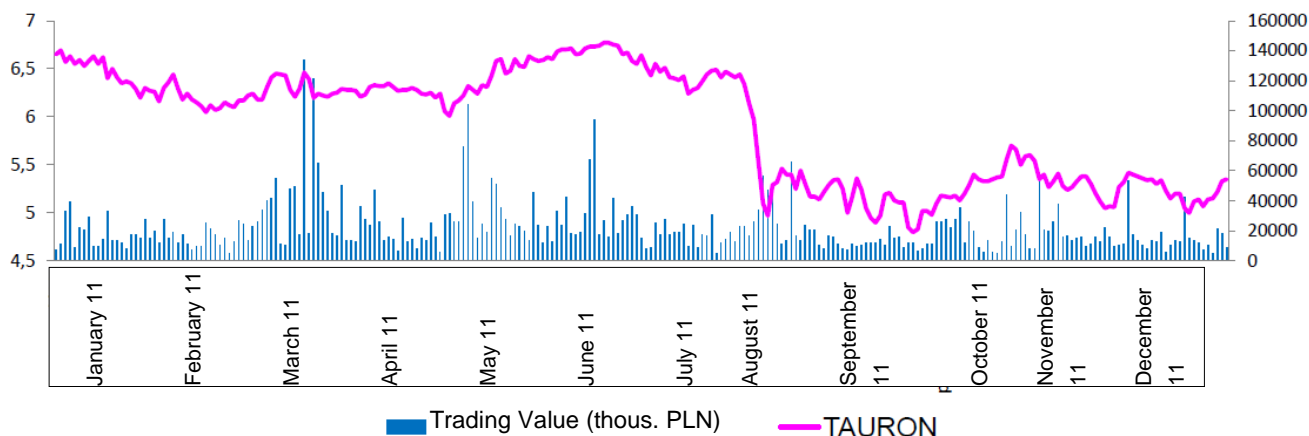
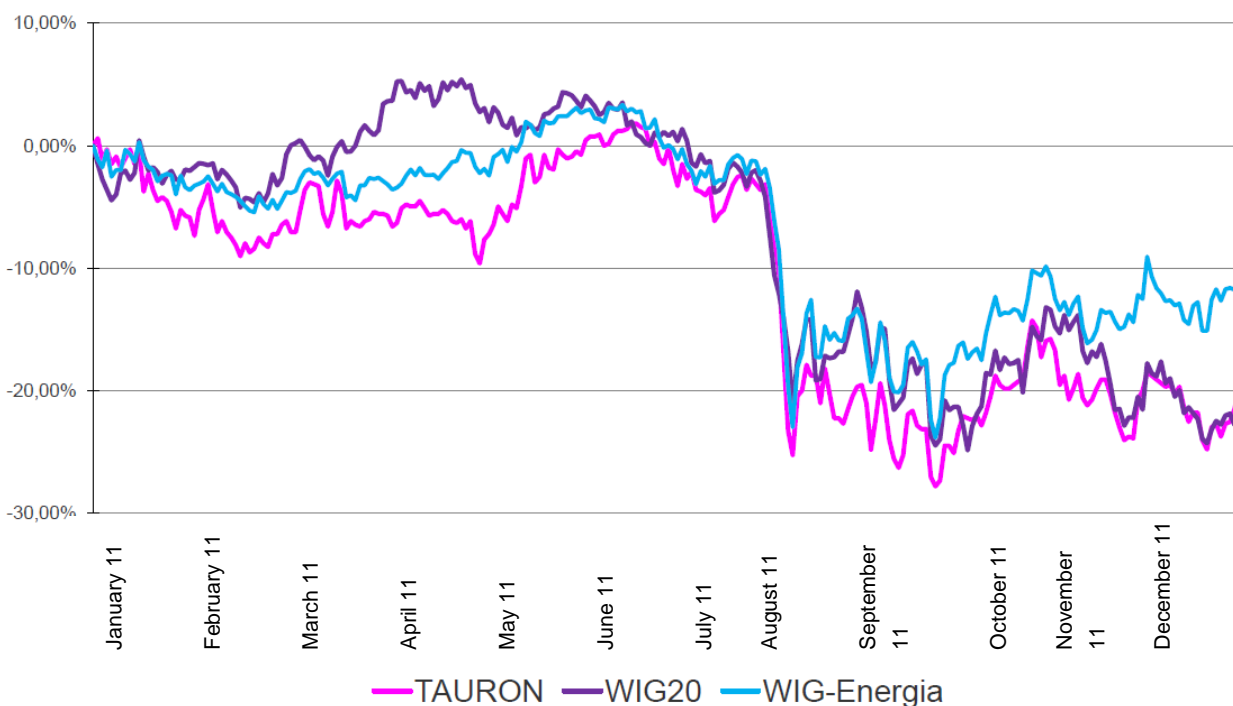


Figure No. 20 Graph of quotes of Company shares compared to indices WIG20 and WIG-Energia in 2011



Recommendations for Company shares

In 2011 the analysts of brokerage houses and investment banks issued in total 24 recommendations for the Company shares, including:

- 13 "buy" recommendations,
- 10 "keep" recommendations,
- 1 "sell" recommendation.

5. STATEMENT OF APPLICATION OF CORPORATE GOVERNANCE

Pursuant to § 91 item 5 point 4) of the Regulation of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state (Journal of Laws No. 33 item 259 as amended), The Company Management Board submits the Statement of Application of Corporate Governance in 2011.

5.1. Indicating the applied set of rules of corporate governance

The Company is subject to rules of corporate governance described in the document *Good Practices of Companies Listed at GPW* (Corporate Governance Regulations), constituting Attachment to the Resolution No. 20/1287/2011 of the Stock Exchange Board of 19 October 2011. The document contains rules of corporate governance which the Company undertook to follow on voluntary basis. *Good Practices of Companies Listed at GPW* were adopted for application by the Company Management Board. All recommendations, effective for the specific period, were fulfilled in the financial year 2011.

The text of the aforementioned set of rules the Company is subject to, the application of which could have been decided by the Company on voluntary basis is published at the GPW website at (<http://www.corp-gov.gpw.pl>).

5.2. Indicating abandoned rules of corporate governance

The Company adopted all regulations of corporate governance resulting from *Good Practices of Companies Listed at GPW*. In the period since the day of commencement of public listing of the Company shares there have been no occurrences of infringement of the corporate governance regulations adopted.

5.3. Description of main characteristics of internal control and risk management systems in relation to the process of generating the financial statements and consolidated financial statements

The internal control and risk management system in relation to the process of generating financial statements and consolidated financial statements is implemented by the Company through:

Supervision over application of coherent accounting principles by the companies of TAURON Capital Group which generating the consolidated financial statement of TAURON Capital Group

In order to provide for coherent accounting principles based on IFRS, approved by the EU, in TAURON Capital Group *the Accounting Policy of TAURON Polska Energia S.A. TAURON Capital Group* was developed and implemented. The document is subject to relevant amendments and updates in case of amendments to the regulations. The rules contained in the document are applicable to unit financial statements of the Company and consolidated financial statement of TAURON Capital Group. The Companies of TAURON Capital Group are obliged to apply *the Accounting Policy of TAURON Polska Energia S.A. TAURON Capital Group* while preparing the reporting packages which provide basis for generating of the consolidated financial statement of TAURON Capital Group.

The reporting packages are verified by the Office for Consolidation and Reporting in the parent company as well as by the independent auditor during examination or review of consolidated financial statements of TAURON Capital Group.

Procedures of authorisation and reviewing of financial statements of the Company and consolidated financial statements of TAURON Capital Group

In the Company, procedures of authorisation of financial statements have been implemented. Quarterly, semi-annual and annual financial statements of the Company as well as consolidated financial statements of TAURON Capital Group are approved by the Company Management Board before publication. Annual financial statements of the Company as well as consolidated financial statements of TAURON Capital Group are also presented for review by the Company Supervisory Board before publication. The Vice President of the Board, Chief Financial Officer supervises the preparation of financial statements, whereas Management Boards of companies covered by consolidation are responsible for reporting packages for TAURON Group consolidated financial statement.

Within the structure of the Supervisory Board of the Company, the Audit Committee of TAURON Polska Energia S.A. operates. (Audit Committee) whose composition, competence and description of activities are covered in item 5.11.3 of this report.

IT systems

The Company keeps accounting books which constitute the basis for generating of the financial statement in the financial-accounting computer system SAP, implemented in the Company in the middle of 2011. Preparing of the consolidated financial statement takes place with application of IT tool designed for consolidation of financial statements. Access to IT systems is restricted by relevant authorisations for the entitled employees. In the Company IT and organizational solutions operate which control the access to financial-accounting systems and provide adequate protection and archiving of accounting books.

Internal audit

In the Company Internal Audit Department operates whose objective is to plan and implement the auditing tasks, among others, of advisory nature, as well as to perform the commissioned temporary inspections. The procedures and rules of implementation of the audit are specified in *Regulations of Internal audit in TAURON Group* as well as in rules of cooperation binding in individual companies of TAURON Capital Group. While implementing the function of internal audit, the Company acts in compliance with the Code of Ethics and International Standards of Internal Audit Professional Practice.

Submission of financial statements of the Company and consolidated statements of TAURON Capital Group for examination or review by independent chartered accountant

Annual financial statements of the Company and consolidated statements of TAURON Capital Group are subject to examination by independent chartered accountant. Semi-annual financial statements of the Company and consolidated statements of TAURON Capital Group are subject to examination by chartered accountant. In 2010 the Company selected one entity authorised to examine and review financial statements for significant companies of TAURON Capital Group as well as the consolidated financial statement.

5.4. Shareholders holding large blocks of shares

The table below presents shareholders having, as of 31 December 2010 and as of the day of making the present report, to the knowledge of the Company's Management Board, directly or indirectly large blocks of shares of the Company

Table No. 27 Shareholders holding large blocks of shares

Shareholders	Number of shares held	Percentage interest in share capital	Number of votes held	Percentage interest in general number of votes
State Treasury*	526,883,897	30.06%	526,883,897	30.06%
KGHM Polska Miedź S.A.**	182,110,566	10.39%	182,110,566	10.39%
ING Otwarty Fundusz Emerytalny (Open Pension Fund)***	88,742,929	5.06%	88,742,929	5.06%

*in accordance with the shareholder's notification of 29/03/2011

**in accordance with the shareholder's notification of 23/03/2011

***in accordance with the shareholder's notification of 28/12/2011

5.5. Owners of securities providing special control rights

In the financial year 2011, the Company did not issue securities which would provide special control rights towards to the Company.

5.6. Limitations on performing of the voting right

Limitations on performing the voting right have been included in § 10 of the Company Articles of Association which is available at the Company website <http://www.tauron-pe.pl/>.

The aforementioned limitations on performing of the voting right have been formulated in the following way:

1. The voting right of shareholders holding over 10% of total votes in the Company shall be limited in the way that none of them can perform at the General Meeting more than 10% of the total votes in the Company.
2. Voting right limitation included in point 1 above does not apply to the State Treasury and entities subsidiary to the State Treasury in the period of time in which the State Treasury together with subsidiary entities subsidiary of the State Treasury has a number of the Company's shares entitling to performing at least 25% of total votes in the Company.
3. Shareholders' votes, between which there is a controlling or dependence relationship within the meaning of § 10 of the Articles of Association (Association of Shareholders) are cumulated; in case when the cumulated number of votes exceeds 10% of total votes in the Company, it is subject to reduction. Rules of votes accumulation and reduction have been defined in 6 and 7 below.
4. A shareholder, within the meaning of § 10 of the Articles of Association is every person, including its parent company and subsidiary company, which is entitled directly or indirectly to a voting right at the General Assembly on the basis of any legal title; it also applies to a person who does not hold the Company's shares, and in particular to a user, pledgee, person entitled on the basis of a depositary receipt under regulations of the Act of 29 July 2005 on trading in financial instruments, as well as a person entitled to take part in the General Meeting despite disposal of shares after the date of establishing the right to take part in the General Meeting.

5. A parent company and subsidiary company, for the purposes of § 10 of the Articles of Association, is understood as a person:
 - 1) holding a status of a dominating entrepreneur, dependent entrepreneur or has both the status of a dominating and dependent entrepreneur within the meaning of 16 February 2007 on competition and consumers' protection or,
 - 2) holding the status of a parent company, higher level parent company, subsidiary company, lower level subsidiary company or which has both the status of a parent company (including a parent company of higher status and subsidiary (including a subsidiary company of lower level status or co-subsidiary) within the meaning of Accounting Act of 29 September 1994, or which has (parent company) or one which is under (subsidiary company) decisive influence within the meaning of the Act of 22 September 2006 on transparency of financial relationships between public bodies and public entrepreneurs and on financial transparency of some entrepreneurs, or
 - 3) whose votes resulting from the Company's shares owned directly or indirectly are subject to accumulation with votes of another person or other persons on conditions defined in the Act of 29 July 2005 on public offering and conditions of introducing financial instruments to an organized trading system and on public companies in connection with holding, disposing of or acquiring large blocks of the Company shares.
6. Accumulation of votes is based on aggregating of the number of votes held by particular shareholders of Shareholders' Group.
7. Reduction of votes is based on decreasing the total number of votes in the Company that shareholders, who are a part of Association of Shareholders, are entitled to at the General Meeting to the level of 10% of total votes in the Company. Reduction of votes takes place in accordance with the following rules:
 - 1) number of votes of a shareholder who holds the biggest amount of votes in the Company among all shareholders who are members of Association of Shareholders is subject to being decreased by a number of votes equal to surplus of over 10% total votes in the Company that all shareholders in total are entitled to and who are members of the Association of Shareholders,
 - 2) if, despite the aforementioned reduction, the total number of votes that shareholders who are members of the Association of Shareholders are entitled to exceeds 10% of the total votes in the Company, a further reduction of votes belonging to other shareholders who are members of the Association of Shareholders takes place. Further reduction of particular shareholders' votes takes place in order established on the basis of the amount of votes that particular shareholders who are members of the Association of Shareholders hold (from the highest to the lowest one). Further reduction takes place until the moment when the total number of votes held by shareholders who are members of the Association of Shareholders does not exceed 10% of the total votes in the Company,
 - 3) in each case the shareholder whose voting right has been limited shall have to right to perform at least one vote,
 - 4) limitation on performing the voting right applies also to a shareholder absent at the General Meeting.
8. Each shareholder who is going to take part in the General Meeting, in person or through a proxy is obliged to, without a separate notice stipulated in item 9 below, notify the Management Board or the Chairperson of the General Meeting that she/he holds, directly or indirectly, more than 10% of the total votes in the Company.
9. Notwithstanding the provisions of item 8 above, in order to establish the basis for accumulation and reduction of votes, the Company's shareholder, the Management Board, the Supervisory Board or particular members of these bodies have the right to demand that the Company shareholder provides information whether she/he is a person holding the status of an entity dominating or subordinate towards other shareholder within the meaning of § 10 of the Articles of Association. The aforementioned entitlement includes also the right to demand revealing the number of votes that the Company's shareholder has independently or jointly with other shareholders of the Company.
10. A person who has failed to fulfil or fulfilled the information obligation stipulated in items 8 and 9 above improperly, until the moment of improvement of the information

obligation performed improperly shall have the voting right from one share only; performing voting rights from other shares by such a person shall be null and void.

5.7. Limitations on transfer of securities proprietary rights

As of 31 December 2011 and on the day of this report, there are no limitations in the Company on the transfer of proprietary rights of Company securities.

5.8. Rules on appointing and dismissing managing and supervising persons and their rights

5.8.1. Management Board

Rules on appointing and dismissing members of the Management Board

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

Members of the Management Board or the whole Management Board are appointed and dismissed by the Supervisory Board. Each of the members of the Management Board can be dismissed or suspended in office by the Supervisory Board or the General Meeting.

Competence of the Management Board

The Management Board conducts the Company's issues and represents the Company in all judicial and non-judicial proceedings. All issues connected with managing of the Company not restricted by the regulations of law and provisions of the Company Articles of Associations for the General Meeting or Supervisory Board lie within the competences of the Company's Management Board.

In accordance with the Company Articles of Association, all issues which exceed the regular scope of Company activities require resolution of the Management Board, in particular the following issues:

- 1) Management Board bylaws,
- 2) organizational regulations of the Company enterprise,
- 3) establishment and liquidation of branches,
- 4) appointment of a proxy,
- 5) raising credits and loans,
- 6) accepting annual material and financial plans as well as long-term plans and Company strategy,
- 7) incurring contingent liabilities within the meaning of the Act of 29 September 1994 *on Accounting*, including granting guaranties and sureties by the Company as well as issuing bills of exchange, of the value not exceeding the equivalent of EUR 5,000,000 in PLN,
- 8) making donations, cancelling interest or releasing from debt,
- 9) purchase of real property, perpetual usufruct of shares in property or in perpetual usufruct with the value not exceeding the equivalent of EUR 5,000,000 in PLN,
- 10) purchase of the components of fixed assets excluding real property, perpetual usufruct or share in property or perpetual usufruct with the value equal to or exceeding the equivalent of EUR 10,000 in PLN, but not exceeding the equivalent of EUR 5,000,000 in PLN,
- 11) disposal of the components of fixed assets including real property, perpetual usufruct or share in property or perpetual usufruct with the value equal to or exceeding the equivalent of EUR

- 10,000 in PLN, but not exceeding the equivalent of EUR 5,000,000 in PLN,
- 12) defining the right to perform a vote at the General Meeting or at Shareholders' Meetings of companies in which the Company holds stocks or shares, on issues being the competences of the General Meetings or Shareholders' Meetings of these companies, except for defining the way of performing the right to vote at the General Meeting or at the Shareholders' Meeting of companies in which the Company holds over 50% of stocks or shares in matters concerning:
 - a) disposing and leasing of the Company's enterprise or its organized part as well as establishing a limited proprietary right on them, if their value exceeds the equivalent of the amount of EUR 5,000,000 in PLN,
 - b) dissolution and liquidation of the Company,
 - 13) rules of conducting sponsoring activity,
 - 14) adoption of the annual plan of sponsoring activity,
 - 15) issues, whose examination the Management Board refers to the Supervisory Board or the General Meeting.

5.8.2. Supervisory Board

Rules on appointing and dismissing members of the Supervisory Board

The Supervisory Board consists of five to nine persons, appointed for the joint term of office which is three years, except for the first term of office which is for one year. In accordance with the Company's Articles of Association, members of the Supervisory Board are appointed and dismissed by the General Meeting, subject to: In accordance with the Company Articles of Association, members of the Supervisory Board are appointed and dismissed by the General Meeting, z subject to:

- 1) in the period, in which the State Treasury, together with entities dependent on the State Treasury 4 within the meaning of § 10 item 5 of the Articles of Association, has a number of shares of the Company entitling to perform at least 25% of the total votes in the Company, the State Treasury is represented by the minister competent for the issues of the State Treasury, is entitled to appoint and dismiss the members of the Supervisory Board in the amount equal to half of the maximum number of the composition of the Supervisory Board defined in the Articles of Association (in case when the number is not integral it is rounded down to an integral number, for example 4.5 is rounded down to 4 increased by 1, provided that the State Treasury:
 - a) is obliged to vote at the General Meeting on establishing the number of members in the Supervisory Board representing the maximum number of members of the Supervisory Board defined in the Articles of Association or in case of submitting such a motion to the Management Board by a shareholder or shareholders who have a number of votes entitling to perform at least 5% of the total votes in the Company,
 - b) is excluded from the voting right at the General Meeting on appointing and dismissing of other members of the Supervisory Board, including independent members of the Supervisory Board; it does not, however, apply to the case when the Supervisory Board cannot act due to a composition minor than required by the Articles of Association, and the shareholders present at the General Meeting other than the State Treasury do not supplement the composition of the Supervisory Board in accordance with the distribution of places in the Supervisory Board defined in present point;
- 2) in the period of time in which the State Treasury, together with entities dependent on the State Treasury within the meaning of § 10 item 5 of the Articles of Association, has a number of the Company's shares entitling to perform under 25% of total voting rights in the Company, the State Treasury, represented by a minister competent for the issues of the State Treasury shall be entitled to appoint and dismiss one member of the Supervisory Board.
- 3) appointing and dismissing of members of the Supervisory Board by the State Treasury pursuant to the aforementioned item 1) or item 2) takes place by means of a statement submitted to the Company.

At least two members of the Supervisory Board shall meet the criteria of independence in relation to the Company and subsidiaries significantly related to the Company (independent members of the Supervisory Board). The definition of an "independent member of the Supervisory Board" shall mean an independent member of the Supervisory Board within the meaning the Recommendation of the European Commission of 15 February 2005, on the role of non-executive directors or directors not being members of Supervisory Boards of listed companies and board's committee (supervising board) (2005/162/EC) taking into consideration Good Practices of Companies Listed at GPW.

Independent members of the Supervisory Board provide the Company, before being appointed to the composition of the Supervisory Board, with a written statement of having fulfilled the prerequisites of independence. In case of a situation causing failure to fulfil the of independence, a member of the Supervisory Board is required to immediately notify the Company of this fact. The Company shall inform shareholders of the present number of independent members of the Supervisory Board.

Competence of the Supervisory Board

The Supervisory Board carries out continuous supervision over the Company's activities in all areas of its operations. The competences of the Supervisory Board include:

- 1) assessment of the Management Board report on the Company operations as well of the financial statement for the previous financial year in the scope of their compliance with the books, documents as well as with the actual status. It also applies to the consolidated financial statement of the Capital Group, provided that it is generated,
- 2) assessment of the Management Board conclusions on profit distribution or loss coverage,
- 3) submitting of a written report to the General Meeting on the results of operations covered by items 1 and 2,
- 4) preparing of reports of the Supervisory Board on supervision of implementation of investments by the Management Board, including the purchase of fixed assets, and in particular, giving opinions on the correctness and effectiveness of spending of financial resources related to the above expenditures,
- 5) preparing, together with the report on results of the annual financial statement of the Company, an opinion of the Supervisory Board on the issue of economic legitimacy of involving the Company capital committed in a given financial year in other entities of commercial law,
- 6) selecting of the chartered accountant to carry out the examination of the Company financial statement and consolidated financial statement of the Capital Group,
- 7) determining the scope and deadlines of submitting of annual material and financial plans as well as long-term strategic plans, by the Management Board,
- 8) giving opinions on long-term plans and strategies of the Company and Capital Group,
- 9) giving opinions and approval of the rules of conducting sponsoring activity,
- 10) giving opinions on the annual plan of conducting of the sponsoring activity as well as quarterly reports on its implementation,
- 11) passing of bylaws describing in details the procedures of performance of the Supervisory Board,
- 12) adopting of consolidated text of the Company Articles of Association, prepared by the Company's Management Board,
- 13) approving of the bylaws of the Company Management Board,
- 14) approving of the organizational regulations of the Company enterprise.

Competence of the Supervisory Board includes also granting the Management Board permission to:

- 1) purchase of property, perpetual usufruct of shares in property or in perpetual usufruct with the value not exceeding the equivalent of EUR 5,000,000 in PLN,
- 2) purchase of the components of fixed assets excluding real property, perpetual usufruct or share in real property or perpetual usufruct, bonds issued by the companies of the Capital Group of the value equal to or exceeding the equivalent of EUR 5,000,000 in PLN,
- 3) dispose of the components of fixed assets including real property, perpetual usufruct or share in real property or perpetual usufruct, of the value equal to or exceeding the equivalent of EUR 5,000,000 in PLN,

- 4) incur contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of EUR 5,000,000 in PLN,
- 5) issuing bills of exchange of the value exceeding the equivalent of EUR 5,000,000 in PLN,
- 6) advance payment on account of the expected dividend
- 7) taking over or purchase of stocks or shares in other companies, with the value exceeding the equivalent of EUR 5,000,000 in PLN, except for situations when taking over of stocks or shares of these companies takes place in exchange for the Company liabilities as a part of composition or bankruptcy proceedings,
- 8) disposal of stocks or shares, with the value exceeding the amount of EUR 5,000,000 in PLN, with defining of the conditions and procedure of their disposal, except for:
 - a) disposal of shares which are traded on the regulated market,
 - b) disposal of stocks or shares that the Company holds at the amount not exceeding 10% interest in the share capital of particular companies.

Moreover, competence of the Supervisory Board includes in particular:

- 1) appointing and dismissing members of the Management Board,
- 2) establishing the rules of remuneration and the amount of remuneration for the members of the Management Board,
- 3) suspending members of the Management Board in performance of their duties, due to material reasons,
- 4) delegating members of the Supervisory Board to temporarily perform actions of the members of the Management Board who cannot perform their duties and establishing their remuneration subject to the provision that the total remuneration of the person delegated as the Supervisory Board's member as well as on account of being delegated to temporary performing actions of a member of the Management Board shall not exceed the remuneration established for the member of the Management Board, for whom the member of the Supervisory Board was delegated,
- 5) conducting recruitment proceedings for the position of a member of the Management Board,
- 6) conducting of a competition in order to select a person with whom an agreement to perform management in the Company shall be concluded,
- 7) granting permission to establish Company branches abroad,
- 8) granting permission to the members of the Management Board to take positions in governing bodies of other companies,
- 9) defining the way of performing the right of vote at the General Meeting or at the Shareholders' Meeting of companies in which the Company holds over 50% of stocks or shares, in matters concerning:
 - a) disposal and leasing of the Company enterprise or its organized part as well as establishing a limited proprietary right on them, if their value exceeds the equivalent of the amount of EUR 5,000,000 in PLN,
 - b) dissolving and liquidation of the Company.

5.9. Description of the procedure of amendment of the Company Articles of Association

Change of the Company's Articles of Association takes place by means of resolution of the General Meeting, at the majority of two thirds of the votes, under the presence of persons representing at least half of the capital, and then requires issuing a decision by a proper court on entering the change into the Register of Entrepreneurs. A consolidated text of the Company Articles of Association, including amendments passed by the General Meeting, shall be adopted by the Supervisory Board by means of a resolution.

5.10. Way of operating of the General Meeting, its fundamental authorities and description of shareholders' rights and mode of their performance

The way of operating of the Company General Meeting and its authorities are included in the Company Articles of Association and in the *Regulations of the General Meeting of TAURON Polska Energia S.A.* which are available at the Company website <http://www.tauron-pe.pl/>.

Way of operating of the General Meeting

The General Meeting is convened by announcement on the Company website and in the manner defined for providing current information by public companies. In case if the General Meeting is convened by an entity or body other than the Management Board on the basis of regulations of the Act of 15 September 2000 Code of Commercial Companies, and the convening of the General Meeting requires cooperation with the Management Board, the Management Board is obliged to perform all actions defined by law regulations in order to convene, organize and conduct the General Meeting. General Meetings take place either in the Company's seat or in Warsaw.

The General Meeting is opened by the Chairperson of the Supervisory Board, and in case of his/her absence to open the General Meeting shall be authorized the following persons in the following order: Vice-Chairperson of the Supervisory Board, President of the Management Board, a person appointed by the Management Board or a shareholder who registered at the General Meeting shares entitling him/her to perform the biggest number of votes. Then, among the persons entitled to take part in the General Meeting the Chairperson of the Meeting is selected.

The General Meeting shall pass resolutions irrespective of the number of shares represented at the Meeting, unless regulations of the Act of 15 September 2000 *Code of Commercial Companies* as well as provisions of the Company's Articles of Association shall state otherwise. The General Meeting may order a break in the meeting by the majority of two thirds of votes. In total, the breaks shall not exceed thirty days.

Competence of General Meeting

The following issues require Resolutions of the General Meeting:

- 1) examination and approval of financial statement for the previous financial year as well as the Management Board's report on the Company operations,
- 2) granting the acknowledgement of the fulfilment of duties to the members of the governing bodies of the Company,
- 3) profit distribution and coverage of loss,
- 4) appointing and dismissing of members of the Supervisory Board,
- 5) suspending members of the Management Board in performance of their duties,
- 6) establishing the amount of remuneration for the Members of the Supervisory Board, subject to the provision that members of the Supervisory Board are entitled to a monthly remuneration in the amount determined by the General Meeting, taking into consideration the binding legal regulations,
- 7) disposal and lease of the Company enterprise or its organized part as well as establishing a limited proprietary right on them,
- 8) concluding of a credit, loan, surety agreement or any other similar agreement by the Company with a member of the Management Board, Supervisory Board, proxy and liquidator or for any of these persons. Concluding of a loan, surety or any other similar agreement with a member of the Management Board, Supervisory Board, proxy, liquidator or for any by a subsidiary company,
- 9) increasing and lowering the share capital of the Company,

- 10) issuing convertible bonds or priority bonds as well as registered securities or bearer securities entitling its owner to subscribe or acquire the shares,
- 11) purchasing of treasury shares in cases required by the regulations of the Act of 15 September 2000, *Code of Commercial Companies*,
- 12) compulsory redemption of shares in accordance with the stipulations of art. 418 of the Act of 15 September 2000, *Code of Commercial Companies*,
- 13) creating, using and liquidation of reserve capitals,
- 14) using of supplementary capital,
- 15) provisions concerning claims to repair damage caused at establishing of the company or serving in the board or performing supervision,
- 16) merger, transformation and division of the Company,
- 17) redemption of shares,
- 18) amendment to the Articles of Association and change of the scope of the Company operations,
- 19) dissolving and liquidation of the Company.

In accordance with the Act of 15 September 2000, *Code of Commercial Companies*, issuing and redemption of shares lies within the competence of the General Meeting.

Description of shareholders' rights and mode of their execution

A shareholder or shareholders representing at least one twentieth of the share capital, may demand convening of the Extraordinary General Meeting. Such a demand shall include its concise justification. It can be submitted to the Management Board in writing or send in electronic form, to the Company e-mail address, indicated by the Company on at its website in "Investor Relations" tab. The Company reserves the right to undertake appropriate steps to identify the Shareholder of Shareholders who request a demand.

The Shareholder or Shareholders representing at least half of the share capital or half of total votes in the Company may convene the Extraordinary General Meeting. The shareholder or shareholders shall appoint the Chairperson of such a General Meeting.

A shareholder or shareholders representing at least one twentieth of the share capital may demand including certain issues on the agenda of the nearest General Meeting. Such a demand, including a justification or a draft of resolution on the proposed point of agenda shall be submitted to the Management Board not later than 21 days before the given date of the General Meeting. Such a demand may be submitted in electronic form to the Company' e-mail address, or in writing to the Company address.

A shareholder or shareholders representing at least one twentieth of the share capital may, before the date of the General Meeting, submit drafts of resolutions on issues included on the agenda of the General Meeting or issues which are to be introduced into the agenda. Such a request can be made in electronic form to the e-mail address of the Company or in writing to the Company address.

The shareholder may become acquainted with the Shareholders' list in the Company's Management Board seat for three days preceding directly the General Meeting. The shareholder may demand sending him/her the list of Shareholders free of charge by electronic mail, providing address to which the list shall be sent. Such a demand may be submitted in electronic form to the Company e-mail address.

The right to take part in the General Meeting shall be given only to persons who are Shareholders sixteen days before the date of the General Meeting (registration date of participation in the General Meeting). In order to participate in the General Meeting such Shareholders should report the investment company holding their securities account a request to issue a certificate with their name on the right to take part in the General Meeting. Such a request shall be submitted not earlier than a day after the announcement on convening of the General Meeting and not later than on the first working day after the day of registering participation in the General Meeting.

The shareholder may take part in the General Meeting as well as perform the voting right in person or through a proxy. Persons co-authorized by means of shares may take part in the General Meeting and perform the voting right only through a joint representative (proxy). The proxy may represent more than one Shareholder and vote differently based on shares of each Shareholder.

Shareholders shall appoint the Chairperson the General Meeting. The Chairperson shall be selected among persons entitled to take part in the General Meeting. Each of the members of the General Meeting shall have the right to submit one candidacy to the post of the Chairperson. Persons, whose candidacies are submitted, shall be put on the list of candidates on condition that they agree to candidate. The election of the Chairperson takes place by secret voting, with an absolute majority of votes. In case when there is just one candidate to the Chairperson, the election can take place by acclamation.

Each Shareholder shall submit no more than three candidates to the member of Returning Committee, selected by the General Meeting and vote for maximum three candidates.

During the General Meeting the Shareholder shall have the right, until closing the discussion on a certain point of the agenda, to submit a proposal of changes to the content of a draft of resolution proposed for adoption by the General Meeting within a given item of the agenda or to put forward his/her draft of such a resolution. The proposal of changes or a new draft of the resolution shall be submitted with their justification. The proposal of changes or a draft of the resolution may be submitted to the Chairperson or orally to the minutes of the meeting.

The shareholder who was voting against a resolution, and after its adoption by the General Meeting wants to raise his/her objection shall immediately after passing this resolution (after the announcement of results of voting) raise his/her objection and demand its including in the minutes before proceeding to the next item of the agenda. In case of a later raising of objection, which however shall not take place later than until closing the General Meeting, the Shareholder shall indicate to which resolution passed at this General Meeting she/he is raising his/her objection. The shareholder raising his/her objection to the General Meeting's resolution may submit to the minutes of the General Meeting a concise justification of the objection.

5.11. Composition of managing and supervising bodies and their committees, its changes, description of performance

5.11.1. Management Board

The present, Third term of office of the Management Board, started on 6 May 2011, i.e. on the day of convening of the General Meeting of the Company approving the financial statement for the last full financial year of the tenure of the members of the Management Board of the second term, i.e for the year 2010. In accordance with the Company Articles of Association this is a joint term of office and it shall last for three years.

Personal composition of the Management Board as of 31 December 2011 and on the day of this report:

1. Dariusz Lubera - President of the Board
2. Joanna Schmid - Vice President of the Board, Chief Strategy and Business Development Officer
3. Dariusz Stolarczyk - Vice President of the Board, Chief Officer for Corporate Matters
4. Krzysztof Zamasz - Vice President of the Board, Chief Commercial Officer
5. Krzysztof Zawadzki - Vice President of the Board, Chief Financial Officer.

Changes in the Management Board composition:

In the period covered by the present report, no changes in the composition of the Management Board of the Company took place.

Due to the end of the 2nd term of the Management Board, on 24 February 2011, the Supervisory Board of the Company, as a result of the completed qualification procedure, passed resolutions on the appointment of members of the Management Board of the Company for the third term, becoming effective from the date of Ordinary General Meeting approving the financial statements for the last full financial year of the tenure of the members of the Management Board of the second term, i.e. for the financial year 2010. Information on appointment of the Management Board of the Company for the new term is also included in item 2.6 of this report.

Mode of operation

The Management Board of the Company operates on the basis of the Act of 15 September 2000 Code of Commercial Companies and other regulations of law, stipulations of the Company Articles of Association and provisions of the Bylaws of the Management Board of TAURON Polska Energia Spółka Akcyjna, which is available at the website of the Company <http://www.tauron-pe.pl/>. While performing their obligations the members of the Management Board are governed by regulations included in the Good Practices of Companies Listed at the WSE.

Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for submitting statements on behalf of the Company. Should the Management Board be single person, one member of the Management Board or a proxy shall be entitled to submit statements on behalf of the Company.

Meetings of the Management Board are convened by the President of the Management Board or a Vice-President of the Management Board appointed by him/her. Meetings of the Management Board are also convened upon the motion of the majority of Vice-Presidents of the Company as well as upon the motion of the Chairperson of the Supervisory Board. The meetings take place in the Company's seat, on the date set by the person convening the meeting. In justified cases, the Management Board's meetings may take place outside the seat of the Company. President of the Management Board or a Vice-President appointed by him/her shall chair the meeting.

The Management Board votes in an open voting. The result of voting is recorded in the minutes of the meeting. The President of the Management Board orders a secret ballot upon the request of any member of the Management Board.

Resolutions of the Management Board are passed by an absolute majority of votes in the presence of 3/5 of the composition of the members of the Management Board. The Management Board may pass resolutions in a written mode or by using means of direct remote communication. Voting in the aforementioned modes is ordered by the President of the Management Board or the Vice-President appointed by him/her, defining the deadline to vote by the members of the Management Board. It is acceptable to submit a different opinion. It shall be recorded in the minutes together with justification. Decisions of the Management Board, regulating business as usual, not requiring a resolution, are recorded only in the minutes.

Under the circumstances when the number of Vice-Presidents of the Management Board is lower than the Divisions, the Vice-Presidents of the Management Board may join the capacity of directors of two divisions, or distribute the competence in any other way which would be in compliance with the distribution of responsibilities performed by the Supervisory Board.

In 2011, the Supervisory Board approved amendments to the Bylaws of the Management Board within which, among others, the hitherto names of positions of the members of the Management Board were changed, holding the following positions:

- 1) President of the Board
- 2) Vice-President of the Management Board for Corporate Matters
- 3) Vice-President of the Management Board, Chief Commercial Officer
- 4) Vice President of the Management Board, Chief Strategy and Business Development Officer
- 5) Vice-President of the Management Board, Chief Financial Officer.

Scope of activities of the President of the Management Board covers competence in the area of operations of business units reporting to the Division of the President of the Board, in accordance with the organisational structure of the Company.

Scope of activities of the Vice-Presidents of the Management Board covers competence in the area of operations of business units reporting to the Divisions of the Vice-Presidents of the Board, in accordance with the organisational structure of the Company.

The structure of the divisions reporting to individual members of the Management Board is specified in the organisational chart of the Company, presented in item 1.3.2 of this report.

5.11.2. Supervisory Board

The present, Third term of office of the Supervisory Board, started on 6 May 2011, i.e. on the day of convening of the General Meeting of the Company approving the financial statement for the last full financial year of the tenure of the members of the Supervisory Board of the second term, i.e. for the year 2010. In accordance with the Company Articles of Association this is a joint term of office and it shall last for three years.

Personal composition of the Supervisory Board as of 31 December 2011 and on the day of this report:

- | | |
|--------------------------|--|
| 1. Antoni Tajduś | – Chairman of the Supervisory Board |
| 2. Agnieszka Trzaskalska | – Deputy Chairman of the Supervisory Board |
| 3. Leszek Koziarowski | – Secretary of the Supervisory Board |
| 4. Jacek Kuciński | – Member of the Supervisory Board |
| 5. Włodzimierz Luty | – Member of the Supervisory Board |
| 6. Michał Michalewski | – Member of the Supervisory Board |
| 7. Jacek Szyke | – Member of the Supervisory Board |
| 8. Marek Ściążko | – Member of the Supervisory Board |

Changes in the Management Board composition:

In 2011, no changes in the personal composition of the Supervisory Board of the Company occurred.

Due to expiry of the term of the Supervisory Board on 6 May 2011, the Supervisory Board of the Company was appointed with the same personal composition. Information on appointment of the Supervisory Board of the Company for the new term is also included in item 2.6 of this report.

Personal composition of the Supervisory Board as of the day of this report:

Pursuant to personal authority of the State Treasury resulting from the Articles of Association of the Company, on 11 January 2012, the Member of the Supervisory Board, Michał Michalewski, was dismissed by the State Treasury, who had been appointed to the Supervisory Board as its Member on 6 October 2008.

As of 11 January 2012, Rafał Wardziński was appointed as the Member of the Supervisory Board for the Third Joint Term Pursuant to personal authority of the State Treasury resulting from the Articles of Association of the Company.

On 2 February 2012, the Supervisory Board introduced changes within the function of Vice Chairman of the Supervisory Board, replacing Agnieszka Trzaskalska, acting in this capacity so far, by Rafał Wardziński.

The personal composition of the Supervisory Board as of the day of this report was as follows:

1. Antoni Tajduś – Chairman of the Supervisory Board
2. Rafał Wardziński – Deputy Chairman of the Supervisory Board
3. Leszek Kozirowski – Secretary of the Supervisory Board
4. Jacek Kuciński – Member of the Supervisory Board
5. Włodzimierz Luty – Member of the Supervisory Board
6. Jacek Szyke – Member of the Supervisory Board
7. Marek Ściążko – Member of the Supervisory Board
8. Agnieszka Trzaskalska – Member of the Supervisory Board

Mode of operation

A detailed description of the mode of the Supervisory Board operation is included in the Company Articles of Association, By-laws of the Supervisory Board of TAURON Polska Energia S.A., which is available on the Company website <http://www.tauron-pe.pl/> as well as in the Act of 15 September 2000, Code of Commercial Companies.

The main form of performing supervision by the Supervisory Board over the Company's operations are meetings of the Supervisory Board. The Supervisory Board performs its obligations jointly. Meetings of the Supervisory Board are convened by the Chairperson of the Supervisory Board or Vice-Chairperson of the Supervisory Board by presenting a detailed agenda.

- 1) in accordance with decisions adopted by the Supervisory Board,
- 2) on his/her own initiative,
- 3) upon a written proposal of each member of the Supervisory Board,
- 4) upon a written proposal of the Management Board.

Meetings of the Supervisory Board take place in the Company's seat. In justified cases the venue of the meeting may be changed.

In order to convene a meeting, written invitation of all members of the Supervisory Board at least 7 days before the date of the Supervisory Board's meeting is required. Due to material reasons the Chairperson of the Supervisory Board may shorten this period to 2 days, defining the mode of giving the invitation. Notifications of the Supervisory Board meeting are sent by means of fax or electronic mail and are confirmed by phone. In the notification of the Supervisory Board meeting the Chairperson defines the date of the meeting, venue of the meeting as well as detailed draft of the agenda. The Supervisory Board shall meet when the need arises, however not less frequently than once every two months. The Supervisory Board may meet without convening a formal meeting if all members of the Supervisory Board are present and nobody appeals against the fact of holding the meeting or against the agenda.

A change of the proposed agenda may take place when all members of the Supervisory Board are present at the meeting and nobody appeals against the agenda. An issue not included on the agenda shall be included into the agenda of the next meeting.

Taking part in meetings of the Supervisory Board is the Supervisory Board Member's duty. A Member of the Supervisory Board shall give reasons of his/her absence in writing. Justification of the Supervisory Board Member's absence requires the Supervisory Board resolution. Members of the Management Board of the Company may take part in the Supervisory Board's meetings unless the Supervisory Board raises an objection. Participation of the Management Board members in the Supervisory Board meetings is compulsory if they were invited by the Chairperson of the Supervisory Board. Other persons may also take part in the meetings if they were invited in the above mentioned way.

The Supervisory Board may seek opinion of legal advisers who render regular legal advice for the Company, as well as, in justified cases, it may appoint and invite to meetings of the Supervisory Board appropriate experts in order to ask their advice and make an appropriate decision.

In the aforementioned cases the Supervisory Board shall pass a resolution concerning commissioning the work to a chosen expert (audit or consulting company) obliging the Company's Management Board to conclude an appropriate agreement.

Meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in the case of his/her absence by the Vice-Chairperson. Due to material reasons, with the consent of the majority of the members of the Supervisory Board present at the meeting, the person chairing the meeting is obliged to submit to voting a motion to stop the meeting and establish a new date of resuming the Supervisory Board meeting. The Supervisory Board makes decisions in the form of resolutions. The Supervisory Board resolutions are passed mainly at the meetings. The Supervisory Board passes resolutions if at least half of its members are present at the meeting and all its members were invited in the way defined in the Regulations. Subject to absolutely binding regulations of law, including the Act of 15 September 2000, *Code of Commercial Companies* as well as provisions of the Company's Articles of Association, the Supervisory Board passes resolutions by an absolute majority of votes of the persons present at the meeting, where the absolute majority of votes is understood as more votes submitted "for" than "against" and "abstain". Resolutions cannot be passed in issues not included in the agenda unless all members of the Supervisory Board are present and nobody voices an objection. It shall not apply to resolutions on justifying the Supervisory Board's member absence at the meeting. Voting of the resolutions is open. A secret ballot is ordered:

- 1) upon the request of at least one of the members of the Supervisory Board,
- 2) in personnel-related issues

The Supervisory Board, in accordance with the Articles of Association, may pass resolutions in writing or by using means of direct remote communication. Passing a resolution in such a mode requires a justification and a prior submitting of the draft of the resolution to all members of the Supervisory Board. Passing resolutions in this mode does not apply to the appointing the Chairperson, the Vice-Chairperson and the Secretary of the Board, appointing or suspending in the activities of a member of the Supervisory Board and dismissing these persons as well as other issues the settlement of which requires a secret voting. Voting on a resolution passed in the aforementioned mode, a member of the Supervisory Board indicates the mode of his/her voting, "for", "against" or "abstain". In case of failure to express the vote by a Member of the Supervisory Board in the time period defined by the Chairperson the resolution shall not be passed. Resolution with a note that it was passed in a written mode or by mode of voting using means of direct distance communication shall be signed by the Chairperson of the Supervisory Board. Resolutions passed in this mode shall be submitted at the first coming meeting of the Supervisory Board with announcing the result of the voting.

Members of the Supervisory Board shall take part in meetings and perform their duties in person, and while performing their duties they are obliged to exercise due diligence. Members of the Supervisory Board are obliged to keep information connected with the Company activity which they have acquired in connection with holding their seat or at other occasion secret. The Supervisory Board performs its obligations jointly.

The Supervisory Board may, due to material reasons, delegate particular members to perform certain actions independently for a defined period of time. The Supervisory Board may delegate its members, for a period not longer than three months, to temporarily perform duties of the members of the Management Board who have been dismissed, submitted their resignation or if due to other reasons they cannot perform their functions. The aforementioned delegation requires obtaining permission from the member of the Supervisory Board who is to be delegated.

The detailed description of activities of the Supervisory Board in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the General Meeting and then published on the Company website <http://www.tauron-pe.pl/>.

The Supervisory Board may appoint among its members permanent or temporary working groups or committees to perform particular actions. The permanent committee of the Supervisory Board include the Audit Committee and Nominations and Remuneration Committee of TAURON Polska Energia S.A. (hereinafter referred to as Nominations and Remuneration Committee). Composition, tasks and rules of operation of the aforementioned committees are defined by regulations passed by the Supervisory Board.

5.11.3. Audit Committee

The Audit Committee was appointed on 13 May 2010 by the Supervisory Board among its members. At the time, the Audit Committee consisted of three Members.

Due to commencement of the Third Term of the Supervisory Board on 6 May 2011 and appointment of the members of the Supervisory Board of the new tenure, the Supervisory Board appointed the Audit Committee of the Supervisory Board, consisting also of three persons.

Personal composition of the Audit Committee as of 31 December 2011

1. Michał Michalewski – Chairman of the Audit Committee,
2. Marek Ściążko – Member of the Audit Committee,
3. Jacek Szyke – Member of the Audit Committee,

Changes in the Audit Committee personal composition:

As of 11 January 2012, Michał Michalewski who had acted in the capacity of the Chairman of the Audit Committee was dismissed from the Supervisory Board. As of 2 February 2012, the Supervisory Board appointed Jacek Kuciński and Włodzimierz Luty, who has been acting as the Chairman of the Audit Committee since 1 March 2012.

Personal composition of the Audit Committee as of the day of this report:

1. Włodzimierz Luty – Chairman of the Audit Committee,
2. Jacek Kuciński – Member of the Audit Committee,
3. Jacek Szyke – Member of the Audit Committee,
4. Marek Ściążko – Member of the Audit Committee,

Mode of operation

A detailed description of the Audit Committee operation is included in Regulations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.

The Audit Committee is an advisory and opinion-making body acting jointly as a part of the Supervisory Board and it performs a support and advisory function towards the Supervisory Board. The tasks of the Audit Committee are carried out by submitting motions, recommendations, opinions and statements on the scope of its tasks to the Supervisory Board, by means of resolutions passed by the Audit Committee. The Audit Committee is independent from the Company Management Board. The Management Board may not issue binding orders to the Audit Committee concerning performing its duties.

The Audit Committee consists of three to five members. The activities of the Audit Committee are managed by its Chairperson. Meetings of the Audit Committee are convened by the Chairperson of the Audit Committee on his/her own initiative or upon the motion of a member of the Audit Committee or Chairperson of the Supervisory Board.

Meetings of the Audit Committee take place as the need arises, but at least once every quarter. The Chairperson of the Audit Committee may invite members of the Supervisory Board, who are not members of the Audit Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company, including the chartered auditor to the meetings of the Audit Committee. The Chairperson of the Audit Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board. Report on the Audit Committee operations shall be submitted to the Supervisory Board at least once every six months.

The Audit Committee passes resolutions if at least half of its members were present at the meeting and all its members have been duly invited. Resolutions of the Audit Committee are passed by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain" The Audit Committee may pass resolutions in writing or by using means of direct remote communication.

The Company Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the Audit Committee. Every year, the Audit Committee provides public record information, through the Company, on the composition of the Audit Committee, number of meetings held and participation in the meetings during the year as well as on main activities. In particular, the Audit Committee confirms its positive assessment of the independence of financial audit process and submits a short description of steps taken to formulate such a motion.

The tasks of the Audit Committee cover:

- 1) monitoring of financial reporting process;
- 2) monitoring of the accuracy of financial information presented by the Company;
- 3) monitoring of the efficiency of internal control, internal audit and risk management systems existing in the Company;
- 4) monitoring of performing of financial revisions;
- 5) monitoring of independence and objectivity of chartered auditor and entity entitled to examine financial statements, including rendering by them services other than financial audit;
- 6) recommending of an entity entitled to examine financial statements to perform financial audit to the Supervisory Board.

In the financial year 2011, the Audit Committee was dealing, among others, with the following issues

- 1) monitoring and assessment of the efficiency of internal control, internal audit and risk management systems existing in the Company;
- 2) monitoring and assessment of independence of the financial revision process, including the objectivity of the chartered auditor examining unit financial statements of the Company and consolidated financial statements of TAURON Capital Group;
- 3) monitoring of financial reporting process;
- 4) analysis of reliability of financial information presented by the Company in Financial statement of TAURON Polska Energia S.A. in compliance with the International Financial Reporting Standards for the financial year ended on 31 December 2010 and recommendation for the Supervisory Board concerning assessment of the said report in relation to its compliance with the ledgers and documents as well as with the state of affairs;
- 5) analysis of reliability of financial information presented by the Company in Financial statement of TAURON Polska Energia S.A. in compliance with the International Financial Reporting Standards for the financial year ended on 31 December 2010 and recommendation for the Supervisory Board concerning assessment of the said report in relation to its compliance with the ledgers and documents as well as with the state of affairs;
- 6) analysis of reliability of financial information provided by the Company in the extended consolidated semi-annual report of TAURON Capital Group for the 1st half of 2011;
- 7) analysis of reliability of financial information provided by the Company in the extended consolidated quarterly reports of TAURON Capital Group for the 1st quarter of 2011 and the 3rd quarter of 2011;

Detailed description of the activities of the Audit Committee in the previous financial year is contained in the Report on activities of the Audit Committee, constituting the attachment to the Report of the Supervisory Board, submitted on annual basis to the General Meeting and published at the Company website <http://www.tauron-pe.pl/>.

5.11.4. Nominations and Remuneration Committee

The Nominations and Remuneration Committee was established on 27 August 2010 by the Supervisory Committee from among its members. At that time, the Nominations and Remuneration Committee Audit Committee consisted of three Members.

Personal composition of The Nominations and Remuneration Committee in the period 1 January 2011 – 30 May 2011

1. Antoni Tajduś – Chairman of the The Nominations and Remuneration Committee
2. Agnieszka Trzaskalska – Member of The Nominations and Remuneration Committee
3. Włodzimierz Luty – Member of The Nominations and Remuneration Committee

Changes in the personal composition of The Nominations and Remuneration Committee

Due to commencement of the Third Term of the Supervisory Board on 6 May 2011 and appointment of the members of the Supervisory Board of the new tenure, the Supervisory Board appointed the Nominations and Remuneration Committee of the Supervisory Board, consisting of four persons.

Personal composition of The Nominations and Remuneration Committee in the period 30 May 2011 – 31 December 2011 and as of the day of this report

1. Antoni Tajduś – Chairman of the Nominations and Remuneration Committee
2. Agnieszka Trzaskalska – Member of The Nominations and Remuneration Committee
3. Włodzimierz Luty – Member of The Nominations and Remuneration Committee
4. Jacek Kuciński – Member of The Nominations and Remuneration Committee

Mode of operation

A detailed description of the Nominations and Remuneration Committee operation is included in *Regulations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.*

The Nominations and Remuneration Committee is an advisory and opinion-making body acting jointly as a part of the Supervisory Board structure and it performs a support and advisory function towards the Supervisory Board. The tasks of the Nominations and Remuneration Committee are carried out by submitting motions, recommendations, opinions and statements on the scope of its tasks to the Supervisory Board, by means of resolutions passed by the Nominations and Remuneration Committee. The Nominations and Remuneration Committee acts independently from the Management Board of the Company. The Management Board may not give binding orders to the Nominations and Remunerations Committee on performing its duties.

The composition of the Nominations and Remunerations Committee consists of three to five members, including at least one independent member of the Supervisory Board. Activities of the Nominations and Remunerations Committee are managed by the Chairperson.

Meetings of the Nominations and Remunerations Committee are convened by the Chairperson of the Nominations and Remunerations Committee on his/her own initiative or upon the motion of a member of the Nominations and Remunerations Committee or upon the motion of the Chairperson of the Supervisory Board. Meetings of the Nominations and Remunerations Committee take place as the need arises. The Chairperson of the Nominations and Remunerations Committee may invite members of the Supervisory Board, who are not members of the Audit Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company, including the chartered auditor to the meetings of the Audit Committee. The Chairperson of the Nominations and Remunerations Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board.

The Nominations and Remunerations Committee passes resolutions, if at least half of its members have been present at the meeting and all its members have been duly invited. The resolutions of the Nominations and Remunerations Committee are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain". The Nominations and Remunerations Committee may pass resolutions in a written mode or by using means of direct remote communication.

The Company Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the Nominations and Remunerations Committee. Every year, the Audit Committee provides public record information, through the Company, on the composition of the Audit Committee, number of meetings held and participation in the meetings during the year as well as on main activities. The Nominations and Remunerations Committee submits to the Supervisory Board a report on its activities in a given financial year.

The tasks of the Nominations and Remunerations Committee include:

- 1) recommendations to the Supervisory Board on a recruitment procedure for the positions of members of the Company Management Board,
- 2) assessing candidates for members of the Management Board as well submitting an opinion in this scope to the Supervisory Board,
- 3) recommendations to the Supervisory Board on the form and contents of agreements concluded with members of the Management Board,
- 4) recommendations to the Supervisory Board on remuneration and bonus system of the members of the Management Board,
- 5) recommendations to the Supervisory Board on the need to suspend a member of the Management Board due to material reasons
- 6) recommendations to the Supervisory Board on the need to delegate a member of the Supervisory Board to temporarily perform the duties of members of the Management Board who cannot perform their duties together with a proposal of remuneration.

The Company Management Board provides the possibility to use the services of external advisers by the Nominations and Remuneration Committee in the scope required for performing the obligations of the Committee.

Detailed description of the activities of the Nominations and Remuneration Committee in the previous financial year is contained in the Report on activities of the Audit Committee, constituting the attachment to the Report of the Supervisory Board, submitted on annual basis to the General Meeting and published at the Company website <http://www.tauron-pe.pl/>.

5.12. Remuneration of key management and supervisory personnel

The total amount of remuneration understood as the value of salaries, awards and benefits received in cash, in kind or in any other form, disbursed by the Company to the Management Board Members for 2011 amounted to PLN 8,443 thousand. As the total amount of remuneration paid or due and awards for 2011, the gross value of remuneration paid or due for the period from January to December 2011 is provided.

The members of the Management Board of the Company are not covered by the incentive or bonus programme based on the capital of the Company, neither do they receive any remuneration or awards due to performance in governing bodies of subsidiaries of TAURON Capital Group.

Table No. 28 Remuneration of members of the Management Board for 2011 (data in PLN thousand)*

Surname and name	Period of holding the position in 2011	Remuneration and awards	Other benefits	Total
Lubera Dariusz	01.01.2011 - 31.12.2011	1,655	200	1,855
Schmid Joanna	01.01.2011 - 31.12.2011	1,238	129	1,367
Stolarczyk Dariusz	01.01.2011 - 31.12.2011	1,575	191	1,766
Zamasz Krzysztof	01.01.2011 - 31.12.2011	1,575	156	1,731
Zawadzki Krzysztof	01.01.2011 - 31.12.2011	1,575	149	1,724
Total		7,618	825	8,443

* no overheads

Remuneration of members of the Supervisory Board for 2011 is presented in the table below.

Table No. 29 Remuneration of members of the Management Board for 2011 (data in PLN thousand)*

Surname and name	Period of holding the position in 2011	Remuneration and awards	Other benefits	Total
Tajduś Antoni	01.01.2011 - 31.12.2011	127	0	127
Koziorowski Leszek	01.01.2011 - 31.12.2011	104	0	104
Kuciński Jacek	01.01.2011 - 31.12.2011	93	0	93
Luty Włodzimierz	01.01.2011 - 31.12.2011	93	0	93
Michalewski Michał	01.01.2011 - 31.12.2011	93	0	93
Szyke Jacek	01.01.2011 - 31.12.2011	93	0	93
Ściążko Marek	01.01.2011 - 31.12.2011	93	0	93
Trzaskalska Agnieszka	01.01.2011 - 31.12.2011	116	0	116
Total		812	0	812

Members of the Supervisory Board of the Company in 2011 did not receive remuneration or awards from companies of TAURON Capital Group because they had not held any positions in supervisory boards or management boards of these companies.

5.13. Agreements concluded with managing persons which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation is caused by merger of the Company through takeover

Between the Company and managing persons no agreements were concluded which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation is caused by merger of the Company through takeover.

6. OTHER SIGNIFICANT INFORMATION AND EVENTS

6.1. Proceedings pending in the court, competent arbitration authority or public authority body

During the reporting period no proceedings were pending in the court, competent arbitration authority or public authority body (related to the Company or subsidiaries of TAURON Capital Group) whose single or aggregate value would exceed 10% of the equity of the Company.

6.2. Important achievements in research and development

Comparing to the European or world competition, TAURON Capital Group is undoubtedly a very young group. However, the first years of its operations occur in the period which is very specific for the European, and particularly, the Polish energy sector. The need for urgent recovery of power in the electric power system on the one hand, and challenges resulting from the Climate Package, make TAURON Capital Group face a very difficult task. In order to tackle this challenge, it has become necessary to develop effective mechanisms of cooperation between TAURON Capital Group and universities as well as research and development centres. This cooperation has resulted in involvement of TAURON Capital Group in scientific and research projects, the results of which should assist TAURON Capital Group in preparing to the forthcoming challenges. Such activities are implemented not only at national level (e.g. participation in projects co-financed by the National Research and Development Centre) but also at international level (e.g. participation in activities of the Knowledge, and Innovation Community KIC InnoEnergy). Below, the most important achievements in the scope of research and development which occurred in 2011 are presented.

In 2011, activities took place, aimed at formal settlement of rules of participation of the Company and its subsidiaries in implementation of projects within the Knowledge, and Innovation Community KIC InnoEnergy. On 8 July 2011, the deed on formation of the company CC Poland Plus sp. z o.o. was signed, whose shareholders, besides the Company, include: the University of Science and Technology (Akademia Górniczo-Hutnicza), The Technical University of Silesia (Politechnika Śląska), The Jagiellonian University (Uniwersytet Jagielloński), The Technical University of Wrocław (Politechnika Wroclawska), the Institute of Chemical Coal Processing (Instytut Chemicznej Przeróbki Węgla), the Central Mining Institute (Główny Instytut Górnictwa), and the European company KIC InnoEnergy SE. The Agreement provided basis for operations of the Polish node (one of six in the EU) of Knowledge, and Innovation Community KIC InnoEnergy, established to conduct research and coordinate activities in the area of the so-called clean coal technologies. These tasks also constitute the tasks of the newly established company. On 9 September 2011 the Agreement on Cooperation was also signed between the Company and CC Poland Plus, which regulates rules of participation of the Company in activities of KIC InnoEnergy, as the partner of the status of Associated Partner. The aforementioned actions enabled to conclude on, 20 September 2011, the Project Agreement based on which TAURON Wytwarzanie participates in implementation of the project "Coal Gas".

On 7 October 2011 the Company, as one of the shareholders, entered into Agreement on Cooperation in the form of the special purpose vehicle under the name of Pierwiastki i Surowce Krytyczne sp. z o.o. Other signatories of the agreement include: KGHM Polska Miedź, ZGH Bolesław as well as the University of Science and Technology (Akademia Górniczo-Hutnicza). The goal of the company is to implement surveys, research and development in the area of production and processing of critical elements as well as production and sales of innovative solar panels. This project will enable the TAURON Capital Group to build additional competence in the scope of up-to-date technology for generating of green energy as well as to gain access to know-how on raw materials necessary to produce the solar panels.

In 2011 activities were continued involving research tasks implemented under the programme of research and development entitled Advanced Technologies of Acquisition of Energy, co-financed by the National Research and Development Centre. The Company, as the member of two consortia who won the project, participates in implementation of the first research task (Development of technologies for highly efficient, "zero-emission" coal units integrated with capturing CO₂ from exhaust) and the third research task (Development of technology of coal gasifying for highly efficient production of fuels and electric energy generation) .

TAURON Wytwarzanie is also involved in the project (in both above-mentioned tasks and the second task: Development of oxygen combustion technologies for dust and fluidised bed boilers integrated with CO₂ capture) as well as PKW (within the third task). In relation to implementation of the first task, activities are continued aimed at production of mobile pilot installation for CO₂ capturing as well as conducting of surveys in facilities belonging to TAURON Wytwarzanie. In 2011, the base design of the installation was generated.

On 9 December 2011 the Agreement of HTRPL Consortium was signed on High temperature Nuclear Reactor in Poland. The Research - Industrial Consortium was established in order to participate in the competition announced on 4 November 2011 by the National Research and Development Centre (NCBiR) under the strategic research project Technologies supporting the development of safe nuclear power industry, within the scope of Research Task No. 1 entitled: Development of high temperature reactors for industrial application. The leader of the established Consortium is the University of Science and Technology (Akademia Górniczo-Hutnicza) in Cracow. In December 2011 the offer was prepared to implement the research task, which was submitted to the NCBiR at the beginning of January 2012. Participation of the Company is related to implementation of the stage: Analysis of experience of the energy operator in application of cogeneration systems, from the perspective of potential implementation of high temperature reactors technology.

Moreover, in 2011 the detailed process-technology- economic study was executed, entitled Crossing the technological and non-technological barriers hampering application of carbon capture and storage in power plants. The study will be helpful for decision-making concerning directions of further activities of research and development character, conducted by TAURON Capital Group in the area of capturing and storage of carbon dioxide.

6.3. Issues concerning natural environment

The most important actions in the area of environmental protection

The most important actions in the area of environmental protection conducted in TAURON Capital Group in 2011:

- 1) completing of activities at block No. 2 in Jaworzno III Power Plant, aimed at reduction of NOx emission for units of 225 MW to the level of 200 mg/Nm³_u (deNOx) and performance of part of works at the unit No. 12 in Elektrownia Łaziska,
- 2) commencement of activities related to construction of generating unit OZE in Jaworzno III Power Plant - Elektrownia II.
- 3) implementation of projects under the EU *Operational Programme Infrastructure and Environment*; the projects refer to replacement of transformers WN/SN and SN/nN and they are implemented under the programme Effective energy distribution,
- 4) modernisation of hydro power plant EW Pilchowice I covering, among others, protection of river water against contamination with turbine oils,
- 5) construction of installation for ash removal of stone in the Mining Plant Janina.

Companies of TAURON Capital Group conduct the responsible policy in the scope of environmental protection and apply due diligence to ensure that the implemented investments are compliant with the requirements and consider the technological developments in the area of environmental protection.

Fees for economic use of the natural environment

In 2011 Companies of TAURON Capital Group incurred costs of fees due to economic use of the environment at the total amount of PLN 65,063 thousand.

The level of fees due to economic use of the environment. paid in 2011 by individual companies is presented in the table below.

Table No. 30 The level of fees due to economic use of the environment paid in 2011 by individual companies is presented in the table below.

No.	Company enterprise	Fees due to economic use of the environment in 2011 (in thousand PLN)
1.	TAURON Wytwarzanie	50,706
2.	PKW	8,936
3.	TAURON Dystrybucja	136
4.	EC Nowa	3,719
5.	EC Tychy	1,004
6.	TAURON Wytwarzanie	486
7.	Vattenfall Distribution Poland	3
8.	Vattenfall Network Services Poland	3
9.	KW Czatkowice	69
10.	TAURON EKOENERGIA	0.9
TOTAL		65,063

Simultaneously, in relation to compliance with the requirements of the use of the environment as well as the issue of regulating the formal and legal status in this area, it should be indicated that, due to unregulated issues of proprietary rights to lands on which the following hydro plants are located: Otmuchów, Głębinów and Turawa, the company TAURON EKOENERGIA did not hold permits for waste generation for the aforementioned hydro plants as well as permits for discharge of waste water to the water for EW Otmuchów and EW Głębinów.

The remaining companies of TAURON Capital Group covered by this report comply with the requirements concerning conditions of the use of environment and have regulated formal and legal status in this area.

Criminal sanctions for infringement of requirements in the area of environmental protection

Among companies of TAURON Capital Group, the following companies incurred criminal sanctions in 2011 due to infringement of the requirements in the area of environmental protection:

PKW

- 1) monetary fines at the level of PLN 6 thousand and PLN 56 thousand, in connection with detected exceeding of permissible values of the suspended matter and chemical oxygen demand in sewage discharged to the drainage system, charged by the Regional Enterprise of Water Supply and Sewage Systems,
- 2) additional fees at the level of PLN 54 thousand for exceeding of permissible values of parameters concerning the wastewater quality (general suspended matter and chemical oxygen demand) discharged to the sanitary drainage system, charged by the Regional Enterprise of Water Supply and Sewage Systems,
- 3) monetary fine at the level of PLN 1,363 thousand for exceeding of conditions for use of the environment detected in 2008, imposed on PKW Zakład Górniczy Janina in Libiąż, postponed to 30 June 2014.

EC Nowa:

- 1) monetary fine at the level of PLN 10 thousand for non-compliance with the regulations concerning waste management,
- 2) monetary fine at the level of PLN 99 thousand for exceeding of emission standards for dust, detected during the continuous measurements performed in 2009.

6.4. Policy on Corporate Social Responsibility (CSR)

Since 2009 in the Company, functional strategy of public relations and communication operates, the key element of which is focused on social responsibility of business.

Within the functional public relations strategy, the image of TAURON brand is built around four values: safety, care for local communities, sustainable development and ecology. In 2011, in acknowledgement that communication of CSR actions is particularly important in case of companies listed at stock exchange, for whom the image of socially responsible company is essential to attract investors and, simultaneously, to increase the value of the company, within the document *Strategy of TAURON Group for the years 2011- 2015, with estimates up to the year 2020*, the need to develop and implement the CSR strategy, within integration of PR function, at the level of the Company and TAURON Capital Group.

One of the priorities set in 2011 was the establishment of TAURON Foundation. The Management Board of the Company established TAURON Foundation in November 2011, adopting the project of its statute and appointing its governing bodies. Activity of TAURON Foundation is to allow for even more effective implementation of CSR actions within the area of care for safety of local communities and actions for public benefit. Moreover, the mechanism of employees' voluntary activities will allow for creation of the structure of representatives of TAURON Foundation working pro bono for the benefit of implementation of TAURON Foundation goals and for integration of employees around the performed activities.

TAURON Capital Group, acting in the area of southern Poland, has a leading position in energy sales and generation. These conditions cause that the scope of actions conducted for the benefit of the communities in which companies of TAURON Capital Group operate, is very broad. Many projects are supported which are important for inhabitants of the regions of Upper and Lower Silesia, Opolskie, Małopolska and Podkarpacie. One of the priorities is the sponsoring of sport, culture and ecology. Companies of TAURON Capital Group get involved in many projects in favour of important ideas. They include, among others, charity concert for small hearts in favour of the Clinic of Children's Cardio-surgery in Cracow, supporting of the idea of blood and bone marrow donors during the Agata Mróz Olszewska memorial, or supporting of Iskierka Foundation acting for the benefit of children with cancer. Last year, one of the projects on promoting of sports activity and basketball among children and teenagers was the action "Basketmania in Orliki".

The Company is the signatory of the declaration signed on 17 June 2009 during the national conference of the cycle "Responsible Energy", covering the principles of sustainable development in energy sector in Poland. The objective of the document is to implement the principles of sustainable development in the sector, to guarantee the development of environmental protection and broadly understood social development.

An important aspect of CSR activities in TAURON Capital Group is the action "Houses of Positive Energy" addressed to 24-hours custody and caretaking facilities. In 2011, the edition of this action covered for the first time all the facilities within the area of operations of TAURON Capital Group. The main objective of this action is the improvement of living conditions of children from orphanages. The project attracted substantial interest, with 79 orphanages participating. On 13 December 2011, the ceremonial final of the action took place during which the winning orphanages (one from each of the provinces) received financial awards.

The Company also cooperates with the Mining Voluntary emergency Service (GOPR), the goal of which is to increase safety in the mountains. The Company is the strategic partner of the internet GOPR training concerning activity in the mountains, covering such issues as: summer activity (mountain bike, climbing, cave exploring), winter activity (skiing and snowboard, avalanches), travelling to high mountains (high mountain tourism, arrangement of trips, height, glaciers, actions of emergency services).

Companies of TAURON Capital Group, together with the Polish Society of Transmission and Distribution of Electric Energy, have been involved in the national action "Safer with the current" for six years. The project is aimed at raising awareness among children and teenagers concerning appropriate use of electric devices. Promoting of behaviours connected with appropriate dealing with electric energy significantly reduces the accident risk. For some time, the issues of rational and ecological use of electric energy have also been incorporated into the programme, which contributes to improvement of the environmental conditions. The campaign is carried out under the patronage of the Minister of National Education, Children's Rights Ombudsman and President of URE.

Every year, within the campaign, national competitions (painting and photography) are organised, addressed to children and teenagers from primary and secondary schools as well as to teachers. Since the beginning, employees of TAURON Dystrybucja have been actively involved in the campaign "Safer with the current", providing classes in schools and kindergartens, teaching the youngest and the teenagers how to use electricity safely. Every year several dozen of educational facilities and several thousand children use this form of training.

The popularity of this action is increased due to competitions addressed to children and teenagers from primary and secondary schools. Younger children learn safe principles of using the electric devices and appropriate behaviour in the vicinity of electric energy infrastructure. Older children gain knowledge of electric energy, its generation, transmission, application and ways of use. Due to the action "Safer with the current", the image of TAURON Capital Group is strengthened, as the entity actively participating in the social life of the region, and the TAURON Capital Group is better recognisable among children and the youth.

6.5. Awards and distinctions

25 May 2011

The Company was ranked **10th in the List of 500 of "Rzeczpospolita" daily**, and in the **ranking of "The most valuable enterprises of the Rzeczpospolita"**, accompanying the List of 500, it was ranked at **18th position**. The Company was evaluated at almost 11 billion PLN. The Holding was also ranked at 23rd position in the ranking of companies which enhanced effectiveness.

26 June 2011

TAURON EKO Premium, the ecological product of the Company received the award **Ecolaur of the Decade of the Polish Chamber of Ecology**, which has been awarding projects and products friendly for environment for 10 years. TAURON EKO Premium is the first and currently the only energy from renewable sources in Poland, the origin of which is confirmed by the Polish Society of Energy Certification. The Product is offered within the system of Guarantee of Energy Sales. It confirms that energy comes totally from renewable sources (among others, from hydro power plants), and its production is performed in the environmentally-friendly way, without any adverse effects on the environment.

07 September 2011

The Council of the Economic Forum in Krynica acknowledged the Company as the leader on energy market, the **best company of Central and Eastern Europe**, which noted **the best debut at the stock exchange in 2010**. According to the jury, the Company proved that under difficult conditions of economy under transformation, it is possible to be successful, due to daring investment and good management. As the Council stressed - the success is even more significant as it was achieved during the economic crisis which has substantially deteriorated situation of many leading companies.

08 September 2011

TAURON Capital Group was ranked on **23rd position of the List of 500 biggest companies of Central and Eastern Europe** prepared by "Rzeczpospolita" and the consulting company Deloitte. In the **list of 20 biggest energy and raw material companies**, accompanying the ranking, TAURON Capital Group took the 13th position.

19 October 2011

The Company is the winner of **the award "New Impulse" for 2011**. "New Industry", granting the award, stated in the justification that the Company received this distinction, among others, for determination in implementing of the development strategy, strengthening its position on the market. According to "New Industry", TAURON also demonstrates the potential and capacity still held by the Polish energy industry, and by taking over GZE proves that the Polish corporation is not only able to develop organically, but also to build the company value through takeovers in competition with the foreign rivals.

21 October 2011

The Company was **awarded in the competition "The Best Annual Report 2010"** for the quality of the consolidated financial statement included in the report of TAURON Capital Group for 2010. Evaluating the annual report, members of the committee assessing the application of international accounting standards and international financial reporting standards stressed that the annual financial statement allows for transparent and aggregated way of assessing of the financial situation of the Company, its results and cash flows.

6.6. Investor relations

Since the beginning of its stock exchange listing, the Company pays particular attention to the quality of the implemented communication strategy. Communication with investors' environment is implemented with the use of obligatory activities, i.e. by communication of publicly available current and periodical reports as well as through participation in numerous investors' conferences, road shows as well as meetings with analysts and fund managers during which the data and information is discussed, as published by the Company within the current and periodical reports. In 2011 the Management Board and representatives of Investors' Relations Office participated in ten conferences and four road shows, during which over 120 meetings with about 170 managers were held. Meetings with corporate investors were held in main financial centres of Europe and North America, among others, in New York, London, Paris and Frankfurt.

Publication of periodical reports of the Company, the Company was combined with organisation of four conferences for analysts and managers, during which members of the Management Board discussed financial results published in the reports and presented key achievements in individual periods. The conferences were transmitted on Internet in Polish and in English. The investors also had a possibility to ask questions during the conference via electronic mail.

In 2011 the Company also undertook a number of actions addressed to other, extremely important group of shareholders - individual investors. The Company has become the strategic partner of the Programme "Citizens' Shareholding". The Programme, initiated by the Ministry of Treasury during the stock exchange debut of the Company, PZU SA and GPW, was supported by educational actions concerning safe investment at the capital market. The objective of the Programme was to encourage the Poles to active and aware participation in economic life of the country, through active saving and investing in shares of privatised companies and stock exchange instruments. Within the programme "Citizens' Shareholding", representatives of the Company participated in several dozen meetings with individual investors all over Poland, within which they delivered presentations and answered investors' questions concerning investors' relations, investing and operations of TAURON Capital Group. During the discussed period, the Company actively cooperated with the Association of Individual Investors - in April it participated in the project "Academy of investing", while in June - in the biggest conference for individual investors, "Wall Street" in Zakopane.

On 2-3 April 2011, the Investor's Days were organised, within which the analysts and managers invited had a possibility to get acquainted with selected assets of TAURON Capital Group and to participate in the cycle of presentations provided by members of the Management Board. About 40 analysts and managers participated in the event.

The useful tool for communication with investors is the Company website, within which the constantly updated section "investor relations" operates, containing, among others, information of the structure of shareholders, financial results, dividend policy, general meetings, analysts providing recommendations concerning the Company shares as well as video broadcasts of conferences summarising the quarterly reports.

Company name

Katowice, 6 March 2012

Dariusz Lubera - President of the Board

Joanna Schmid - Vice-President of the Board

Dariusz Stolarczyk - Vice-President of the Board

Krzysztof Zamasz - Vice-President of the Board

Krzysztof Zawadzki - Vice President of the Board

Schedule A: Glossary of terms and list of abbreviations

Below the glossary of trade terms and list of abbreviations most commonly used in this report, is presented

Table No. 31 Explanation of abbreviations and trade terms applied in the text of the report

Abbreviation and trade term	Full name/explanation
BELS INVESTMENT	BELS INVESTMENT sp. z o.o. with the seat in Jelenia Góra
CAO	Central Allocation Office GmbH with the seat in Freising, Germany
Cash pooling	Cash pooling operating in the Company - consolidation of balances of bank accounts through physical cross-posting of cash from accounts of TAURON Capital Group in the bank in which cash pooling operates to the bank account of Pool Leader whose function is fulfilled by the Company. At the end of each working day, from cash is cross-posted from the bank accounts of companies of TAURON Capital Group which show positive balance to the bank account of Pool Leader. At the beginning of each working day, bank accounts of companies of TAURON Capital Group are credited from the bank account of the Pool Leader with the amount demanded to maintain cash flow of the company of TAURON Capital Group on a given working day.
CC Poland Plus	CC Poland Plus sp. z o.o. with the seat in Cracow
CER	(Certified Emission Reduction – a unit of confirmed emission reduction - reduced emission of greenhouse gases or avoided emission of greenhouse gases, expressed as equivalent, obtained as a result of the project on mechanism of clean development
Certificates	Proprietary rights resulting from certificates of origin of energy generated in the way subject to support, the so-called coloured certificates: <ul style="list-style-type: none"> – green - certificates of origin of electric energy from renewable energy sources, – red - certificates of origin of electric energy from cogeneration (CHP certificates Combined Heat and Power), – yellow - certificates of origin of electric energy generated in cogeneration from sources of total installed capacity below 1 MW or gas-burning, – violet - certificates of origin of electric energy generated in cogeneration, burning methane released and captured during underground mining works in active, under liquidation or liquidated hard coal mines, or burning gas acquired from biomass processing. – white - certificates confirming gaining of energy savings within the meaning of the Act of energy effectiveness, – brown - certificates confirming forcing agricultural biogas to the network.
CSR	(Corporate Social Responsibility) social responsibility of business
EBIT	(Earnings Before Interest and Taxes) result on operating activity before taxing
EBITDA	(Earnings before Interest, Taxes, Depreciation and Amortization result on operating activity before taxing, increased by amortization and depreciation
EC Nowa	Elektrociepłownia EC Nowa sp. z o.o. with the seat in Dąbrowa Górnicza
EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A.with the seat in Stalowa Wola
EC Tychy	Elektrociepłownia Tychy S.A. with the seat in Tychy
EnergiaPro	EnergiaPro S.A. with the seat in Wrocław (currently: TAURON Dystrybucja)
ENION	ENION S.A. with the seat in Cracow (taken over by EnergiaPro)
ERU	(Emission Reduction Unit – unit of emission reduction – reduced emission of greenhouse gases or avoided emission of greenhouse gases, expressed as equivalent, or one mega gram (1 Mg) of absorbed carbon dioxide (CO ₂), obtained as a result of the execution of the joint implementation project
ESW	Elektrownia Stalowa Wola S.A. with the seat in Stalowa Wola (taken over by PKE)
EU ETS	(European Union Emission Trading System) the European system of CO ₂ emission allowances
EUA	(European Union Allowances) - authorisation to introduce the equivalent to the air, within the meaning of art. 2 item 4 of the Act of 17 July 2009 on the system of management of emissions of greenhouse gases and other substances, carbon dioxide (CO ₂), which is used for settlements of emission size within the system, which can be managed based on principles specified in the Act of 28 April 2011 on the system of greenhouse gases emission allowances trading (Journal of Laws No. 122, item 695)
GPW	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) with the seat in Warsaw
TAURON Capital Group	TAURON Polska Energia S.A. Capital Group
"TAURON Group"	TAURON Group established by the Management of the Company pursuant to the Code, comprising the Company and selected companies of TAURON Capital Group.
GUS	Chief Statistical Office (Główny Urząd Statystyczny)
GZE	Górnśląski Zakład Elektroenergetyczny S.A. with the seat in Gliwice

IRGIT	Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House) with the seat in Warsaw
IRIESD	instructions of transmission grid operation and maintenance
JWCD	Centrally disposed Generating Units
LTC	(Long-term contracts) – long-term contracts on sales of power and electric energy, listed in the Appendix No. w to the Act of 29 June 2007 on principles of covering of the costs incurred by producers due to the premature termination of long-term contracts for sales of power and electric energy (Journal of Laws No. 130, item 905, as amended)
Code	The document entitled <i>Code of TAURON Group</i> , adopted by the Management Board of TAURON Polska Energia S.A.
Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.
Nominations and Remuneration Committee	Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A.
Kompania Węglowa	Kompania Węglowa S.A. with the seat in Katowice
KSE	(National Power System)
KW Czatkowice	Kopalnia Wapienia Czatkowice sp. z o.o. with the seat in Krzeszowice
Lipniki	Lipniki sp. z o.o. with the seat in Wrocław
MEGAWAT MARSZEWO	MEGAWAT MARSZEWO sp. z o.o. with the seat in Jelenia Góra
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
NFOŚiGW	National Fund of Environmental Protection and Water Management with the seat in Warsaw
Business Area	Area of operations of subsidiaries included in TAURON Group, determined by the Company, constituting the business segment of TAURON Group
Management Area	Management Area indicated in the List of Management Areas, i.e. the document issued by the Management Board of the Company, pursuant to the Code, established based on Corporate Strategy and included in the business model of TAURON Group
DSO	Distribution System Operator
RES	Renewable Energy Sources
PEC Katowice	Przedsiębiorstwo Energetyki Ciepłej Katowice S.A. with the seat in Katowice (currently: TAURON Wytwarzanie)
PEC in Dąbrowa Górnicza	Przedsiębiorstwo Energetyki Ciepłej w Dąbrowie Górniczej S.A. with the seat in Dąbrowa Górnicza (taken over by PEC Katowice)
PEPKH	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. with the seat in Katowice
PGK	Tax Capital Group
GDP	Gross Domestic Product
PKE	Południowy Koncern Energetyczny S.A. with the seat in Katowice (currently: TAURON Wytwarzanie)
PKW	Południowy Koncern Węglowy S.A. with the seat in Jaworzno
PSE Operator	Polskie Sieci Elektroenergetyczne Operator S.A. with the seat in Konstancin-Jeziorna
(PŚZiPZ Elvita - Jaworzno III).	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia Elvita - Jaworzno III sp. z o.o. with the seat in Jaworzno
Organisational Regulations/ Bylaws	Document entitled <i>Organisational Regulations of TAURON Polska Energia S.A.</i>
ROIC	(Return On Invested Capital) return on invested capital
RUS	Regulatory System Services - services provided by entities in favour of transmission system operator, required for adequate functioning of the National Power System, providing for maintenance of determined values of reliability and qualitative parameters
SPOT (SPOT Market)	In relation to electric energy, it is the place of concluding of trade transactions for electric energy, for which the period of delivery falls at the latest, three days after the date of transaction (usually one day before the date of delivery). Operating of SPOT market for electric energy is strongly related to operating of the Balancing Market provided by the Operator of Transmission Grid
Company	TAURON Polska Energia S.A. with its seat in Katowice
Corporate Strategy	The document entitled <i>Corporate Strategy of TAURON Group for 2011 - 2015 with estimates until the year 2020</i> , being the update of the document <i>Corporate Strategy of TAURON TAURON Polska Energia S.A. Capita; Group for 2008-2012 with estimates until the year 2020</i> .
TAURON Ciepło	TAURON Ciepło S.A. with its seat in Katowice
TAURON Czech Energy	TAURON Czech Energy s.r.o. with its seat in Ostrava, Czech Republic
TAURON Dystrybucja	TAURON Dystrybucja S.A. with its seat in Cracow
TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with its seat in Jelenia Góra
TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław
TAURON Wytwarzanie	TAURON Sprzedaż sp. z o.o. with the seat in Cracow
TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with the seat in Katowice

TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange) with the seat in Warsaw
TPA	(Third-party Access) - the principle based on the owner or operator making available the grid infrastructure to the third parties in order to supply goods/services to clients of the third party (it may refer to transmission or sales of electric energy, telecommunication services or railway services)
EU	the European Union
UOKiK	Office for Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
ERO	Energy Regulatory Office
Vattenfall Business Services Poland	Vattenfall Business Services Poland sp. z o.o. with the seat in Gliwice
Vattenfall Distribution Poland	Vattenfall Distribution Poland S.A. with the seat in Gliwice
Vattenfall Network Services Poland	Vattenfall Network Services Poland sp. z o.o. with the seat in Gliwice
Vattenfall Sales Poland	Vattenfall Sales Poland sp. z o.o. with the seat in Gliwice
Vattenfall Wolin – North,	Vattenfall Wolin – North sp. z o.o. with the seat in Gliwice
Wdkj	Value of net financial result on operating activity of the generator, adjusted by amortization, available for servicing of equity and external capital for calendar year "j", while the value of net financial result for the year, in which the longest long-term agreement for the specific generator expires, is decreased pro rata against the number of days of effectiveness of this agreement in this year, calculated in accordance with item 4 of the Act of 29 June 2007 r. <i>on principles of covering of the costs incurred by producers due to the premature termination of long-term contracts for sales of power and electric energy</i>
WFOŚiGW	Regional Fund of Environmental Protection and Water Management in Katowice
GM	General Meeting/ Shareholders' Meeting
ZEC w Bielsku-Białej	Zespół Elektrociepłowni Bielsko-Biała

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