

# STATEMENT OF APPLICATION OF CORPORATE GOVERNANCE

Pursuant to § 91 sec. 5 point 4) of the Order of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and conditions to deem as equivalent information required by legal regulations of a country not being a member country, TAURON Management Board submits the Statement of Application of Corporate Governance in 2010.

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

On 11 June 2010, that is from the moment of public trading of shares, the Company is subject to rules of corporate governance described in the document "Good Practices of Companies Listed at Stock Exchange" (Corporate Governance Regulations), adopted by Stock Exchange Supervisory Board's Resolution no 12/1170/2007 of 4 July 2007, amended by Resolution no 17/1249/2010 of 19 May 2010.

The aforementioned Good Practices of Companies Listed at Stock Exchange were adopted for implementation by TAURON Management Board. All recommendations included in the subject document were carried out in the financial year 2010 from the day of the Company's shares' public trading.

Content of the aforementioned set of rules is published at the Warsaw Stock Exchange website at <http://corp-gov.gpw.pl>.

## 1.2. Indicating abandoned rules of corporate governance

The Company adopted all regulations of corporate governance resulting from "Good Practices of Companies Listed at Stock Exchange". In the period from the day of the Company's shares' public trading there have been no occurrences of infringing on the corporate governance regulations adopted by TAURON.

## 1.3. Description of main characteristics of internal control and risk management systems in relation to financial statements and consolidated financial statements making process

Pursuant to guidelines of Good Practices of Companies Listed at Stock Exchange the Company conducts systematic assessment of internal control and risk management in the process of making financial statements by binding documents (procedures), control activities carried out, information technology systems, internal audit, and supervision over internal control system as well as responsibility for task realization. An important role is also played by an independent expert auditor in the assessment of internal control and management risk system. Among the essential documents and procedures regulating the process of making financial statements which are binding in the Company and TAURON Group one needs to mention TAURON Polska Energia S.A. Capital Group Accounting Policy, accounting policy of companies covered by consolidation, Organizational Regulations, TAURON Polska Energia S.A. with the seat in Katowice Management Board Regulations (hereinafter referred to as Company Management Board Regulations), TAURON Polska Energia S.A. with the seat in Katowice Supervisory Board Regulations (hereinafter referred to as Company Supervisory Board Regulations), TAURON Polska Energia S.A. Internal Audit Regulations, TAURON Group Ownership Supervision Regulations, Inventory Instructions in TAURON Polska Energia S.A. and other internal procedures. TAURON Polska Energia S.A. Capital Group Accounting Policy is in accordance with IFRS and constitutes directives for companies covered by consolidation in the process of making reporting packages for the consolidated statement. Supervision over the preparation of financial statements is performed by the Economy and Finance Vice-President of the Management Board, whereas responsibility for the making of reporting packages for TAURON Group consolidated financial statement is borne by Management Boards of companies covered by consolidation.

The Company keeps accounting books which constitute the basis for making a financial statement in the financial-accounting computer system of ERP class. Making the consolidated financial statement takes place with using specialist IT tools. In the Company there are IT and organizational solutions which protect the access to financial-accounting systems and they provide adequate protection and archivisation of account books. Notwithstanding the control mechanisms embedded in IT environment, control activities are carried out by means of financial statements verification and periodical review of financial reports by the Management Board, division of duties among employees, creating plans and verification of its implementations, review of legal changes, approving source documents by employees and their authorization by superiors.

In the Company there is internal audit understood as an independent and objective function whose essence is to help to achieve by the Company and TAURON Group economic objectives by introducing a systemized approach to the assessment and improvement of risk management process, control mechanisms system as well as corporate governance. Ways and rules of its implementation are described by TAURON Polska Energia S.A. Internal Audit Regulations as well as rules of cooperation which are binding in particular companies of TAURON Group. Carrying out the function of the internal audit the Company is governed by the Code of Ethics and International Standards. Auditing tasks are carried out on the basis of Long-term Audit Plan and Annual Audit Plan. These plans are based on the documented risk assessment, carried out at least once a year, with the participation of the Company's Management Board.

Supervisory Board makes an assessment of separate and consolidated financial statements and it appoints Audit Committee, which is an advisory and opinion-making body acting jointly within the structure of the Supervisory Board. Tasks of the Audit Committee are mainly monitoring financial reporting process and accuracy of financial information presented by the Company as well as effectiveness of internal control, internal audit and risk management systems in the Company and also of the independence and objectivity of the entity authorized to examine financial statements.

In 2010 the Company chose one entity authorized to examine and review financial statements for significant companies of TAURON Group as well as of the consolidated financial statement. As a part of audit works a reputable auditor makes an independent assessment of accuracy and correctness of separate and consolidated financial statements as well as confirms the effectiveness of internal control and risk management system.

#### 1.4. Shareholders having 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 1. Shareholders having, directly or indirectly, large blocks of shares**

Shareholders	Number of shares	Percentage interest in share capital	Number of votes	Percentage interest in total number of votes
State Treasury*	735,361,897	41.96%	735,361,897	41.96%
KGHM Polska Miedź S.A.**	81,822,499	5.15%	81,822,499	5.15%

\*in accordance with the shareholder's notice of 28.02.2011

\*\* in accordance with the shareholder's notice of 2.07.2010

### 1.5. Owners of securities giving special control rights

The Company did not issue securities which would give special control rights in relation to the Company.

### 1.6. Limitations on performing the voting right

Limitations on performing the voting right have been included in § 10 of the Company's Articles of Association as well as put into TAURON Polska Energia S.A. General Meeting Regulations. Company Articles of Association and General Meeting Regulations can be found at the Company's website <http://tauron-pe.pl/>.

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

1. The voting right of shareholders having over 10% of total votes in the Company shall be limited in the way that none of them can perform at the General Meeting more than 10% of the total votes in the Company.
2. Voting right limitation included in point 1 above does not apply to the State Treasury and entities subsidiary of the State Treasury in the period of time in which the State Treasury together with subsidiary entities subsidiary of the State Treasury has a number of the Company's shares entitling to performing at least 25% of total votes in the Company.
3. Shareholders' votes, between which there is a controlling or dependence relationship within the meaning of § 10 of the Articles of Association are cumulated; in case when the cumulated number of votes exceeds 10% of total votes in the Company, it is subject to reduction. Rules of votes' accumulation and reduction have been defined in 6 and 7 below.
4. A shareholder, within the meaning of § 10 of the Articles of Association is every person, including its parent and subsidiary company, which is entitled directly or indirectly to a voting right at the General Assembly on the basis of any legal title; it also applies to a person who does not have the Company's shares, and in particular to a user, pledgee, person entitled on the basis of a depositary receipt under regulations of the Act of 29 July 2005 on financial instruments trading, as well as a person entitled to take part in the General Meeting despite disposal of shares after the date of establishing the right to take part in the General Meeting.
5. By a parent company and subsidiary company, for the purposes of § 10 of the Articles of Association, one understands a person that:
  - 1) has a status of a dominating entrepreneur, dependent entrepreneur or has both the status of a dominating and dependent entrepreneur within the meaning of the Act of 16 February 2007 on competition and consumers' protection, or
  - 2) has the status of a parent company, higher level parent company, subsidiary company, lower level subsidiary company or which has both the status of a parent and subsidiary company (including a subsidiary company of lower level and co-subsiary) within the meaning of Accountancy Act of 29 September 1994, 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) whose votes resulting from the Company's shares owned directly or indirectly are subject to accumulation with votes of another person or other persons on conditions defined in the Act of 29 July 2005 on public offering and conditions of introducing financial instruments to an organized trading system and on public companies in connection with possessing, disposing of or acquiring large blocks of the Company's shares.
6. Accumulation of votes is based on adding up the number of votes that particular shareholders of Shareholders' Group have.

7. Reduction of votes is based on decreasing the total number of votes in the Company that shareholders, who are a part of Shareholders' Group, 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 a shareholder's votes who has the biggest amount of votes in the Company among all shareholders who are members of the Shareholders' Group 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 Shareholders' Group,
  - 2) if, despite the aforementioned reduction, the total number of votes that shareholders who are members of the Shareholders' Group 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 Shareholders' Group 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 Shareholders' Group have (from the highest to the lowest one). Further reduction takes place until the moment when the total number of votes owned by shareholders who are members of the Shareholders' Group 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 point 9 below, notify the Management Board or the Chairperson of the General Meeting that s/he has, directly or indirectly, more than 10% of the total votes in the Company.
9. Notwithstanding the stipulation of point 8 above, in order to establish the basis for accumulation and reduction of votes, the Company's shareholder, Management Board, Supervisory Board or particular members of these bodies have the right to demand that the Company's shareholder provide information whether s/he is a person having the status of an entity dominating or subordinate towards other shareholder within the meaning of § 10 of the Articles of Association. The aforementioned entitlement includes also the right to demand revealing the number of votes that the Company's shareholder has independently or jointly with other shareholders of the Company.
10. A person who has failed to fulfil or fulfilled the information obligation stipulated in points 8 and 9 above improperly, until the moment of improvement of the information obligation performed improperly shall have the voting right from one share only; performing voting rights from other shares by such a person shall be null and void.

### **1.7. Limitations on transfer of securities property rights**

There are no limitations in TAURON on the transfer of property rights of Company's securities.

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

#### **MANAGEMENT BOARD**

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

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

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

### **Competence of the Management Board**

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

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

- 1) Management Board regulations,
- 2) organizational regulations of the Company's enterprise,
- 3) establishing and liquidating branches,
- 4) appointing a procurator,
- 5) taking out credits and loans,
- 6) accepting annual material and financial plans as well as long-term plans and Company's strategy,
- 7) incurring contingent liabilities within the meaning of the Accounting Act of 29 September 1994, including granting guaranties and sureties by the Company as well as issuing bills of exchange with the value not exceeding the equivalent of 5,000,000 EUR in PLN,
- 8) making donations, cancelling interest or releasing from debt,
- 9) purchase of property, perpetual usufruct of shares in property or in perpetual usufruct with the value not exceeding the equivalent of 5,000,000 EUR in PLN,
- 10) purchase of the components of fixed assets excluding property, perpetual usufruct or share in property or perpetual usufruct with the value equal to or not exceeding the equivalent of 10,000 EUR in PLN, but not exceeding the equivalent of 5,000,000 EUR in PLN,
- 11) disposal of components of fixed assets, including property, perpetual usufruct or share in property or perpetual usufruct of value equal to or exceeding the equivalent of 10,000 EUR in PLN but not exceeding the equivalent of 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 has stock or shares, in issues being the competences of the General Meetings or Shareholders' Meetings of these companies, except for defining the way of performing the right to vote at the General Meeting or at the Shareholders' Meeting of companies in which the Company has 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 property right on them, if their value exceeds the equivalent of the amount of 5,000,000 EUR in PLN,
  - b) dissolution and liquidation of the Company,
- 13) rules of conducting sponsoring activity,
- 14) accepting an annual plan of sponsoring activity,
- 15) issues, whose examination the Management Board asks the Supervisory Board or the General Meeting.

## **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) the period, in which the State Treasury, together with entities dependent on the State Treasury within the meaning of § 10 sec. 5 of the Articles of Association, has a number of shares of the

Company entitling to perform at least 25% of the total votes in the Company, the State Treasury is represented by the minister competent for the issues of the State Treasury, is entitled to appoint and dismiss the members of the Supervisory Board in the amount equal to half of the maximum number of the composition of the Supervisory Board defined in the Articles of Association (in case when the number is not integral it is rounded down to an integral number, for example 4.5 is rounded down to 4 increased by 1 subject to 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 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 smaller than required by the Articles of Association, and the shareholders present at the General Meeting other than the State Treasury do not round out the composition of the Supervisory Board in accordance with the distribution of places in the Supervisory Board defined in present point.
- 2) in the period of time in which the State Treasury, together with entities dependent on the State Treasury within the meaning of § 10 sec. 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 members of the Supervisory Board by the State Treasury in pursuant to the aforementioned point 1) or point 2) takes place by means of a statement submitted to the Company.

At least two members of the Supervisory Board shall meet the independence criteria (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 order of the Committee of 15 February 2005, on the role of non-executive managers or managers not being members of the Supervisory Boards of listed companies and board's committee (supervising board) (2005/162/WE) taking into consideration Good Practices of Companies Listed at the Warsaw Stock Exchange.

Independent members of the Supervisory Board give the Company, before being appointed to the composition of the Supervisory Board, a written statement of having fulfilled the requirements of independence. In case of a situation causing not fulfilling the requirements of independence, a member of the Supervisory Board is required to immediately notify the Company about this fact. The Company shall inform shareholders about the present number of independent members of the Supervisory Board.

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

The Supervisory Board carries out a constant 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's 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 state. It also applies to the consolidated financial statement of the Capital Group, provided it is made,
- 2) assessment of the Management Board's proposals of profit division or covering loss,
- 3) submitting to the General Meeting a written report on the results of operations which are included in points 1 and 2,
- 4) making reports of the Supervisory Board from the supervision of realization by the Management Board of investments, including the purchase of fixed assets, and in particular giving opinions on the correctness and effectiveness of expending cash connected with it,
- 5) making, 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's capital made in a given financial year in other entities of commercial law,
- 6) selecting an expert auditor to carry out the examination of the Company's financial statement and consolidated financial statement of the Capital Group,
  - 7) determining the scope and deadlines of submitting by the Management Board annual material and financial plans as well as long-term strategic plans,
  - 8) giving opinions on long-term plans and strategies of the Company and Capital Group,
  - 9) giving opinions and accepting the rules of conducting sponsoring activity,
  - 10) giving opinions on the annual plan of conducting sponsoring activity as well as quarterly reports on its realization,
  - 11) passing a regulations describing in details the mode of action of the Supervisory Board,
  - 12) adopting a uniform text of the Company's Articles of Association, made by the Company's Management Board,
  - 13) approving the regulations of the Company's Management Board,
  - 14) approving the organizational regulations of the Company's enterprise.

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

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

Moreover, competence of the Supervisory Board includes in particular:

- 1) appointing and dismissing members of the Management Board,
- 2) establishing the rules of remuneration and the amount of remuneration for the members of the Management Board,
- 3) suspending members of the Management Board in 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 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 qualification proceedings for the position of a member of the Management Board,
- 6) conducting a competition in order to select a person with whom an agreement to perform management in the Company shall be reached as well as reaching an agreement to serve in the Board in the Company,
- 7) granting permission to establish Company branches abroad,
- 8) granting permission to the members of the Management Board to take positions in 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 has over 50% of stocks or shares, in matters concerning:

- a) disposal and lease of the company's enterprise or its organized part as well as establishing on them a limited property right, if their value exceeds the equivalent of the amount of 5,000,000 euro in PLN
- b) dissolution and liquidation of the company.

### **1.9. Description of the Company's Articles of Association amendment rules**

Change of the Company's Articles of Association takes place by means of General Meeting's resolution, and then requires issuing a decision by a proper court on entering the change into the Register of Entrepreneurs. A uniform text of the Company's Articles of Association, including amendments passed by the General Meeting are adopted by the Supervisory Board by means of a resolution.

### **1.10. Way of operating of the General Meeting, its fundamental entitlements and description of shareholders' rights and mode of their performance**

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

#### ***Mode of operation***

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

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

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

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

1. Resolutions of the General Meeting require:
  - 1) examining and approving financial statement for the previous financial year as well as the Management Board's report from the Company's activity,
  - 2) granting the vote of approval to the members of the Company's bodies from performing their duties,
  - 3) division of profit or covering of loss,
  - 4) appointing and dismissing members of the Supervisory Board,
  - 5) suspending members of the Management Board in their actions,

- 6) establishing the amount of remuneration for the Members of the Supervisory Board, subject to 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 regulations of law,
- 7) disposal and lease of the Company's enterprise or its organized part as well as establishing a limited property right on them,
- 8) reaching by the Company a credit, loan, surety agreement or any other similar agreement with a member of the Management Board, Supervisory Board, procurator, and liquidator or for any of these persons. Reaching a credit, loan, surety or any other similar agreement with a member of the Management Board, Supervisory Board, procurator, liquidator or for any of these persons 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 own shares in cases required by the regulations of the Act of 15 September 2000, Code of Commercial Companies,
- 12) compulsory buyout of shares in accordance with the stipulations of art. 418 of the Act of 15 September 2000, Code of Commercial Companies,
- 13) creating, using and liquidation of reserve capitals,
- 14) using reserve capital,
- 15) provisions concerning claims to repair damage made at establishing the company or serving in the board or performing supervision,
- 16) merger, transformation and division of the Company,
- 17) redemption of shares,
- 18) change of Articles of Association and change of the scope of the Company's operations,
- 19) dissolution and liquidation of the Company.

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

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

A shareholder or shareholders representing at least one twentieth of the share capital may demand summoning 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's e-mail address, shown by the Company 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.

A shareholder or shareholders representing at least half of the share capital or at least half of the total votes in the Company may summon an 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 in 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's e-mail address or in writing to the Company's 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 in 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 Company's e-mail address or in writing to the Company's 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's 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 of summoning 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 from shares of each Shareholder.

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

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

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

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

##### **MANAGEMENT BOARD**

The present, II term of office of the Management Board, started on 8 March 2008. In accordance with the Company's Articles of Association this is a joint term of office and lasts for three years. The period covered by the present report constituted the third year of the Company's Management Board operation during the II term of office which ended 8 March 2011.

**Management Board composition as of 31 December 2010 and as of the day of making the present report:**

1. Dariusz Lubera – President of the Management Board,
2. Joanna Schmid – Vice-President of the Management Board,
3. Dariusz Stolarczyk - Vice-President of the Management Board,
4. Krzysztof Zamasz - Vice-President of the Management Board,
5. Krzysztof Zawadzki - Vice-President of the Management Board.

**Changes in the Management Board composition:**

In the period covered by the present report the following changes in the composition of the Management Board took place:

- 1) Stanisław Tokarski - Vice-President of the Management Board, Strategy and Development Manager, appointed to the Company's Management Board on 8 March 2008 as of 31 August 2010 submitted a resignation from the performed function.
- 2) Joanna Schmid was appointed into the composition of the Management Board as of 1 October 2010 to the position of the Vice-President of the Management Board – Strategy and Development Manager.

In connection with the end of the term of office of the Company's Management Board, falling on 8 March 2011, on 24 February 2011 the Company's Supervisory Board, as a result of completed qualification proceedings adopted a resolution to appoint members of the Management Board of the third term of office. Detailed information in the aforementioned scope is included in point 3.8 of the present report.

**Mode of operation**

Management Board of TAURON Company operates on the basis of the Act of 15 September 2000, Code of Commercial Companies and other regulations of law, stipulations of the Company's Articles of Association and stipulations of the Company's Management Board's Regulations. While performing their obligations members of the Management Board are governed by regulations included in the Good Practices of Companies Listed at Warsaw Stock Exchange.

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

Meetings of the Management Board are summoned 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 summoned 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 summoning 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 head 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 voting on personal issues as well as 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. In case of an equal number of votes the vote of the President of the Management Board shall be decisive. The Management Board

may pass resolutions in a written mode or by using means of direct distance communication. Voting in the aforementioned modes is ordered by the President of the Management Board or a member of the Management Board 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 a justification. Decisions of the Management Board, being rulings in current issues, not requiring passing a resolution, are recorded only in the minutes.

## **SUPERVISORY BOARD**

The present, II term of office of the Supervisory Board started on 11 December 2007. In accordance with the Company's Articles of Association the term of office in joint and is for three years. The period covered by the present report constituted third year of the Company's Supervisory Board's operation during the II term of office which ended 11 December 2010.

### ***Supervisory Board composition as of 31 December 2010 and as of the day of making the present report:***

1. Antoni Tajduś – Chairperson of the Supervisory Board,
2. Agnieszka Trzaskalska – Vice-Chairperson 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 composition***

Witold Kurowski and Tadeusz Skrzypek, appointed to the composition of the Supervisory Board on 31 January 2008 were dismissed as of 13 September 2010 by the shareholder – State Treasury, by means of personal entitlement under the Company's Articles of Association.

Leszek Koziorowski, Jacek Kuciński and Jacek Szyke were appointed to the composition of the Company's Supervisory Board on 14 September 2010 by the General Meeting. Leszek Koziorowski and Jacek Szyke meet the independence criteria within the meaning of the Order of the Commission of 15 February 2005 on the role of non-executive directors or being members of the Supervisory Board of listed companies and commission of the board (supervisory board) (2005/162/WE) plus Good Practices of Companies Listed at Warsaw Stock Exchange.

### ***Mode of operation***

A detailed description of the mode of the Supervisory Board mode of operation is included in the Company's Supervisory Board's regulations as well as in the Act of 15 September 2000, Code of Commercial Companies.

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

- a) in accordance with decisions adopted by the Supervisory Board,
- b) on his/her own initiative,
- c) upon a written proposal of each member of the Supervisory Board,
- d) 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 summoned in a different place.

In order to summon a meeting a 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's meeting are sent by means of fax or electronic mail and are confirmed by phone. In the notification of the Supervisory Board's meeting the Chairperson defines the date of the meeting, place of the meeting as well as detailed draft of the agenda. The Supervisory Board shall meet when the need arises, however not less than once every two months. The Supervisory Board may meet without summoning 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 in the agenda shall be included in 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's resolution. Members of the Management Board of the Company may take part in the Supervisory Board's meetings unless the Supervisory Board voices an objection. Participation of the Management Board's members in the Supervisory Board's meetings is compulsory if they were invited by the Chairperson of the Supervisory Board. Also other persons may 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 reach an appropriate agreement.

Meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in the case of his/her absence by the Vice-Chairperson. Due to material reasons, with the consent of the majority of the members of the Supervisory Board present at the meeting, the person chairing the meeting is obliged to submit to voting a motion to stop the meeting and establish a new date of resuming the Supervisory Board's meeting. The Supervisory Board makes decisions in the form of resolutions. The Supervisory Board's resolutions are passed mainly at the meetings. The Supervisory Board passes resolutions if at least half of its members are present at the meeting and all its members were invited in the way defined in the Regulations. Subject to absolutely binding regulations of law, including the Act of 15 September 2000, Code of Commercial Companies as well as provisions of the Company's Articles of Association, the Supervisory Board passes resolutions by an absolute majority of votes of the persons present at the meeting, where the absolute majority of votes is understood as more votes given "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. A secret voting 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 of the Company passes resolutions in a written mode or by using means of direct distance communication. Passing a resolution in such a mode requires a justification and a prior submitting of the draft of the resolution to all members of the Supervisory Board. Passing resolutions in this mode does not apply to the appointing the Chairperson, the Vice-Chairperson and the Secretary of the Board, appointing or suspending in the activities of a member of the Supervisory Board and dismissing these persons as well as other issues the settlement of which requires a secret voting. Voting on a resolution passed

in the aforementioned mode, a member of the Supervisory Board indicates the mode of his/her voting, that is "for", "against" or "abstain". In case of not taking a stance 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's 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 Supervisory Board may appoint among its members permanent or temporary working teams or committees to perform particular actions. The permanent committee of the Supervisory Board are TAURON Polska Energia S.A. Supervisory Board Audit Committee (hereinafter referred to as Audit Committee) and TAURON Polska Energia S.A. Supervisory Board Nominations and Remunerations Committee (hereinafter referred to as Nominations and Remunerations Committee). Composition, tasks and rules of operation of the aforementioned committees are defined by regulations passed by the Supervisory Board.

## **AUDIT COMMITTEE**

Audit Committee was appointed on 13 May 2010 by the Supervisory Board among its members, in the following composition:

- |                       |                                  |
|-----------------------|----------------------------------|
| 1. Michał Michalewski | – Head of the Audit Committee,   |
| 2. Marek Ściażko      | – Member of the Audit Committee, |
| 3. Witold Kurowski    | – Member of the Audit Committee. |

### ***Audit Committee composition as of 31 December 2010 and as of the day of making the present report:***

- |                       |                                  |
|-----------------------|----------------------------------|
| 1. Michał Michalewski | – Head of the Audit Committee,   |
| 2. Marek Ściażko      | – Member of the Audit Committee, |
| 3. Jacek Szyke        | – Member of the Audit Committee. |

### ***Changes in the composition***

In connection with dismissing from the composition of the Supervisory Board of Witold Kurowski, who performed the function of the Audit Committee member, the Supervisory Board, as of 28 September 2010, appointed Jacek Szyke into the composition of the Audit Committee.

### ***Mode of operation***

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

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 to the Supervisory Board motions, recommendations, opinions and statements on the scope of its tasks, by means of resolutions passed by the Audit Committee. The Audit Committee is independent from the Company's Management Board. The Management Board may not issue binding orders to the Audit Committee concerning performing its duties.

The composition of the Audit Committee includes from three to five members. The work of the Audit Committee are managed by the Head. Meetings of the Audit Committee are summoned by the Head 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 not earlier than once every quarter. The Head 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 an expert auditor to the meetings of the Audit Committee. Head of the Audit Committee or a person appointed by him/her submits to the Supervisory Board motions, recommendations and reports. 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 distance communication.

The Company's 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 form such a motion.

The Audit Committee's tasks are:

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

Company's Board of Management provides the possibility to use by the Audit Committee from the services of external advisors in the scope necessary to perform the obligations of the Audit Committee. The Company provides a programme to introduce new Audit Committee members' to their obligations and further trainings. All members of the Audit Committee shall in particular obtain information on the specificity of accounting, finance and operating activity of the Company. The Audit Committee may demand to submit by the Management Board information on the area of bookkeeping, finance, financial audit, internal audit and risk management.

## **NOMINATIONS AND REMUNERATIONS COMMITTEE**

Nominations and Remunerations Committee was appointed on 27 August 2010 by the Supervisory Board among its members. The composition of the Nominations and Remunerations Committee includes three members.

### ***Nominations and Remunerations Committee composition as of 31 December 2010 and as of the day of making the present report:***

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

### ***Mode of operation***

Detailed description of the Nominations and Remunerations Committee mode of operation is included in TAURON Polska Energia S.A. Supervisory Board Nominations and Remunerations Committee Regulations.

The Nominations and Remunerations Committee is an advisory and opinion-making body acting jointly as a part of the Supervisory Board's structure and performs a support and advisory function towards the Supervisory Board. Tasks of the Nominations and Remunerations Committee are realized through submitting motions, recommendations, opinions and reports on the scope of its activities to the Supervisory Board by means of resolutions passed by the Nominations and Remunerations Committee. The Nominations and Remunerations Committee is independent from the Company's Management Board. The Management Board may not give binding orders to the Nominations and Remunerations Committee on performing its duties.

The composition of the Nominations and Remunerations Committee includes from three to five members, including at least one independent member of the Supervisory Board. Work of the Nominations and Remunerations Committee is managed by the Head.

Meetings of the Nominations and Remunerations Committee are summoned by the Head of the Nominations and Remunerations Committee on his/her own initiative or upon the motion of a member of the Nominations and Remunerations Committee or upon the motion of the Chairperson the Supervisory Board. Meetings of the Nominations and Remunerations Committee take place as the need arises. The Head of the Nominations and Remunerations Committee may invite members of the Supervisory Board not being 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 an expert auditor, to the meetings. The Head of the Nominations and Remunerations Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board.

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

The Company's 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 Nominations and Remunerations Committee's tasks are:

- 1) recommending the Supervisory Board a recruitment procedure for the positions of members of the Company Management Board's
- 2) assessing candidacy for members of the Management Board as well submitting an opinion in this scope to the Supervisory Board,
- 3) recommending the Supervisory Board form and content of agreements reached with members of the Management Board,
- 4) recommending the Supervisory Board remuneration and bonus system of the members of the Management Board,
- 5) recommending the Supervisory Board the need to suspend a member of the Management Board due to material reasons,
- 6) recommending the Supervisory Board 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 suggestion of remuneration.

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