

# STATEMENT OF APPLICATION OF CORPORATE GOVERNANCE

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

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

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

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

## 1.2. Indicating abandoned rules of corporate governance

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

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

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

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

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

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

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

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

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

### **IT systems**

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

### **Internal audit**

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

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

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

## 1.4. 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. 1 Shareholders holding large blocks of shares**

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

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

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

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

## 1.5. 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.

## 1.6. Limitations on performing of the voting right

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

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

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

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

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

### **1.7. 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.

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

#### **1.8.1. Management Board**

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

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

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

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

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

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

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

10,000 in PLN, but not exceeding the equivalent of EUR 5,000,000 in PLN,

- 12) defining the right to perform a vote at the General Meeting or at Shareholders' Meetings of companies in which the Company holds stocks or shares, on issues being the competences of the General Meetings or Shareholders' Meetings of these companies, except for defining the way of performing the right to vote at the General Meeting or at the Shareholders' Meeting of companies in which the Company holds over 50% of stocks or shares in matters concerning:
  - a) disposing and leasing of the Company's enterprise or its organized part as well as establishing a limited proprietary right on them, if their value exceeds the equivalent of the amount of EUR 5,000,000 in PLN,
  - b) dissolution and liquidation of the Company,
- 13) rules of conducting sponsoring activity,
- 14) adoption of the annual plan of sponsoring activity,
- 15) issues, whose examination the Management Board refers to the Supervisory Board or the General Meeting.

### **1.8.2. Supervisory Board**

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

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

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

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

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

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

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

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

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

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

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

Moreover, competence of the Supervisory Board includes in particular:

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

### **1.9. 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.



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

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

### **Way of operating of the General Meeting**

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

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

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

### **Competence of General Meeting**

The following issues require Resolutions of the General Meeting:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **1.11.1. Management Board**

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

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

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

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

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

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

## **Mode of operation**

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

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

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

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

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

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

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

- 1) President of the Board

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

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

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

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

### **1.11.2. Supervisory Board**

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

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

- |                          |  |
|--------------------------|--|
| 1. Antoni Tajduś         | – Chairman of the Supervisory Board        |
| 2. Agnieszka Trzaskalska | – Deputy Chairman of the Supervisory Board |
| 3. Leszek 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 Management Board composition:**

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

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

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

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

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

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

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

- |                          |  |
|--------------------------|--|
| 1. Antoni Tajduś         | – Chairman of the Supervisory Board        |
| 2. Rafał Wardziński      | – Deputy Chairman of the Supervisory Board |
| 3. Leszek 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 Ściażko         | – 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.auron-pe.pl/> as well as in the Act of 15 September 2000, Code of Commercial Companies.

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

### **1.11.3. Audit Committee**

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

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

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

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

#### **Changes in the Audit Committee personal composition:**

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

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

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

#### **Mode of operation**

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

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

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



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

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

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

The tasks of the Audit Committee cover:

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

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

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

#### **1.11.4. Nominations and Remuneration Committee**

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

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

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

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

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

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

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

#### **Mode of operation**

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

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

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

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

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

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

The tasks of the Nominations and Remunerations Committee include:

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

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

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

## **1.12. 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. 2 Remuneration of members of the Management Board for 2011 (data in PLN thousand)\***

Surname and name	Period of holding the position in 2011	Remuneration and awards	Other benefits	Total
Lubera Dariusz	01.01.2011 - 31.12.2011	1,655	200	1,855
Schmid Joanna	01.01.2011 - 31.12.2011	1,238	129	1,367
Stolarczyk Dariusz	01.01.2011 - 31.12.2011	1,575	191	1,766
Zamasz Krzysztof	01.01.2011 - 31.12.2011	1,575	156	1,731
Zawadzki Krzysztof	01.01.2011 - 31.12.2011	1,575	149	1,724
<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. 3 Remuneration of members of the Management Board for 2011 (data in PLN thousand)\***

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

### **1.13. 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.