



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

**MARCH 2012**

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**Schedule A: Glossary of terms and list of abbreviations**

**Schedule B: List of tables and figures**

## 1. ORGANISATION OF TAURON POLSKA ENERGIA S.A.

### 1.1. Basic Information on TAURON Capital Group and the Company

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

#### General information

Name (business name): TAURON Polska Energia Spółka Akcyjna;

Legal form: spółka akcyjna (joint stock company);

Seat: Katowice;

Website: [www.tauron-pe.pl](http://www.tauron-pe.pl);

National Court Register: District Court Katowice - Wschód in Katowice;

NCR No.: 0000271562;

Tax Identification Number NIP: 9542583988;

National Official Business Register REGON: 240524697;

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

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

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

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

Nominal value of one share: PLN 5.

The Company does not have branches (plants).

## Structure of TAURON Capital Group

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

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

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

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

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

- 1) Vattenfall Distribution Poland S.A. (Vattenfall Distribution Poland)<sup>1</sup> - providing electric energy distribution services,
- 2) Vattenfall Network Services Poland sp. z o.o. (Vattenfall Network Services Poland)<sup>2</sup> - dealing with **maintenance of facilities included in the distribution grid of Vattenfall Distribution Poland**,
- 3) Vattenfall Wolin – North sp. z o.o. (Vattenfall Wolin – North)<sup>3</sup> - 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.

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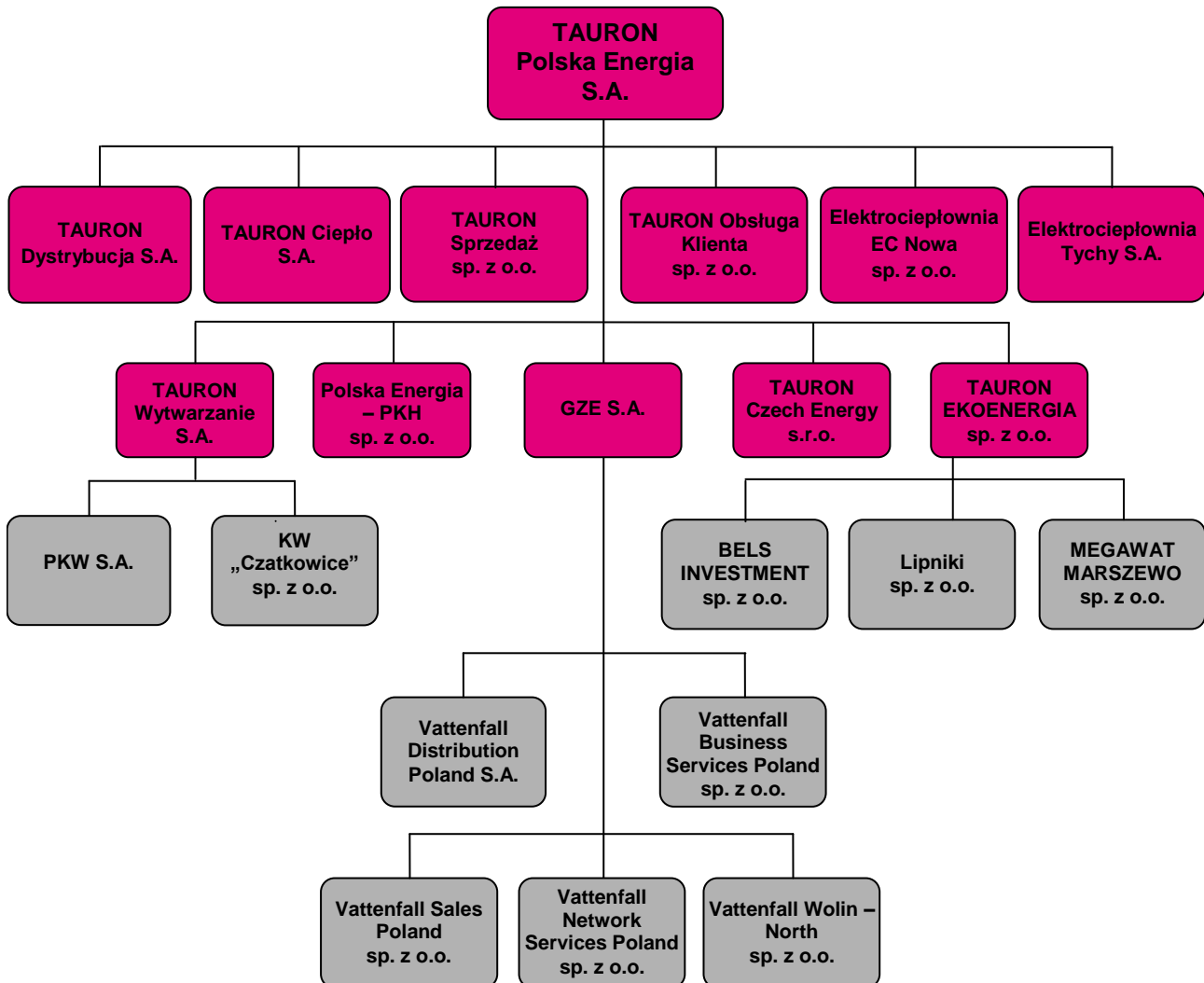
<sup>1</sup> On 20 February 2012, the District Court in Gliwice registered the change of company name to TAURON Dystrybucja GZE S.A. in KRS.

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

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

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

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

## **1.2. TAURON and TAURON Capital Group management concept**

### **1.2.1. TAURON and TAURON Capital Group management principles**

#### **TAURON management principles**

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

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

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

Vice-Presidents of the Management Board:

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

Directors of Departments:

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

#### **"TAURON Group" management principles**



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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **1.2.2. Changes in TAURON and TAURON Capital Group management principles**

#### **Changes in TAURON management principles**

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

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

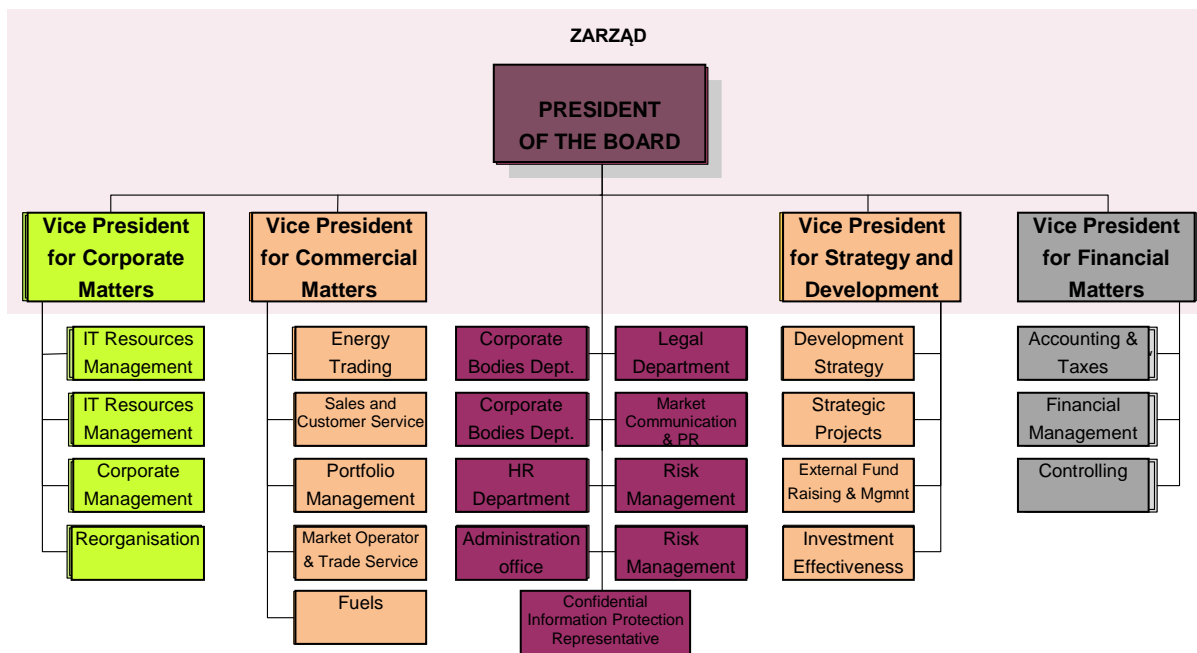
Amendments to the By-laws were adopted by the resolution of the Supervisory Board of 28 April 2011.

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

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



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 the specific Business Area.

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

### Development and implementation of Cooperation Rules in Management Areas

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

- 1) designing of strategy and development methods;
- 2) trading of fuel, energy and related products;
- 3) strategic investment projects;

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

### 1.3. Organisational or capital relationships

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

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

No.	Company name	Address	Core business area	Direct share in the company equity	Entity holding stocks/shares as of 31 December 2011	Direct share in the company governing body	Entity holding stocks/shares as of 31 December 2011
1.	TAURON Wytwarzanie	40-389 Katowice ul. Lwowska 23	Generation, transmission and distribution of electric energy and heat	99.72%	Company – 99.72%	99.72%	Company – 99.72%
2.	TAURON Dystrybucja	30-390 Kraków ul. Zawila 65 L	Distribution of electric energy	99.38%	Company – 99.38%	99.51%	Company – 99.51%
3.	TAURON Sales	30-417 Kraków ul. Łagiewnicka 60	Sales of electric energy	100.00%	Company – 100.00%	100.00%	Company – 100.00%
4.	TAURON Customer Service	53-128 Wrocław ul. Sudecka 95-97	Services (customer service)	100.00%	Company – 100.00%	100.00%	Company – 100.00%
5.	TAURON EKOENERGIA	58-500 Jelenia Góra ul. Obrońców Pokoju 2B	Generation and trading of electric energy	100.00%	Company – 100.00%	100.00%	Company – 100.00%
6.	EC Tychy	43-100 Tychy ul. Przemysłowa 47	Generation of electric energy, production and distribution of heat	95.47%	Company – 95.47%	99.05%	Company – 99.05%
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 <sup>1</sup>	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 <sup>1</sup>	43-600 Jaworzno ul. Grunwaldzka 37	Hard coal mining	52.33%	TAURON Wytwarzanie – 52.48%	67.82%	TAURON Wytwarzanie – 68.01%
3.	(BELS INVESTMENT),	58-500 Jelenia Góra ul. Obrońców Pokoju 2B	Generation of electric energy	100.00%	TAURON EKOENERGIA – 100.00%	100.00%	TAURON EKOENERGIA – 100.00%
4.	MEGAWAT MARSZEWO	58-500 Jelenia Góra ul. Obrońców Pokoju 2B	Generation of electric energy	100.00%	TAURON EKOENERGIA – 100.00%	100.00%	TAURON EKOENERGIA – 100.00%
5.	Lipniki	52-420 Wrocław ul. Tadeusza Mikulskiego 5	Generation of electric energy	100.00%	TAURON EKOENERGIA – 100.00%	100.00%	TAURON EKOENERGIA – 100.00%
6.	Vattenfall Distribution Poland	44-100 Gliwice ul. Portowa 14a	Distribution of electric energy	99.98%	GZE – 100%	99.98%	GZE – 100%
7.	Vattenfall Sales Poland	44-100 Gliwice ul. Barlickiego 2a	Electric energy trading	99.98%	GZE – 99.998%, Vattenfall Network Services Poland – 0.002%	99.98%	GZE – 99.998% Vattenfall Network Services Poland – 0.002%
8.	Vattenfall Network Services Poland	44-100 Gliwice ul. Myśliwska 6	Repairs and maintenance of machines and electric equipment, electric installations, construction of electric power lines	99.98%	GZE – 99.8%, Vattenfall Sales Poland– 0.2%	99.98%	GZE – 99.8%, Vattenfall Sales Poland– 0.2%
9.	Vattenfall Wolin-North	44-100 Gliwice ul. Barlickiego 2	Generation of electric energy	99.98%	GZE – 100%	99.98%	GZE – 100%
10.	Vattenfall Business Services Poland	44-100 Gliwice ul. Wybrzeże Armii Krajowej 19b	Services	99.98%	GZE – 100%	99.98%	GZE – 100%

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

## 1.4. Major domestic and foreign investment

### 1.4.1. Purchase of shareholding securities

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

## Purchase of GZE stocks

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

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

## Increase of share in PEPKH company

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

### 1.4.2. Purchase of debt securities and other securities

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

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

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

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

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

## 2. OPERATIONS OF TAURON POLSKA ENERGIA S.A.

### 2.1. Timeline of key events

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

**Table No. 5 Timeline of key events**

Month	Events
January	<ul style="list-style-type: none"> <li>Incorporation of PKW and KW Czatkowice to "TAURON Group" established by the Management Board of the Company based on the Code.</li> </ul>
February	<ul style="list-style-type: none"> <li>Appointment of members of the Management Board for the third term by the Supervisory Board.</li> </ul>
March	<ul style="list-style-type: none"> <li>Signing of Agreements by the Company concerning the project of construction of the steam and gas fired unit in Stalowa Wola (on operations of the EC Stalowa Wola, sales of electric energy, supply of gas fuel).</li> <li>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.</li> </ul>
April	<ul style="list-style-type: none"> <li>Signing of agreement by the Company, based on which the decision has been taken that further construction works of the unit of 800-910 MW in Elektrownia Blachownia in Kędzierzyn-Koźle will be conducted based on the assumption of selection of the gas fuel.</li> <li>Adoption of update for TAURON Group Corporate Strategy for the years 2011 - 2015 with a view to 2020 (Corporate Strategy).</li> </ul>
May	<ul style="list-style-type: none"> <li>Appointment of Members of the Supervisory Board for the third term by the GM.</li> <li>Convening of Ordinary General Meeting for the financial year 2010.</li> </ul>
June	<ul style="list-style-type: none"> <li>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.</li> </ul>
July	<ul style="list-style-type: none"> <li>Confirmation of the long-term foreign and local currency ratings for the Company at BBB level, with stable outlooks by the Fitch Rating Agency.</li> <li>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.</li> <li>Signing of agreement on purchase of PEPKH shares by the Company.</li> </ul>
August	<ul style="list-style-type: none"> <li>Signing of a preliminary agreement by the Company to purchase shares in GZE.</li> <li>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.</li> </ul>
September	<ul style="list-style-type: none"> <li>Signing of agreement on establishment of Capital Tax Group.</li> </ul>
October	<ul style="list-style-type: none"> <li>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.</li> </ul>



	<ul style="list-style-type: none"> <li>Entering of the Company into the agreement on cooperation under the form of the special purpose vehicle holding the name of Pierwiastki i Surowce Krytyczne sp. z o.o. providing the platform for cooperation in the scope of research on optimum technology for production of solar panels.</li> </ul>
<b>November</b>	<ul style="list-style-type: none"> <li>Registering of PGK by the Tax Office in Sosnowiec.</li> <li>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.</li> </ul>
<b>December</b>	<ul style="list-style-type: none"> <li>Issue of bonds by the Company at the total value of PLN 3,300,000 thousand.</li> <li>Signing of agreement on sales of GZE stocks in favour of the Company.</li> </ul>

## 2.2. Basic products, goods, services

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

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

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

The core business of the Company, in addition to management of the holding company, is a wholesale energy trading and wholesale trade of certificates of origin for electricity and CO<sub>2</sub> emissions.

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

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

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

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

Another important area of business activity is the management of CO<sub>2</sub> Installation Group for the needs of TAURON Capital Group production companies, which aims to reduce the cost of redemption of CO<sub>2</sub> emission level of the TAURON Capital Group and obtain additional margin in relation to turnover. Furthermore, the Company, under the current agreements provides portfolio management services on CO<sub>2</sub> emission allowances for external clients, consisting in the purchase and sale of CO<sub>2</sub> emission allowances to the client.

Trade in CO<sub>2</sub> emissions takes place on the futures market, and SPOT, mainly through the Paris exchange BlueNext and on the OTC market. Primarily traded are instruments such as the EUA (European Union Allowances) and CER (Certified Emission Reduction), occasionally ERU (Emission Reduction Unit). The market for CO<sub>2</sub> allowances is the European market, developed and relatively smooth, allowing efficient emission portfolio management within the TAURON Group.

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

### 2.3. Potential customers market and sources of supply

In 2011, the structure of the wholesale energy trading was affected by the changes resulting from amendments to the Act of 10 April 1997, *Energy Law*, which enforces the requirement on the generating entity to sell electricity through an open tender on the internet trading platform in the regulated market or on the commodity exchanges. The main beneficiary of the Act and place of the highest concentration of demand and supply has become a Towarowa Giełda Energii S.A. (TGE), where the Company purchases the majority of the energy entering into transactions on both the futures and SPOT market. The company bought 29.1 TWh on the TGE in 2011, which accounted for nearly 72% of the total purchase. In connection with the above described amendment to the energy law, from manufacturing companies belonging to the TAURON Group purchased power volume was significantly less than in the previous year. The volume of purchases of electricity is presented in the following table.

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

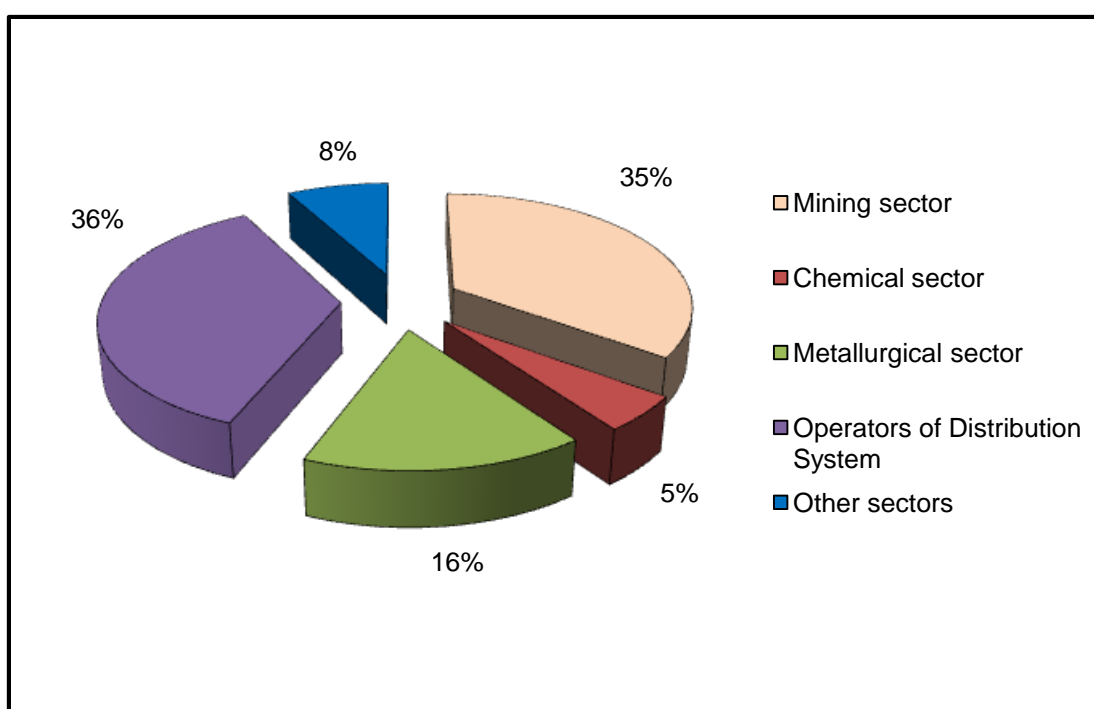
Specification	Year 2011	Year 2010	Dynamics (2011/2010)
The total volume of electricity purchased	40.5	35.6	113.8%
Purchase from manufacturers (TAURON Capital Group and outside TAURON Capital Group)	2.3	20.2	11.4%
Purchase from trading companies (outside of the TAURON Group) and energy exchange	37.0	14.1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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Payment of dividend by the Company**

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

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

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

On 10 June 2011 the Company received a letter from Kompania Węglowa concerning the contract on the Joint Venture, described in the prospectus of the Company of 8 April 2010. Pertaining to this agreement, the Company and Kompania Węglowa made a commitment to undertake actions aimed at contributing of the enterprise KWK "Bolesław Śmiały" by Kompania Węglowa to the special purpose vehicle, and to contribute all the shares held by Kompania Węglowa in PKW to the company, in exchange for new in-kind contribution in the increased share capital of the Company addressed to Kompania Węglowa. In the said letter, the Management Board of Kompania Węglowa stated that they did not accept the value of the organised part of the enterprise of Kompania Węglowa – Oddział KWK "Bolesław Śmiały" as well as the value of shares held by Kompania Węglowa S.A. in PKW, resulting from the performed valuation of assets. Furthermore, the Management Board of Kompania Węglowa stated that they had decided to withdraw from the Contract on the Joint Venture of 8 April 2011, with the consequent expiration of the Contract. The Company informed of this event in the current report No. 36/2011 of 10 June 2011.

## **Maintenance of the BBB rating for the Company**

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

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

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

## **Other**

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

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

## **2.5. Information on agreements concluded by the Company**

### **2.5.1. Significant agreements for business of the Company**

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

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

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

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

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

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

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

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

### **Concluding of agreement increasing the value of the bond issue programme**

On 28 October 2011, between the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Nordea Bank Polska S.A., Nordea Bank AB, the annex was concluded to the Guarantee Agreement, Agency Agreement and Deposit Agreement and the Conversion Agreement, on the basis of which the value of bond issue programme of the Company was increased within tranche C by PLN 3,000.000 thousand, i.e. to the total amount of PLN 4,300,000 thousand.

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

### **Concluding of agreement on establishment of PGK**

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

### **Concluding of significant agreement with Electrabel NV/SA**

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

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

## Purchase of GZE stocks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

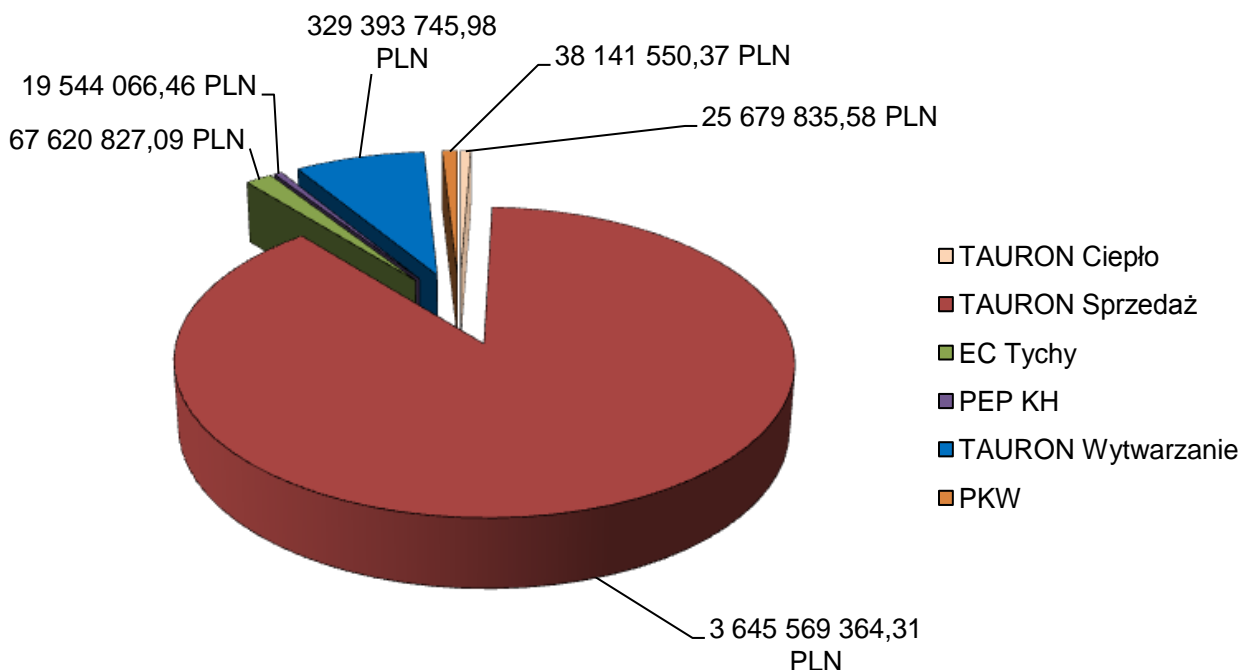
Company in the fiscal year 2011 did not terminate any credit and loans agreements.

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

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

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

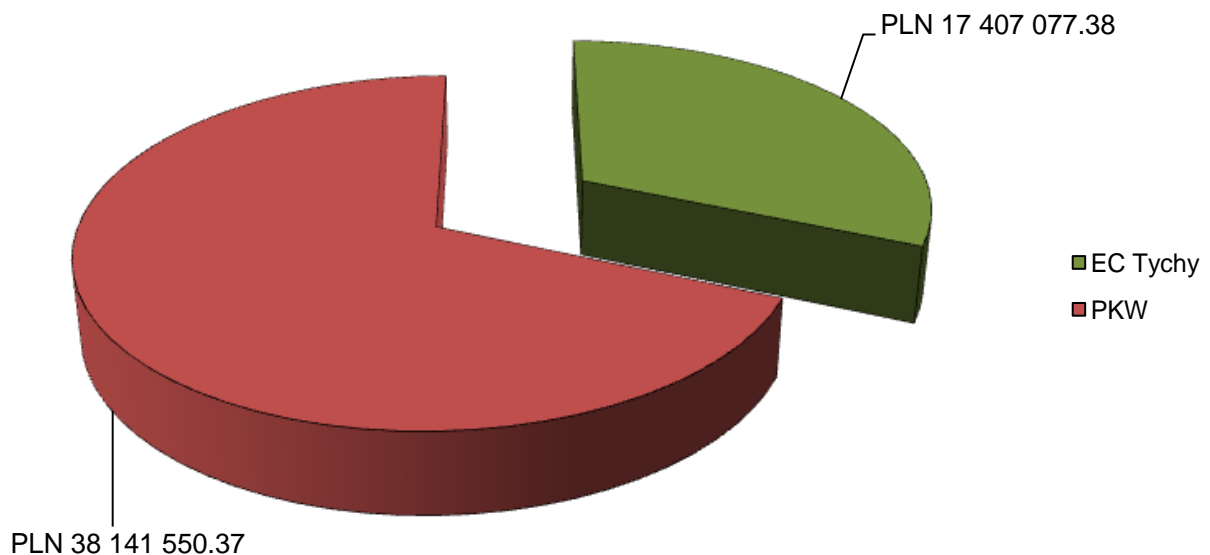
**Figure No. 4 Total amounts of loans granted by the Company in 2011, within the cash pooling structure**





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

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



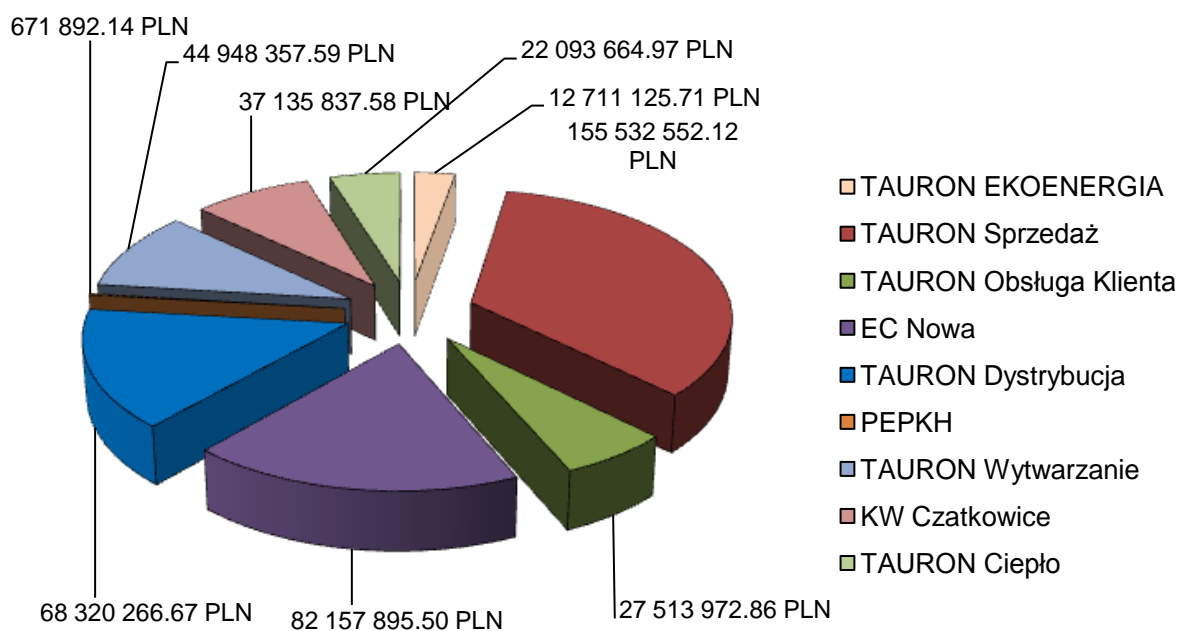
On the other hand, the total amount of loans granted to the Company by its subsidiaries, i.e. the aggregate amount of all multiple loans granted during the year, subjected to multiple repayment within the cash pooling, is presented in the figure below.

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

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

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



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

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

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

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

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

No.	Beneficiary	Agreement	Party to the agreement	Amount in PLN thousand	Currency	Effective term
1	Polskie Sieci Elektroenergetyczne Operator S.A. (PSE Operator)	Agreement on collateral	TAURON Wytwarzanie	4,000	PLN	Indefinite time
2	WFOŚiGW	Agreement on financing commitment	EC Tychy	87,040	PLN	24.02.2012
3	UniCredit Bank Czech Republic	Guarantee Agreement	TAURON Czech Energy	20,000	CZK	08.06.2012
4	Ministry of Economy	Agreement on financing surety	TAURON Wytwarzanie	200,000	PLN	31.12.2012

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

\*Guarantee issued on 14.12.2011 effective from 01.01.2012

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

**Table No. 11 List of guarantees raised under the limit**

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

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

**Table No. 12 List of guarantees raised under the limit**

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

\*Guarantee issued on 28.11.2011 effective from 01.01.2012

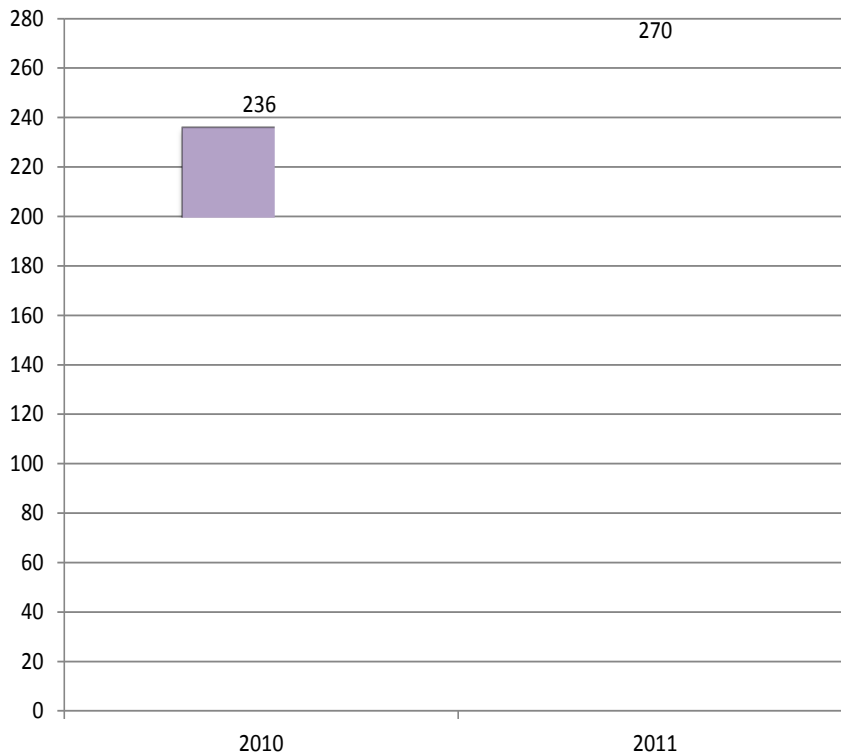
Simultaneously, within TAURON Capital Group, in order to secure transactions executed by the Company at TGE on electric energy markets and in order to participate in the system of transaction clearing liquidity, in 2011 TAURON Wytwarzanie granted the surety to the Company in favour of IRGIT due to clearing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

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

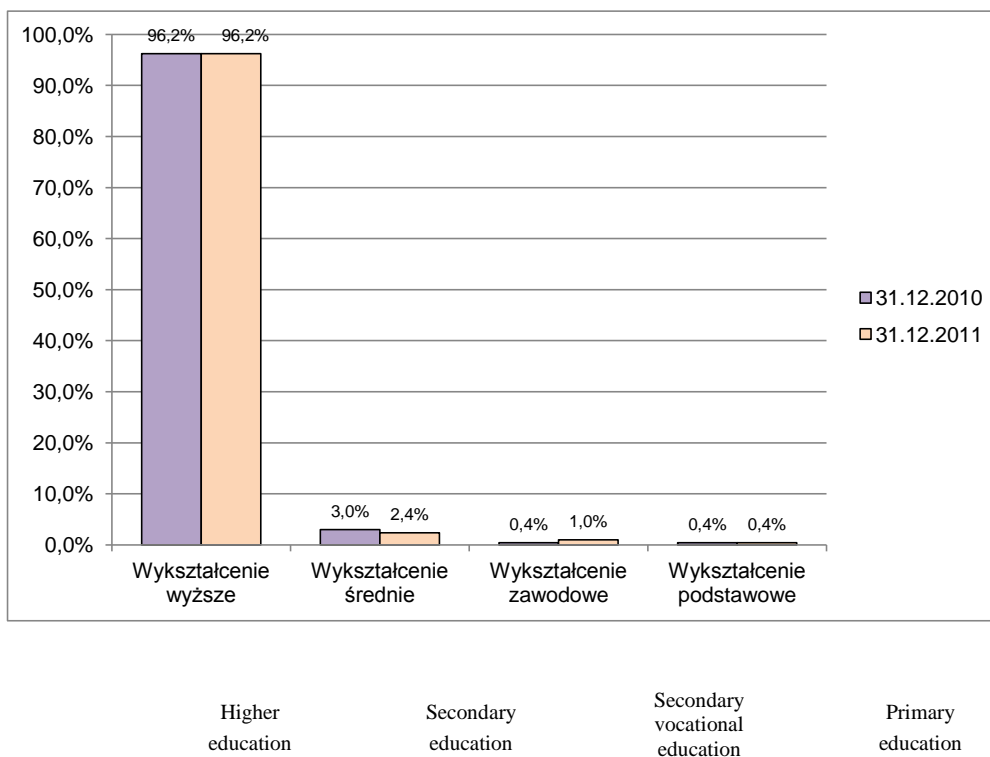
## 2.6. Information concerning employment

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

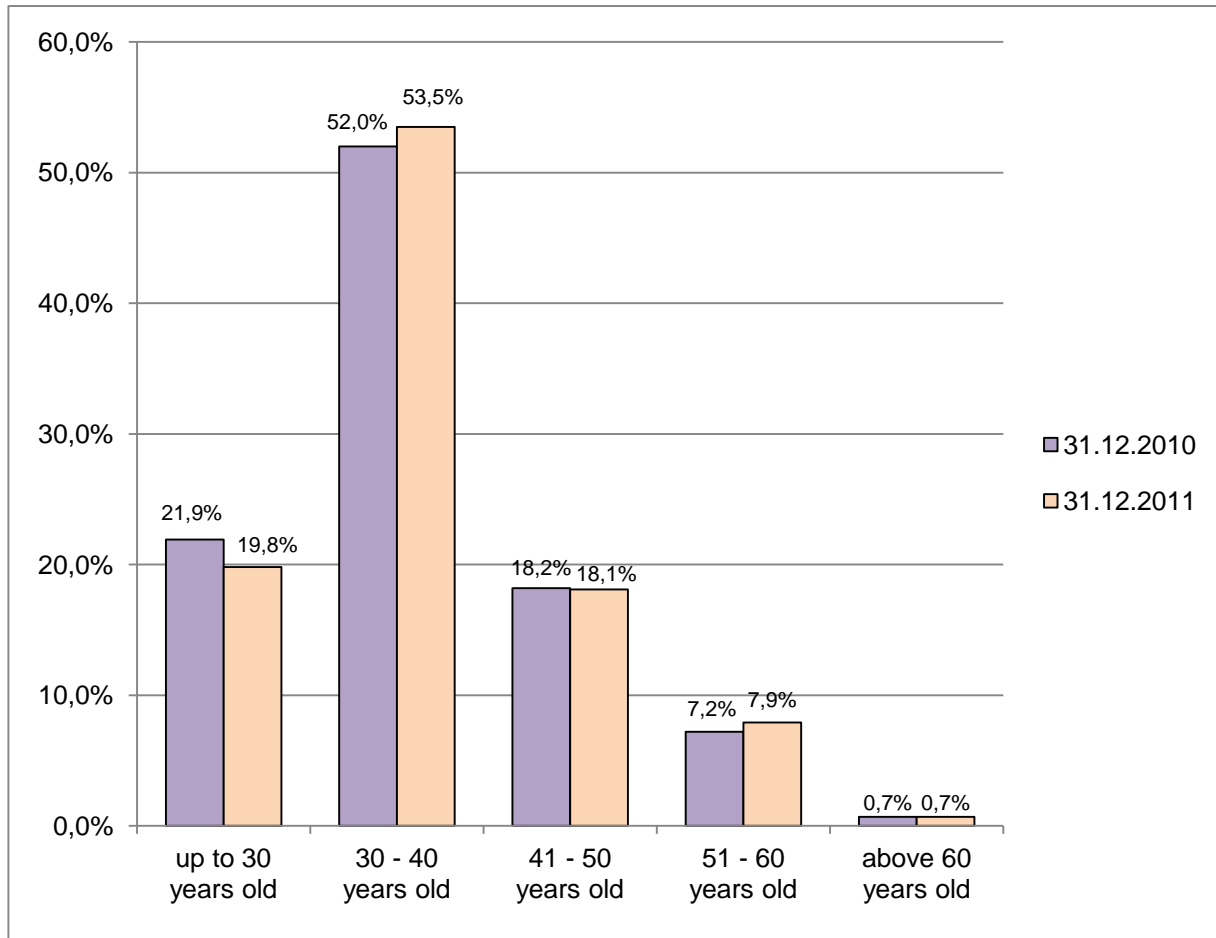
**Figure No. 8 Employment in FTEs (rounded to the full-time)**



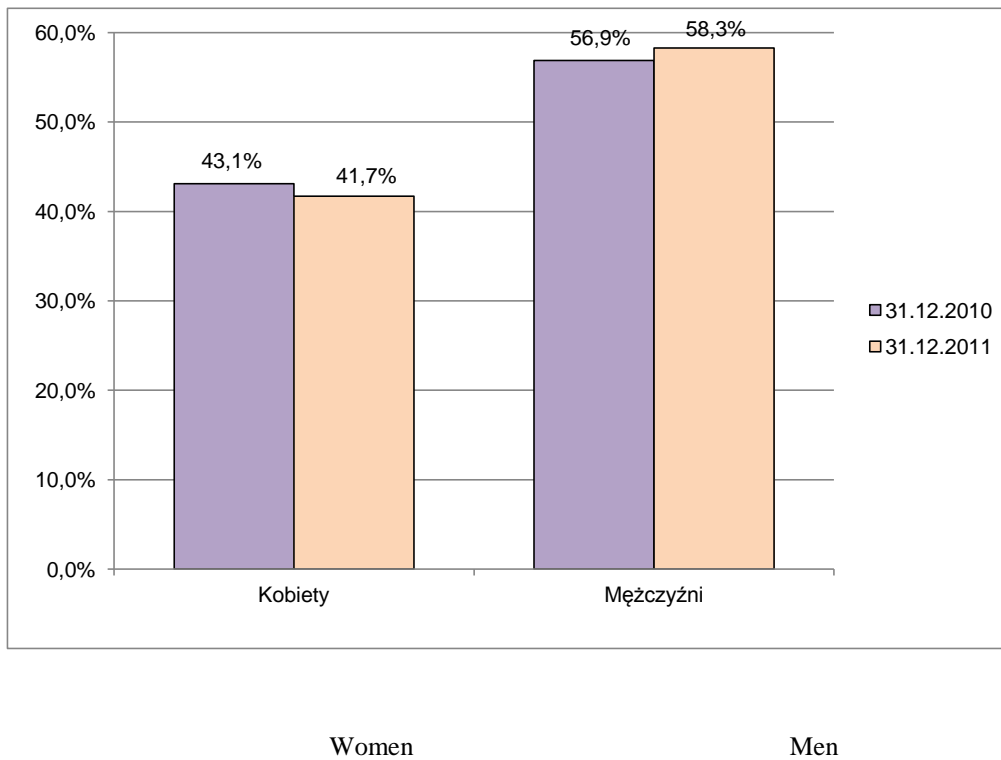
**Figure No. 9 Structure of employment by education**



**Figure No. 10 Structure of employment by age**



**Figure No. 11 Structure of employment by gender**

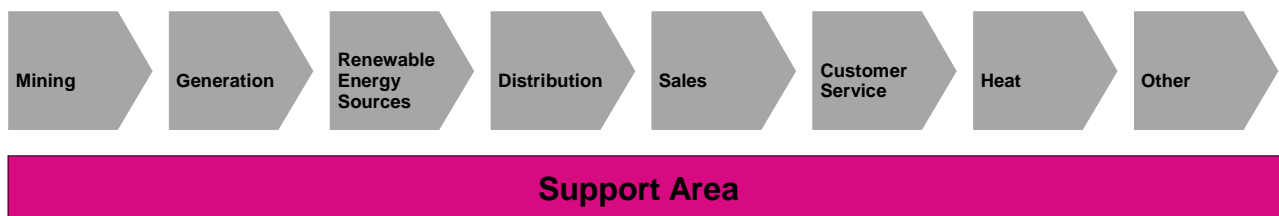


## 2.7. Development policy of the Company

### 2.7.1. Planned Structure of TAURON Capital Group

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

Figure No. 12 Value chain in TAURON Capital Group



### 2.7.2. Implementation of Corporate Strategy

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

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

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

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

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

### **I. Growth in the most attractive Areas of Business**

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

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

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

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

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

### III. Management of exposure to market and regulatory risks

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

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

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

### IV. Building of effective organisation

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

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

#### 2.7.3. Factors essential for development

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

- the macroeconomic situation, especially in Poland, as well as the economic situation of the area of operations of the TAURON Capital Group, situation of the European Union (EU) and the global economy, including interest rate changes and currency rate, etc., influencing the valuation of assets and liabilities recognised by the Company in financial statements,
- political environment, especially in Poland as well as on the European Union level, including the opinions and decisions of public administration institutions and bodies, for example: OCCP, the Energy Regulatory Office (ERO) and the European Commission,
- situation in electric energy sector, including competition behaviour at the energy market,
- introduction of the support system of electric energy generation by high efficiency cogeneration in units fired with methane (mandatory since September 2010),
- geological and mining conditions,
- number of allowances to CO<sub>2</sub> emissions allocated on complimentary basis after 2012 and prices of the allowances acquired,
- level of compensation for covering of the stranded costs related to termination of the long-term contracts (LTC),
- changes in regulations of the energy sector,
- changes in legal environment, including: tax law, commercial and energy law,
- demand for electric energy and other products of energy market,



- prices of electric energy and fuel coal as well as distribution tariffs, as factors influencing the level of revenue and costs;
- environmental protection requirements,
- research and technical progress,
- seasonality and weather conditions.

## **2.8. Assessment of implementation opportunities of investment projects**

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

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

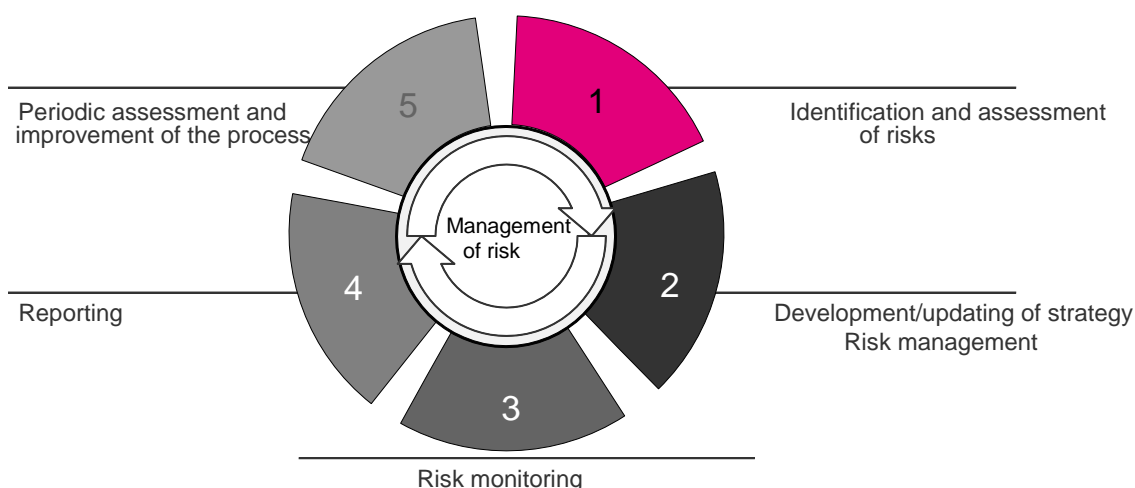
## **2.9. Risk and threat factors**

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

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

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

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



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

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

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

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

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

**Risks associated with the process of strategic investments and strategic planning** - is related to implementation of investment, failing to achieve the desired results or exceeding the budget. Risk factors may adversely affect business of the Company, its financial condition or results of operations, and the deterioration of market position and image of the Company by generating a financial loss or loss of financial liquidity, increasing investment costs, reduced benefits and reduce the profitability of investments or stop the project.

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

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

**Price change risk** - the risk is related to the uncertainty in the development of electricity prices, CO<sub>2</sub> emission rights and property rights arising from certificates of origin. Risk factors may adversely affect business of the Company, its financial condition or results of operations through the loss of revenue, lower margins and declining profitability of commercial activities.

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

**Risk connected with the obligation to redeem CO<sub>2</sub> allowances** - the risk is connected with emitting of CO<sub>2</sub> into the atmosphere as well as the need to redeem a relevant number of CO<sub>2</sub> 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 CO<sub>2</sub> allowances may result in decreasing of the planned electricity sales profitability.

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

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

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

#### **3.1. Principles of preparation of the annual financial statements**

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

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

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

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

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

#### Statement on comprehensive income

The table below presents annual unit statement of comprehensive income.

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

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

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

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

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

Increase in revenues from sales in 2011 compared to 2010 related to an increase in electricity sales volume by approximately 14% and the increase in selling price of electricity. The increase in revenues from sales of services as compared to 2010 occurred mainly for services relating to energy trading (service of technical and trading operator, management of CO<sub>2</sub> allowances portfolio.) Additionally, in 2011, the Company received compensation related to the termination of the Short-term Transaction Agreements in the amount of PLN 7 300 thousand.

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

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

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

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

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

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

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

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

## Economic and financial position of the Company

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

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

Statement on financial situation prepared according to IFRS	State as at 31 December 2011	State as at 31 December 2010	Dynamics (2011/2010)
<b>ASSETS</b>			
<b>Fixed Assets</b>	<b>22,230,228</b>	<b>17,224,617</b>	<b>129.1%</b>
Tangible fixed assets	11,591	5,425	213.7%
Intangible assets	15,487	7,322	211.5%
Shares	21,028,076	16,353,470	128.6%
Bonds, treasury bills and other debt securities	1,137,040	848,200	134.1%
Other long-term non-financial assets	830	1,686	49.2%
Deferred Income tax assets	37,204	8,514	437.0%
<b>Current assets</b>	<b>1,340,747</b>	<b>1,220,568</b>	<b>109.8%</b>
Short-term intangible assets	33,120	9,773	338.9%
Reserves	41,028	9,238	444.1%
Receivables due to income tax	-	2,822	-
Trade receivables and other receivables	991,975	634,531	156.3%
Bonds, treasury bills and other debt securities	13,003	383	3,395.0%
Other financial assets	2	257	0.7%
Other short-term non-financial assets	3,581	36,553	9.8%
Cash and equivalents	258,038	527,011	49.0%
<b>TOTAL ASSETS</b>	<b>23,570,975</b>	<b>18,445,185</b>	<b>127.8%</b>
<b>LIABILITIES</b>			
<b>Equity</b>	<b>17,344,228</b>	<b>16,523,681</b>	<b>105.0%</b>
Share capital	8,762,747	15,772,945	55.6%
Supplementary capital	7,412,882	475,088	1,560.3%
Retained profits / Uncovered losses	1,168,599	275,648	423.9%
<b>Long-term liabilities</b>	<b>4,140,154</b>	<b>848,392</b>	<b>488.0%</b>
Loans, credits and debt securities	4,136,112	845,650	489.1%
Liabilities due to leasing and lease contracts with purchase option	990	136	727.9%
Long-term provisions and employee benefits	3,052	2,606	117.1%
<b>Short-term liabilities</b>	<b>2,086,593</b>	<b>1,073,112</b>	<b>194.4%</b>
Trade liabilities and other liabilities	325,928	540,702	60.3%
Current portion of interest-bearing credits, loans and debt securities	1,468,066	461,627	318.0%
Liabilities due to income tax	33,687	-	-
Current portion of liabilities due to leasing and lease contracts with purchase option	627	906	69.2%
Other short-term liabilities	84,778	26,094	324.9%
Accruals and governmental subsidies	8,175	6,719	121.7%
Short-term provisions and employee benefits	165,332	37,064	446.1%
<b>TOTAL LIABILITIES</b>	<b>23,570,975</b>	<b>18,445,185</b>	<b>127.8%</b>

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

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

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

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

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

## Statement of Cash Flow

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

Statement of Cash Flow prepared according to IFRS	Year ended 31 December 2011	Year ended 31 December 2010	Dynamics (2011/2010)
<b>Cash flows from operating activities</b>			
Gross profit (loss)	1,104,642	198,799	555.7%
Adjustments	(1,213,479)	(421,519)	287.9%
<b>Net cash from operating activities</b>	<b>(108,837)</b>	<b>(222,720)</b>	<b>48.9%</b>
<b>Cash flows from investment activities</b>			
Sales of tangible fixed assets and intangible assets	192	11	1,745.5%
Purchase of tangible fixed assets and intangible assets	(14,069)	(6,970)	201.9%
Sale of bonds, treasury bills and other debt securities	134,460	-	-
Purchase of bonds, treasury bills and other debt securities	(433,302)	(848,200)	51.1%
Acquisition of shares in associated companies	(3,623,031)	(80,711)	4,488.9%
Dividend received	967,409	181,948	531.7%
Interest received	54,800	-	-
Repayment of loans granted	168,000	-	-
Granting of loans	(348,009)	-	-
Other	-	3,548	-
<b>Net cash from investment</b>	<b>(3,093,550)</b>	<b>(750,374)</b>	<b>412.3%</b>
<b>Cash flows from financial activities</b>			

Statement of Cash Flow prepared according to IFRS	Year ended 31 December 2011	Year ended 31 December 2010	Dynamics (2011/2010)
Purchase of own stocks	-	(245)	-
Repayment of liabilities due to financial leasing	(926)	(811)	114.2%
Issue of debt securities	3,300,000	848,200	389.1%
Paid dividends	(262,882)	-	-
Interest paid	(45,506)	(178)	x
Other	(12,735)	(1,700)	749.1%
<b>Net cash from financial activities</b>	<b>2,977,951</b>	<b>845,266</b>	<b>352.3%</b>
<b>Increase / (decrease ) in net cash and cash equivalents</b>	<b>(224,436)</b>	<b>(127,828)</b>	<b>175.6%</b>
Net exchange differences	(61)	(44)	138.6%
<b>Cash opening balance</b>	<b>85,574</b>	<b>213,402</b>	<b>40.1%</b>
<b>Cash closing balance</b>	<b>(138,862)</b>	<b>85,574</b>	<b>x</b>

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

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

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

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

### 3.4. Financial and non-financial ratios

The table below presents the basic financial indicators.

**Table No. 18 Basic financial indicators of the Company**

Specification	2011	2010	Dynamics (2011/2010)
<b>Gross profitability</b> (gross profit / net revenues from sales of products, goods and materials)	12.5%	2.8%	446.4%
<b>Net profitability</b> (net profit / net revenues from sales of products, goods and materials)	12.2%	2.7%	451.9%
<b>Return on equity</b> (gross profit / equity)	6.4%	1.2%	533.3%



<b>Return on assets</b> (net profit / total assets)	4.6%	1.0%	460.0%
<b>EBIT [PLN thousands]</b> (operating result)	81,066	9,627	842.1%
<b>EBIT margin</b> (EBIT / net revenues from sales of products, goods and materials)	0.92%	0.13%	707.7%
<b>EBITDA [PLN thousands]</b> (operating result + amortisation)	86,171	13,056	660.0%
<b>EBITDA margin</b> (EBITDA / net revenues from sales of products, goods and materials)	0.97%	0.18%	538.9%
<b>Current liquidity ratio</b> (current assets / current liabilities)	0.64	1.14	56.1%

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

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

### 3.5. Income from the bonds issue programme

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

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

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

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

### 3.6. Financial instruments

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

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

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

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

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

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

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

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

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

### 3.6.2. Goals and methods of financial risk management

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

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

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

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

### **3.7. Present and forecast financial situation**

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

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

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

#### **3.8.1. Internal factors and their assessment**

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

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

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

#### **3.8.2. External factors and their assessment**

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

#### **Macroeconomic situation**

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

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

### **Situation on the European energy market**

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

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

### **Situation in electric energy sector**

Year 2011 in Polish energy sector did not bring any significant changes, and the effects of activities undertaken in the previous years were continued. The stable situation in the sector providing hard coal, the main fuel of conventional power industry, prevented dramatic changes of prices. Slight increase of raw material prices at the SPOT market had limited impact on energy generation costs.

During 2011 only one large unit of conventional energy generation was included in KSE. It was the 858 MW unit in Elektrownia Bełchatów, commissioned at the end of the third quarter of 2011. On the other hand, significant increase of the installed capacity was attributed to renewable energy whose volume exceeded 3 000 MW in total. The commissioned wind parks were dominating, which reached above 1 900 MW of the installed capacity until the end of 2011. Increased power availability in the

NPS has translated into an increase in energy production, which, according to PSE Operator in 2011 increased by 4.36% compared to 2010. Analogically, the consumption of electric energy in 2011 increased by 1.9% year to year. The difference between the growth of production and consumption was exported, which was supported by favourable price relations between Polish market and neighbouring Germany and the Czech Republic. The total surplus of exports over imports of energy in the whole of 2011 amounted to over 5 TWh and was higher by more than 3.5 TWh than in 2010.

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

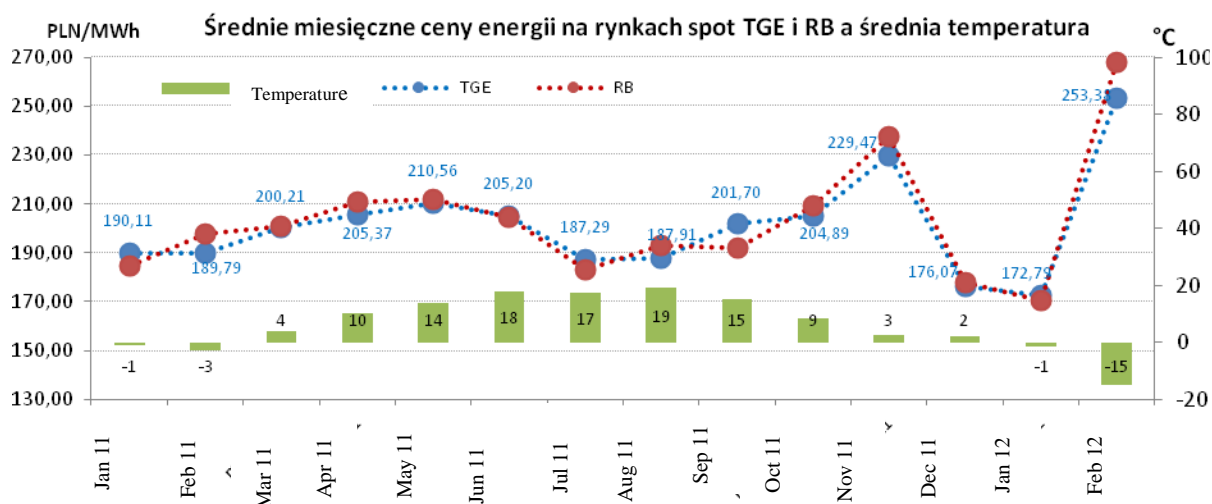
The year 2011 also brought the follow-up of legislative changes. Most important of these was extension of the capability to fulfil the obligations of energy sales by manufacturers, introduced by the Act of 19 August 2011 *amending the Energy Law*. The amendment of the Energy Law has also introduced changes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

### **Prices of electric energy and CO<sub>2</sub> emission allowances on the Polish, Czech and German market**

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

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

### **Figure No. 14 Average monthly energy prices on the SPOT, TGE and RB markets and the average temperature**



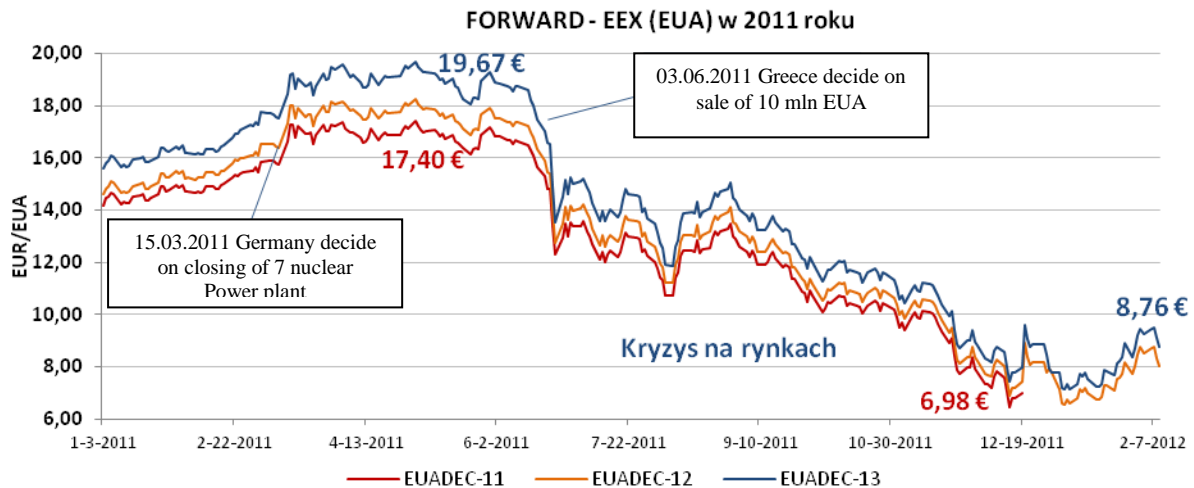
During 2010, at the forward market, the average annual price level for the band product of equal power on each hour of the year (BASE), with delivery in 2011 (BASE Y-11) reached about 193.40 PLN/MWh (based on the registered transactions on the exchange and on trading platforms publishing such data). 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 CO<sub>2</sub> emission allowances and concern of serious slowdown in economy, the contract prices started to fall systematically, reaching the level of 201.50 PLN/MWh at the end of the year.

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

Within the market of CO<sub>2</sub> emission allowances, at the beginning of 2011, reports of hackers' attacks on registers of Member States stimulated Poland to close its register of allowances for preventive reasons, and the European Commission decided to block the possibility to execute transfers in all community registers. This situation has led to inertia on the market, which took place at the beginning of February 2011. Then the March accident in a nuclear power plant in Fukushima, leading to turning away from pro-nuclear policy, contributed to the strengthening of prices, which had been heightened further by notice on including the aviation sector to the European CO<sub>2</sub> Emission Trading Scheme of (EU ETS). In June, the alarming reports concerning the economic situation in Greece became the strong signal of economic decline, covering with its scope the growing number of countries and economic sectors, reflected in the systematic decrease of allowances prices. The average price of forward contracts with delivery in December 2011 (European Union Allowances December 2011 - EUADEC11) in the second half of 2011 decreased by 32% in relation to the average price of the first half of 2011, reaching the minimum at the level of 6.30 EUR/t EUA, and then oscillating above the value of 7 EUR/t EUA.

**Figure No. 15 FORWARD – EEX (EUA) in 2011.**



### Obligation of public sales of electric energy by generators

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

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

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

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

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

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

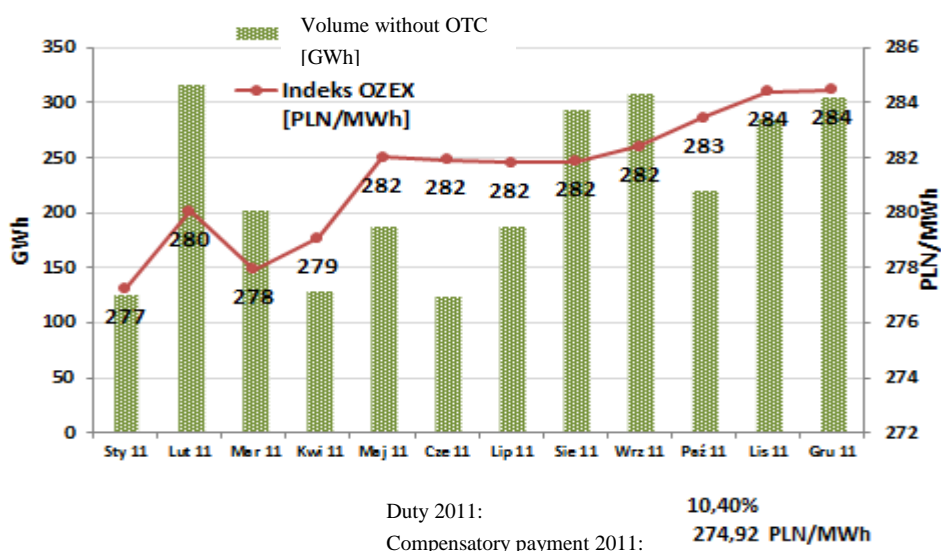
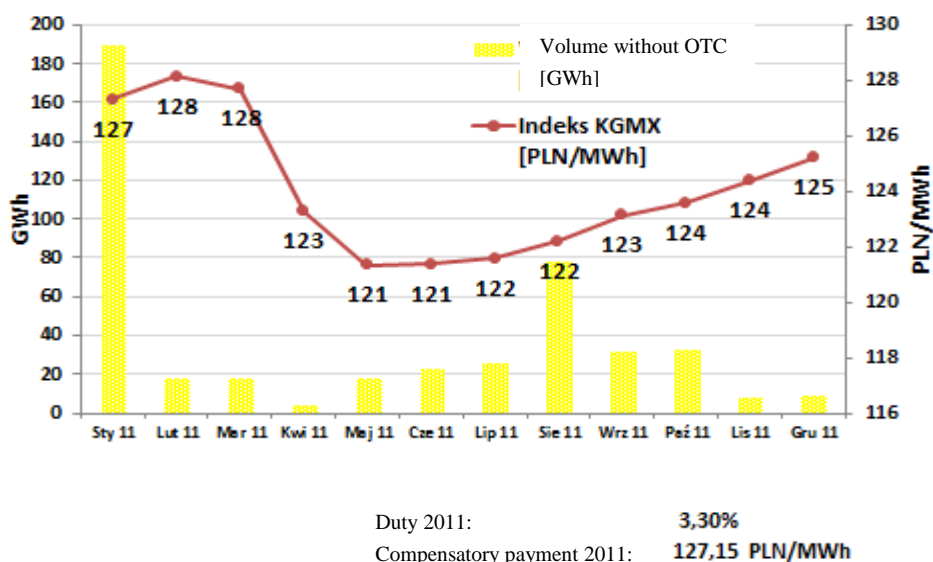


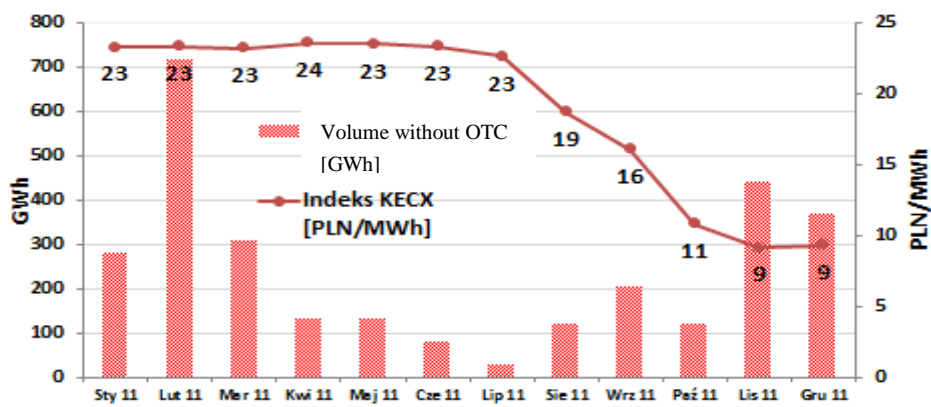
Figure No. 17 Indices of proprietary rights of the so-called yellow certificates - quotes in 2011.



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. 18 Indexes of property rights so-called certificates - listings in 2011.

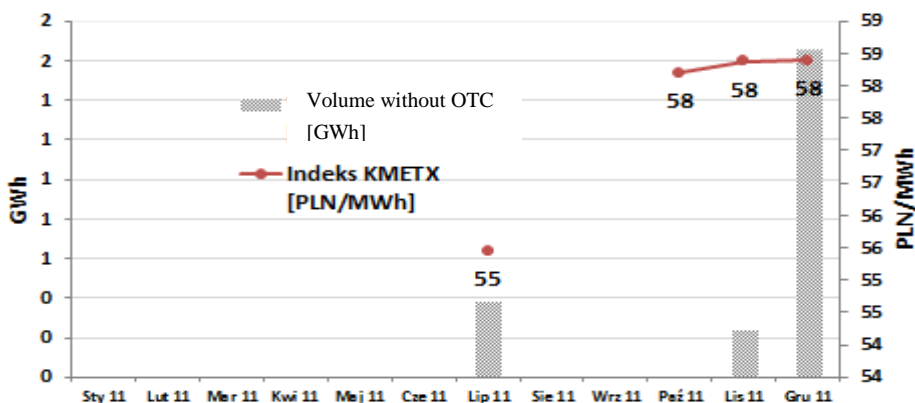




Duty 2011: 22,20%  
Compensatory payment 2011: 29,58 PLN/MWh

In addition, from 10 September 2011, the electricity sold by energy companies to end users is the basis for calculating the level of fulfilling the obligation of the Act of 10 April 1997 *Energy Law* section 9a (8) in the scope of the so-called violet certificates (property rights arising from certificates of origin for electricity produced from high efficiency co-generation in co-generation unit fired with methane or bio-gas), in the amount of 0.4% at replacement fee of 59.16 PLN/MWh. Due to the low level of obligatory redemption of these rights, it had insignificant effect on floating costs of the trading enterprises.

Figure No. 19 Indexes of property rights so-called violet certificates - listings in 2011.



Duty 2011: 0,40%  
Compensatory payment 2011: 59,16 PLN/MWh

## Competition on the energy market

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

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

### **3.9. Assessment of financial resources management**

The Company in accordance with the adopted strategy, centralized the area of financial management in the TAURON Group and thus maximized its capacity to meet the incurred liabilities. The main tools for effective management of financial resources is implemented in 2010, central funding model and implemented in the second half of 2011, *Policy of liquidity management in the TAURON Group*, together with cash pooling functioning in the TAURON Capital Group. Moreover, the financial management system is supported by the central *Policy of managing risks specific in the financial area of TAURON Group* and the central *Insurance policy of TAURON Group*, in which the Company plays the role of manager and decision maker in the scope of directions of the actions undertaken, enabling to establish relevant limits of risk exposure.

In accordance with the adopted central model of financing, the Company is responsible for acquisition of financial resources for the companies of TAURON Capital Group. The funds raised both internally (from companies of TAURON Group generating financial surpluses) as well as externally (financial market) are then transferred to the companies of TAURON Capital Group reporting financing needs (for this purpose intra-group bond issuance program has been implemented in the TAURON Group).

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

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

Within the current financial activity the Company effectively manages the life cycle of cash flow by matching dates for payment of payables and receivables. Moreover, in 2011, the Company implemented a program of bank guarantees, which are available to all companies of TAURON Group.

In 2011, the Company had full capacity to meet its obligations as they fall due.

### 3.10. Information concerning the entity authorised to examine financial statements

Information regarding the contract with an entity authorized to audit financial statements was presented in note 37 of the Financial statement of TAURON Polska Energia S.A. for the year ended on 31 December 2011.

## 4. SHARES AND SHAREHOLDERS

### 4.1. Structure of the share capital

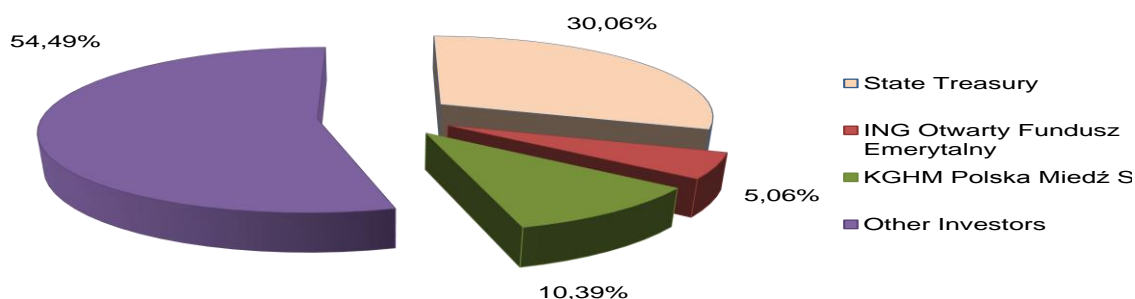
As of 31 December and on the day of this report:

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

**Table No. 20 Structure of the share capital of the Company as of 31 December and on the day of this report:**

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

**Figure No. 20 Structure of shareholding as of 31 December 2011 and as of the date of this report**



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

Holdings of shares in the Company and stocks/shares in entities affiliated with the Company, held by persons managing and supervising the Company as at 31 December 2011 and at the date of this report is as follows:

**Table No. 21 Proprietary status of the Company shares and share/stocks in entities affiliated with the Company - managing persons**

Name and surname	TAURON shares		Share/stocks in entities affiliated with TAURON	
	Number	par value (PLN)	Number	par value (PLN)
<b>as of 31.12.2011</b>				
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
<b>as of the date of this report</b>				
Dariusz Lubera	6,576	32,880	0	0
Joanna Schmid	0	0	0	0
Dariusz Stolarczyk	42,611	213,055	0	0
Krzysztof Zamasz	935	4,675	0	0
Krzysztof Zawadzki	27,337	136,685	0	0

**Table No. 22 Proprietary status of the Company shares and share/stocks in entities affiliated with the Company - supervising persons**

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

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

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

#### 4.3. Agreements concerning potential changes in shareholding structure

Management is not aware of the existence of agreements (including agreements concluded after the balance sheet date), which may result in future changes in the proportions of shares held by existing shareholders and bondholders.

#### 4.4. Purchase of treasury shares

In 2011 the Company did not purchase treasury shares.

#### 4.5. Programmes of employees shares

In 2011 the employees' shares programmes did not operate.

#### 4.6. Share prices on the Stock Exchange

Shares of the Company are traded on the Main Board of the Warsaw Stock Exchange since 30 June 2010.

In 2011 the price of Company shares ranged from PLN 4.65 to PLN 6.81. During this period, despite the improved financial performance by the TAURON Capital Group in relation to 2010, the Company share price fall was similar to the behaviour of WIG20 and WIG indexes, which in this period also recorded a negative rate of return. It should be noted that the rate of return on the Company's shares from listing on the Stock Exchange by the end of 2011 amounted to about 6.7%, which was a better result in comparison with the index WIG20 and WIG Energy. Behaviour of share prices of companies listed at the Warsaw Stock Exchange in 2011 was mainly determined by macroeconomic factors related to the crisis in Eurozone as well as the uncertainty at the world markets. The collapse on stock markets that took place in August 2011, resulted in significant losses in the portfolios of investors, which could not be made up for the end of the year due to the deteriorating macroeconomic situation, unresolved debt problems of the Eurozone states and the threat of recession in the region. Until the end of 2011 the most important European stock exchanges were following the sideways trend, while the prices of the securities listed showed significant volatility.

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

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

**Table No. 23 Key data concerning shares**

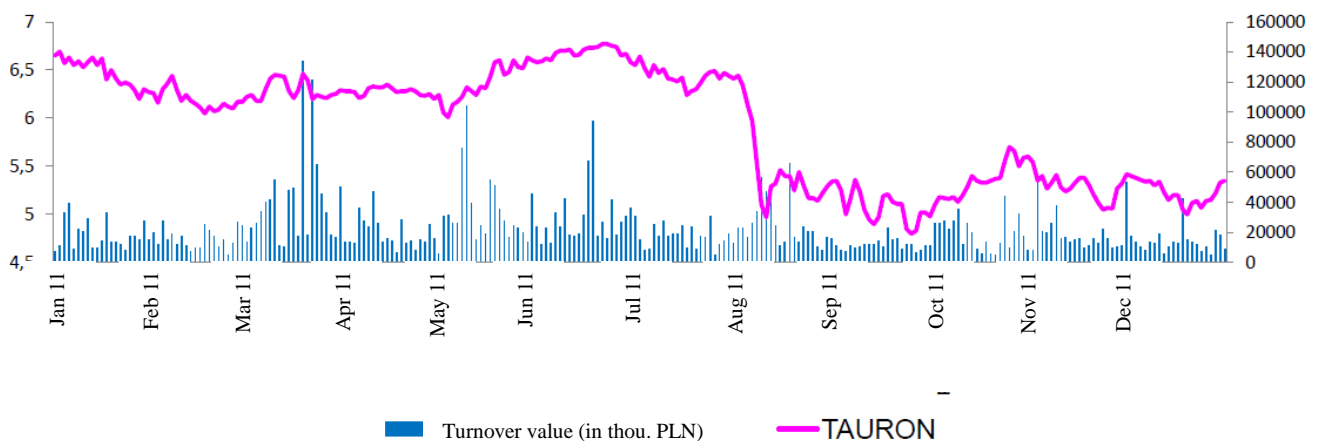
Key data concerning shares	2011	2010
Maximum price [PLN]	6.81	6.92
Minimum price [PLN]	4.65	4.96
Maximum price [PLN]	5.35	6.57
Capitalisation at the end of the period [M PLN]	9,376	11,514
Capitalisation at the end of the period [%]	2.10	2.12
Book value [M PLN]	15,922.47	15,044.64
C/Z	8.10	14.30
C/WK	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

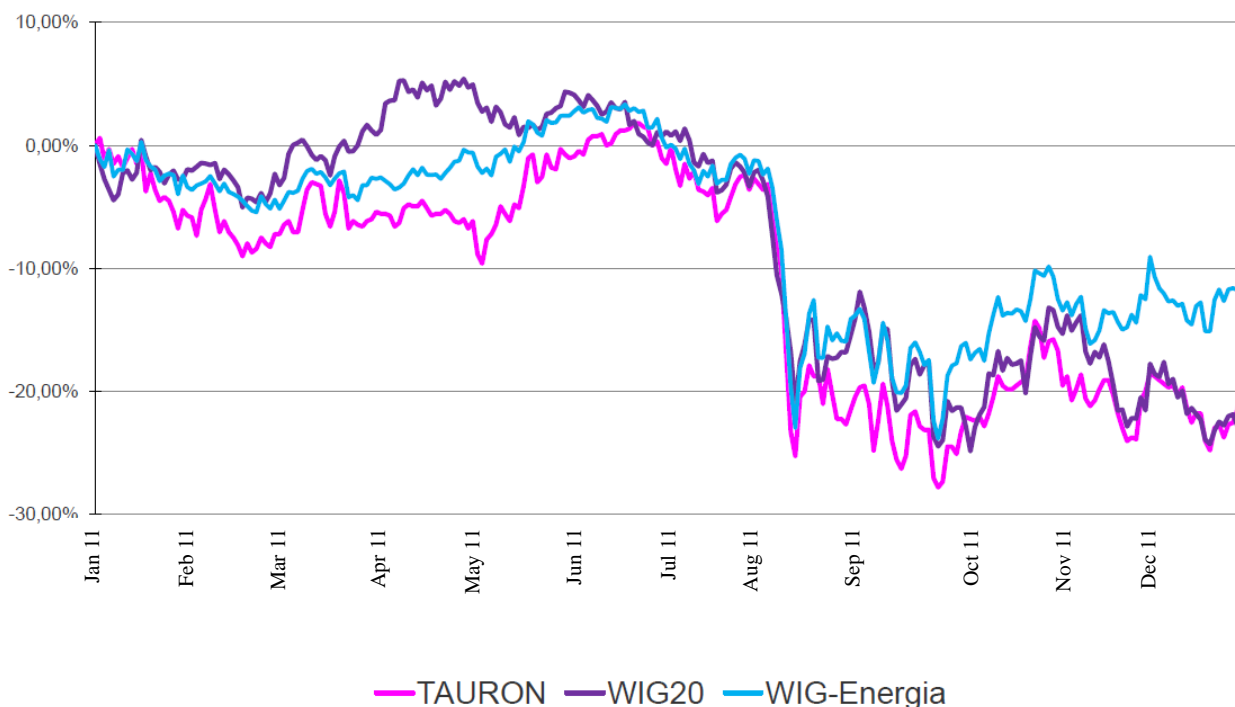
Source: Statistical Bulletin of GPW

The charts below present the share price of the Company and turnover in 2011, and the share price of the Company against the WIG20 and WIG-Energia in 2011.

**Figure No. 21 Graph of quotes of Company shares and value of turnover in 2011.**



**Figure No. 22 Graph of quotes of Company shares compared to indices WIG20 and WIG-Energia in 2011.**



## Recommendations for Company shares

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

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

## 5. STATEMENT OF APPLICATION OF CORPORATE GOVERNANCE

Acting in accordance with § 91 (5), (4) of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the provisions of law of a non-member state (Journal of Laws No.33 item 259 as amended), The Company Management Board submits the Statement of Application of Corporate Governance in 2011.

### 5.1. Indicating the applied set of rules of corporate governance

The Company is subject to the rules of corporate governance as described in the document, *Best Practices of GPW Listed Companies* (Principles of Corporate Governance) which is attached to the Resolution No. 20/1287/2011 of the GPW Supervisory Board of 19 October 2011. This document also contains the principles of corporate governance application of which Company has decided to voluntarily.

*Good Practices of Companies Listed at GPW* were adopted for application by the Company Management Board. All recommendations, effective for the specific period, were fulfilled in the financial year 2011.



The text of collection of corporate governance rules which the Company is subject to and which the company may have decided to voluntarily is published on the Stock Exchange website at (<http://www.corp-gov.gpw.pl>).

## **5.2. Indicating abandoned rules of corporate governance**

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

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

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

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

In order to ensure uniform accounting policies under IFRS adopted by the EU TAURON Capital Group has developed and implemented *Accounting policy of the TAURON Capital Group Polska Energia S.A.* This document is updated accordingly in case of amendments in regulations. The rules contained in the document are applicable to unit financial statements of the Company and consolidated financial statement of TAURON Capital Group. The Companies of TAURON Capital Group are obliged to apply *the Accounting Policy of TAURON Polska Energia S.A.* TAURON Capital Group while preparing the reporting packages which provide basis for generating of the consolidated financial statement of TAURON Capital Group.

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

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

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

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

## **IT systems**

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

### Internal audit

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

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

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

## 5.4. Shareholders holding large blocks of shares

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

**Table No. 24 Shareholders holding large blocks of shares**

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

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

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

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

## 5.5. Owners of securities providing special control rights

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

## 5.6. Limitations on performing of the voting right

Limitations on voting rights are contained in § 10 of the Articles of Association of the Company, which are available on its website <http://www.tauron-pe.pl/>.

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

1. The voting rights of shareholders having over 10% of the total votes in the Company shall be limited in such manner that none of them can perform more than 10% of the total votes in the Company at the General Assembly.
2. Limitation of voting rights referred to in item 1 above does not apply to the State Treasury and subsidiaries of the State Treasury in the period in which the State Treasury and subsidiaries of the State Treasury have the number of shares entitling them to exercise at least 25% of the total votes in the Company.
3. Votes belonging to the shareholders, among whom exists a relation of domination or dependence within the meaning of § 10 of the Articles of Association (grouping of Shareholders) cumulates, where the cumulative number of votes exceeds 10% of the total votes in the Company, shall be subject to reduction. Rules of vote accumulation and reduction have been defined in 6 and 7 below.
4. Shareholder within the meaning of § 10 of the Articles of Association is any person, including its parent company and dependent, that has directly or indirectly, the right to vote at the General Assembly on the basis of any legal title, and applies to the person who does not hold shares of the Company, in particular, the user, the pledgee, the person entitled under the receipt of deposit within the meaning of the Act of 29 July 2005 *on Trading in Financial Instruments* and the person entitled to participate in the General Assembly despite the sale of shares held after the date of determining eligibility for participation in the General Assembly.
5. A parent company and subsidiary company, for the purposes of § 10 of the Articles of Association, is understood as a person:
  - 1) a parent entity, subsidiary or simultaneously being parent entity and subsidiary within the meaning of the Act of 16 February 2007 *on competition and consumers*, or
  - 2) having a status of the parent, senior parent, subsidiary, subsidiary downstream or jointly controlled entity or simultaneously having the status of the parent (including senior parent) and subsidiary (including the subsidiary of lower level and jointly controlled) within the meaning of the Act of 29 September 1994 *on accounting*, or
  - 3) which has (parent company) or one which is under (subsidiary company) decisive influence within the meaning of the Act of 22 September 2006 *on transparency of financial relationships between public bodies and public entrepreneurs and on financial transparency of some entrepreneurs*, or
  - 4) votes of which attached to the possession, directly or indirectly, of shares in the Company are cumulated with votes of another person or other persons under the terms and conditions provided in the Act of 29 July 2005 *on public offering and conditions governing the introduction of financial instruments to organised trading and public companies* in connection with possession, sale or acquisition of large blocks of shares in the company.
6. Accumulation of votes is based on aggregating of the number of votes held by particular shareholders of Shareholders' Group.
7. Reduction of votes is based on decreasing the total number of votes in the Company that shareholders, who are a part of Association of Shareholders, are entitled to at the General Meeting to the level of 10% of total votes in the Company. Reduction of votes takes place in accordance with the following rules:
  - 1) number of votes of a shareholder who holds the biggest amount of votes in the Company among all shareholders who are members of Association of Shareholders is subject to being decreased by a number of votes equal to surplus of over 10% total votes in the Company that all shareholders in total are entitled to and who are members of the Association of Shareholders,
  - 2) if, despite the aforementioned reduction, the total number of votes that shareholders who

are members of the Association of Shareholders are entitled to exceeds 10% of the total votes in the Company, a further reduction of votes belonging to other shareholders who are members of the Association of Shareholders takes place. Further reduction of particular shareholders' votes takes place in order established on the basis of the amount of votes that particular shareholders who are members of the Association of Shareholders hold (from the highest to the lowest one). Further reduction takes place until the moment when the total number of votes held by shareholders who are members of the Association of Shareholders does not exceed 10% of the total votes in the Company,

- 3) in each case the shareholder whose voting right has been limited shall have to right to perform at least one vote,
  - 4) limitation on performing the voting right applies also to a shareholder absent at the General Meeting.
8. Each shareholder who is going to take part in the General Meeting, in person or through a proxy is obliged to, without a separate notice stipulated in item 9 below, notify the Management Board or the Chairperson of the General Meeting that she/he holds, directly or indirectly, more than 10% of the total votes in the Company.
9. Notwithstanding the provisions of item 8 above, in order to establish the basis for accumulation and reduction of votes, the Company's shareholder, the Management Board, the Supervisory Board or particular members of these bodies have the right to demand that the Company shareholder provides information whether she/he is a person holding the status of an entity dominating or subordinate towards other shareholder within the meaning of § 10 of the Articles of Association. The right referred to in the preceding sentence also includes the right to request the disclosure of the number votes which a shareholder of the Company has individually or jointly with other shareholders in the Company.
10. A person who has not exercised or performed the obligation to provide information, referred to in points 8 and 9 above, in an improper manner until the removal of infringement to obligation to provide information may perform the right to vote only from one share, the execution of the right to vote by such person of the remaining shares is ineffective.

## **5.7. Limitations on transfer of securities proprietary rights**

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

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

### **5.8.1. Management Board**

#### **Rules on appointing and dismissing members of the Management Board**

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

Members of the Management Board or the whole Management Board are appointed and dismissed by the Supervisory Board. Each member of the Management Board may be revoked or suspended in activities by the Supervisory Board or the General Assembly.

## Competence of the Management Board

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

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

- 1) Management Board by-laws,
- 2) organizational regulations of the Company enterprise,
- 3) establishment and liquidation of branches,
- 4) appointment of a proxy,
- 5) contracting credits and loans,
- 6) accepting annual material and financial plans as well as long-term plans and Company strategy,
- 7) incurring contingent liabilities within the meaning of the Act of 29 September 1994 on *Accounting*, including granting guaranties and sureties by the Company as well as issuing bills of exchange, of the value not exceeding the equivalent of EUR 5,000,000 in PLN,
- 8) making donations, cancelling interest or releasing from debt,
- 9) purchase of real property, perpetual usufruct of shares in property or in perpetual usufruct with the value not exceeding the equivalent of EUR 5,000,000 in PLN,
- 10) purchase of the components of fixed assets excluding real property, perpetual usufruct or share in property or perpetual usufruct with the value equal to or exceeding the equivalent of EUR 10,000 in PLN, but not exceeding the equivalent of EUR 5,000,000 in PLN,
- 11) disposal of the components of fixed assets including real property, perpetual usufruct or share in property or perpetual usufruct with the value equal to or exceeding the equivalent of EUR 10,000 in PLN, but not exceeding the equivalent of EUR 5,000,000 in PLN,
- 12) defining the right to perform a vote at the General Meeting or at Shareholders' Meetings of companies in which the Company holds stocks or shares, on issues within competences of the General Meetings or Shareholders' Meetings of these companies, except for defining the manner of performing the right to vote at the General Meeting or at the Shareholders' Meeting of companies in which the Company holds over 50% of stocks or shares in matters concerning:
  - a) disposing and leasing of the Company's enterprise or its organized part as well as establishing a limited proprietary right on them, if their value exceeds the equivalent of the amount of EUR 5,000,000 in PLN,
  - b) dissolution and liquidation of the Company,
- 13) rules of conducting sponsoring activity,
- 14) adoption of the annual plan of sponsoring activity,
- 15) issues, for examination of which the Management Board refers to the Supervisory Board or the General Meeting.

### 5.8.2. Supervisory Board

#### Rules on appointing and dismissing members of the Supervisory Board

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

- 1) in the period, in which the State Treasury, together with entities dependent on the State Treasury within the meaning of § 10 item 5 of the Articles of Association, has a number of shares in the Company entitling to perform at least 25% of the total votes in the Company, the State Treasury is represented by the minister competent for the issues of the State Treasury, is entitled to

appoint and dismiss the members of the Supervisory Board in the amount equal to half of the maximum number of the composition of the Supervisory Board defined in the Articles of Association (in case when the number is not integral it is rounded down to an integral number, for example 4.5 is rounded down to 4 increased by 1, provided that the State Treasury:

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

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

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

### **Competence of the Supervisory Board**

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

- 1) assessment of the Management Board report on the Company operations as well of the financial statement for the previous financial year in the scope of their compliance with the books, documents as well as with the actual status. It also applies to the consolidated financial statement of the Capital Group, provided that it is generated,
- 2) assessment of the Management Board conclusions on profit distribution or loss coverage,
- 3) submitting of a written report to the General Meeting on the results of operations covered by items 1 and 2,
- 4) preparing reports of the Supervisory Board on supervision of implementation of investments by the Management Board, including the purchase of fixed assets, and in particular, giving opinions on the correctness and effectiveness of spending of financial resources related to the above expenditures,
- 5) preparing, together with the report on results of the annual financial statement of the Company,

- an opinion of the Supervisory Board on the issue of economic legitimacy of involving the Company capital committed in a given financial year in other entities of commercial law,
- 6) selecting of the chartered accountant to carry out the examination of the Company financial statement and consolidated financial statement of the Capital Group,
  - 7) determining the scope and deadlines of submitting of annual material and financial plans as well as long-term strategic plans, by the Management Board,
  - 8) giving opinions on long-term plans and strategies of the Company and Capital Group,
  - 9) giving opinions and approval of the rules of conducting sponsoring activity,
  - 10) giving opinions on the annual plan of conducting the sponsoring activity as well as quarterly reports on its implementation,
  - 11) adopting bylaws describing in details the procedures of performance of the Supervisory Board,
  - 12) adopting of consolidated text of the Company Articles of Association, prepared by the Company's Management Board,
  - 13) approving of the bylaws of the Company Management Board,
  - 14) approving of the organizational regulations of the Company enterprise.

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

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

Moreover, competence of the Supervisory Board include in particular:

- 1) appointing and dismissing members of the Management Board,
- 2) establishing the rules of remuneration and the amount of remuneration for the members of the Management Board,
- 3) suspending members of the Management Board in performance of their duties, due to material reasons,
- 4) delegating members of the Supervisory Board to temporarily perform actions of the members of the Management Board who cannot perform their duties and establishing their remuneration subject to the provision that the total remuneration of the person delegated as the Supervisory Board's member as well as on account of being delegated to temporary performing actions of a member of the Management Board shall not exceed the remuneration established for the member of the Management Board, for whom the member of the Supervisory Board was delegated,
- 5) conducting recruitment proceedings for the position of a member of the Management Board,
- 6) conducting of a competition in order to select a person with whom an agreement to perform management in the Company shall be concluded,
- 7) granting permission to establish Company branches abroad,
- 8) granting permission to the members of the Management Board to take positions in governing

- bodies of other companies,
- 9) defining the way of performing the right of vote at the General Meeting or at the Shareholders' Meeting of companies in which the Company holds over 50% of stocks or shares, in matters concerning:
- a) disposing and leasing of the Company's enterprise or its organized part as well as establishing a limited proprietary right on them, if their value exceeds the equivalent of the amount of EUR 5,000,000 in PLN,
  - b) dissolution and liquidation of the Company.

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

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

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

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

#### **Manner of operating of the General Meeting**

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

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

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

#### **Competence of General Meeting**



The following issues require Resolutions of the General Meeting:

- 1) examination and approval of financial statement for the previous financial year as well as the Management Board's report on the Company operations,
- 2) granting the vote of acceptance to the members of the governing bodies of the Company,
- 3) profit distribution and coverage of loss,
- 4) appointing and dismissing of members of the Supervisory Board,
- 5) suspending members of the Management Board in performance of their duties,
- 6) establishing the amount of remuneration for the Members of the Supervisory Board, subject to the provision that members of the Supervisory Board are entitled to a monthly remuneration in the amount determined by the General Meeting, taking into consideration the binding legal regulations,
- 7) disposal and lease of the Company enterprise or its organized part as well as establishing a limited proprietary right on them,
- 8) concluding of a credit, loan, surety agreement or any other similar agreement by the Company with a member of the Management Board, Supervisory Board, proxy and liquidator or for any of these persons. Concluding of a loan, surety or any other similar agreement with a member of the Management Board, Supervisory Board, proxy, liquidator or for any by a subsidiary company,
- 9) increasing and lowering the share capital of the Company,
- 10) issuing convertible bonds or priority bonds as well as registered securities or bearer securities entitling its owner to subscribe or acquire the shares,
- 11) purchasing of own shares in cases required by the regulations of the Act of 15 September 2000, *Code of Commercial Partnerships and Companies*,
- 12) compulsory redemption of shares in accordance with the stipulations of art. 418 of the Act of 15 September 2000, *Code of Commercial Partnerships and Companies*,
- 13) creating, using and liquidation of reserve capitals,
- 14) using of supplementary capital,
- 15) provisions concerning claims to repair damage caused at establishing the company or performing management or supervision,
- 16) merger, transformation and division of the Company,
- 17) redemption of shares,
- 18) amendment to the Articles of Association and change of the scope of the Company operations,
- 19) dissolution and liquidation of the Company.

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

### **Description of shareholders' rights and mode of their execution**

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

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

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

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

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

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

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

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

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

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

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

#### **5.11. Composition of managing and supervising bodies and their committees, changes, description of operation**

### **5.11.1. Management Board**

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

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

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

#### **Changes in the Management Board composition**

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

On 24 February 2011, the Supervisory Board of the Company passed a resolution on the appointment of the following persons for the third term of the Management Board of the Company. Resolutions of the Supervisory Board to appoint the above persons to the Management Board of the Company entered into force on the day of their adoption, becoming effective from the date of Ordinary General Meeting approving the financial statements for the financial year 2010 (current report No. 8/2011 of 24 February 2011). Information on appointment of the Management Board of the Company for the new term is also included in item 2.6 of this report.

#### **Mode of operation**

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

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

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

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

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

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

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

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

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

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

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

### **5.11.2. Supervisory Board**

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

### **Personal composition of the Supervisory Board as of 31 December 2011.**

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

### **Changes in the Supervisory Board composition**

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

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

### **Personal composition of the Supervisory Board as of the day of this report**

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

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

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

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

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

### **Mode of operation**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 5.11.3. Audit Committee

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

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

#### Personal composition of the Audit Committee as of 31 December 2011.

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

#### Changes in the Audit Committee personal composition

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

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

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

#### Mode of operation

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

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

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

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



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

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

The tasks of the Audit Committee cover:

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

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

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

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

#### **5.11.4. Nominations and Remuneration Committee**

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

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

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

### **Changes in the Nominations and Remuneration Committee personal composition**

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

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

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

### **Mode of operation**

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

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

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

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

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

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

The tasks of the Nominations and Remunerations Committee include:

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

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

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

## 5.12. Remuneration of key management and supervisory personnel

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

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

**Table No. 25 Remuneration of members of the Management Board for 2011 (data in PLN thousand)\***

Surname and name	Period of holding the position in 2011	Remuneration and awards	Other benefits	Total
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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
<b>Total</b>		<b>7,618</b>	<b>825</b>	<b>8,443</b>

\* no overheads

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

**Table No. 26 Remuneration of members of the Supervisory Board for 2011 (data in PLN thousand)\***

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

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

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

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

## **6. OTHER SIGNIFICANT INFORMATION AND EVENTS**

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

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

### **6.2. Important achievements in research and development**

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

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

In 2011 activities were continued involving research tasks implemented under the programme of research and development entitled *Advanced Technologies of Acquisition of Energy*, co-financed by the National Research and Development Centre. The Company, as the member of two consortia which won the project, participates in implementation of the first research task (*Development of technologies for highly efficient, "zero-emission" coal units integrated with capturing CO<sub>2</sub> 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 CO<sub>2</sub> 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 CO<sub>2</sub> capturing as well as conducting of surveys in facilities belonging to TAURON Wytwarzanie. In 2011, the base design of the installation was generated.

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

### **6.3. Issues concerning natural environment**

The Company does not conduct business activities which would result in violation of the requirements of environmental protection, and would result in the payment of fees for the use of the environment. But because of the use of official cars by the Company, the Company is subject to provisions of the Act of 27 April 2001 *Environmental Protection Law* in the scope of calculation of fees for use of the environment for introduction of gases or dust into the air. However, due to the amount of the calculated fee, the company was not obliged to pay it in 2011.

### **6.4. Policy on Corporate Social Responsibility (CSR)**

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

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

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

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

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

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

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

Companies of TAURON Capital Group, together with the Polish Society of Transmission and Distribution of Electric Energy, have been involved in the national action "Safer with the current" for six years. The project is aimed at raising awareness among children and teenagers concerning appropriate use of electric devices. Promoting of behaviours connected with appropriate dealing with electric energy significantly reduces the accident risk. For some time, the issues of rational and ecological use of electric energy have also been incorporated into the programme, which contributes to improvement of the environmental conditions. The campaign is carried out under the patronage of the Minister of National Education, Children's Rights Ombudsman and President of URE. Every year, within the campaign, national competitions (painting and photography) are organised, addressed to children and teenagers from primary and secondary schools as well as to teachers. Since the beginning, employees of TAURON Dystrybucja have been actively involved in the campaign "Safer with the current", providing classes in schools and kindergartens, teaching the youngest and the teenagers how to use electricity safely. Every year several dozen of educational facilities and several thousand children use this form of training.

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

## 6.5. Awards and distinctions

### 25 May 2011.

The Company was ranked **10<sup>th</sup> 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 **18<sup>th</sup> position**. The Company was evaluated at almost 11 billion PLN. The Holding was also ranked at 23<sup>rd</sup> position in the ranking of companies which enhanced effectiveness.

### 26 June 2011.

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

### 7 September 2011.

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

### 08 September 2011.

TAURON Capital Group was ranked as **23<sup>rd</sup> 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 13<sup>th</sup> position.

### 19 October 2011.

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

### 21 October 2011.



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

## 6.6. Investor relations

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

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

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

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

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

### **Management Board of the Company**

as of 06 March 2012

Dariusz Lubera - President of the Management Board .....

Joanna Schmid - Vice-President of the Management Board .....

Dariusz Stolarczyk - Vice-President of the Management Board .....

Krzysztof Zamasz - Vice-President of the Management Board .....

Krzysztof Zawadzki - Vice-President of the Management Board .....

## Schedule A: Glossary of terms and list of abbreviations

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

**Table No. 27 Explanation of abbreviations and trade terms applied in the text of the report**

Abbreviation and trade term	Full name/explanation
BELS INVESTMENT	BELS INVESTMENT sp. z o.o. with the seat in Jelenia Góra
CAO	Central Allocation Office GmbH with the seat in Freising, Germany
Cash pooling	Cash pooling operating in the Company - consolidation of balances of bank accounts through physical cross-posting of cash from accounts of TAURON Capital Group in the bank in which cash pooling operates to the bank account of Pool Leader whose function is fulfilled by the Company. At the end of each working day, from cash is cross-posted from the bank accounts of companies of TAURON Capital Group which show positive balance to the bank account of Pool Leader. At the beginning of each working day, bank accounts of companies of TAURON Capital Group are credited from the bank account of the Pool Leader with the amount demanded to maintain cash flow of the company of TAURON Capital Group on a given working day.
CC Poland Plus	CC Poland Plus sp. z o. o. with the seat in Cracow
CER	(Certified Emission Reduction – a unit of confirmed emission reduction - reduced emission of greenhouse gases or avoided emission of greenhouse gases, expressed as equivalent, obtained as a result of the project on mechanism of clean development
Certificates	Proprietary rights resulting from certificates of origin of energy generated in the way subject to support, the so-called coloured certificates: <ul style="list-style-type: none"> <li>– green - certificates of origin of electric energy from renewable energy sources,</li> <li>– red - certificates of origin of electric energy from cogeneration (CHP certificates Combined Heat and Power),</li> <li>– yellow - certificates of origin of electric energy generated in co-generation from sources of total installed capacity below 1 MW or gas-burning,</li> <li>– violet - certificates of origin of electric energy generated in co-generation, burning methane released and captured during underground mining works in active, under liquidation or liquidated hard coal mines, or burning gas acquired from biomass processing,</li> <li>– white - certificates confirming gaining of energy savings within the meaning of the Act of energy effectiveness,</li> <li>– brown - certificates confirming forcing agricultural biogas to the network.</li> </ul>
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 <sub>2</sub> ), 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 <sub>2</sub> 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 <sub>2</sub> ), which is used for settlements of emission size within the system, which can be managed based on principles specified in the Act of 28 April 2011 on the system of greenhouse gases emission allowances trading (Journal of Laws

	No. 122, item 695).
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) with the seat in Warsaw
TAURON Capital Group	TAURON Polska Energia S.A. Capital Group
"TAURON Group"	TAURON Group established by the Management of the Company pursuant to the Code, comprising the Company and selected companies of TAURON Capital Group.
GUS	Central Statistical Office (Główny Urząd Statystyczny)
GZE	Górnośląski Zakład Elektroenergetyczny S.A. with the seat in Gliwice
IRGIT	Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House) with the seat in Warsaw
JWCD	Centrally disposed Generating Units
LTC	(Long-term contracts) – long-term contracts on sales of power and electric energy, listed in the Appendix No. 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
Business Area	Area of operations of subsidiaries included in TAURON Group, determined by the Company, constituting the business segment of TAURON Group
Management Area	Management Area indicated in the List of Management Areas, i.e. the document issued by the Management Board of the Company, pursuant to the Code, established based on Corporate Strategy and included in the business model of TAURON Group
DSO	Distribution System Operator
RES	Renewable Energy Sources
PEPKH	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. with the seat in Katowice
PGK	Tax Capital Group
GDP	Gross Domestic Product
PKE	Południowy Koncern Energetyczny S.A. with the seat in Katowice (currently: TAURON Wytwarzanie)
PKW	Południowy Koncern Węglowy S.A. with the seat in Jaworzno
PSE Operator	Polskie Sieci Elektroenergetyczne Operator S.A. with the seat in Konstancin-Jeziorna
Organisational Regulations/ Bylaws	Document entitled <i>Organisational Regulations of TAURON Polska Energia S.A.</i>
ROIC	(Return On Invested Capital) return on invested capital
SPOT (SPOT Market)	In relation to electric energy, it is the place of concluding of trade transactions for electric energy, for which the period of delivery falls at the latest, three days after the date of transaction (usually one day before the date of delivery). Operating of SPOT market for electric energy is strongly related to operating of the Balancing Market provided by the Operator of Transmission Grid.
Company	TAURON Polska Energia S.A. with its seat in Katowice
Corporate Strategy	The document entitled <i>Corporate Strategy of TAURON Group for 2011 - 2015 with estimates until the year 2020</i> , being the update of the document <i>Corporate Strategy of TAURON Polska Energia S.A. 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 Sprzedaż	TAURON Sprzedaż sp. z o.o. with the seat in Cracow
TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with the seat in Katowice
TGE	Towarowa 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 Network Services Poland sp. z o.o. with the seat in Gliwice
Vattenfall Network Services Poland	Vattenfall Network Services Poland sp. z o.o. with the seat in Gliwice
Vattenfall Sales Poland	Vattenfall Sales Poland sp. z o.o. with the seat in Gliwice
Vattenfall Wolin - North	Vattenfall Wolin – North sp. z o.o. with the seat in Gliwice
WFOŚiGW	Regional Fund of Environmental Protection and Water Management in Katowice
GM	General Meeting/ Shareholders' Meeting

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