



***Additional information to  
the extended consolidated  
report of TAURON Polska Energia S.A. Capital Group  
for the Third Quarter of 2015***

10 November 2015

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# 1. Organisation of TAURON Capital Group

## 1.1 Basic Information on TAURON Capital Group

As at 30 September 2015, TAURON Polska Energia S.A. Capital Group (TAURON Capital Group) consisted of the parent company, TAURON Polska Energia S.A. (hereinafter referred to as TAURON, TAURON Polska Energia, the Company or the Issuer) and 15 subsidiaries subject to consolidation. Moreover, the Capital Group consisted of 12 other subsidiaries as well as 10 companies with the capital share between 50% - 20% and 20 companies with the capital share below 20%.

The main companies subject to consolidation included: TAURON Wydobycie S.A. (TAURON Wydobycie) dealing with hard coal mining, TAURON Wytwarzanie S.A. (TAURON Wytwarzanie) dealing with generation of energy from conventional sources and biomass co-burning, TAURON Ekoenergia sp. z o.o. (TAURON Ekoenergia) dealing with generation of electricity from renewable sources, TAURON Dystrybucja S.A. (TAURON Dystrybucja) providing electricity distribution services, TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż) and TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE) dealing with the supply of electricity to retail customers, TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta), dealing with customer service as well as rendering intra-group services in the area of accounting and IT and TAURON Ciepło sp. z o.o. (TAURON Ciepło) - dealing with generation, distribution and sales of heat. Moreover, TAURON Capital Group consisted of seven other subsidiaries, subject to consolidation, dealing, among others, with electricity trading as well as extraction of limestone and stone for construction purposes.

On 12 October 2010, in order to ensure performance of TAURON Group, perceived as a homogeneous business entity consisting of autonomous commercial law companies, the Management Board of TAURON Polska Energia S.A. established TAURON Group, comprising the companies listed hereunder and TAURON Polska Energia S.A., as the parent company, and adopted the TAURON Group Code as the underlying normative act of TAURON Group operations. The Code of TAURON Group regulates the performance of the Group, ensuring the implementation of the goals through the dedicated solutions in the scope of managing TAURON Group entities.

As at 30 September 2015, the following subsidiaries were included in TAURON Group:

**Table no. 1 List of subsidiaries included in TAURON Group**

No.	Company enterprise	Date of accession to TAURON Group
1.	TAURON Sprzedaż sp. z o.o.	26.10.2010
2.	TAURON Obsługa Klienta sp. z o.o.	26.10.2010
3.	TAURON EKOENERGIA sp. z o.o.	26.10.2010
4.	TAURON Wytwarzanie S.A.	28.10.2010
5.	TAURON Czech Energy s.r.o.	10.11.2010
6.	TAURON Dystrybucja S.A.	06.12.2010
7.	Kopalnia Wapienia "Czatkowice" sp. z o.o.	05.01.2011
8.	TAURON Wydobycie S.A.	13.01.2011
9.	TAURON Sprzedaż GZE sp. z o.o.	24.01.2012
10.	TAURON Wytwarzanie GZE sp. z o.o.*	24.01.2012
11.	TAURON Ubezpieczenia sp. z o.o.	17.09.2013
12.	TAURON Ciepło sp. z o.o.	16.10.2013
13.	TAURON Dystrybucja Pomiary sp. z o.o.	19.11.2013
14.	TAURON Ekoserwis sp. z o.o.	19.11.2013

No.	Company enterprise	Date of accession to TAURON Group
15.	Spółka Usług Górniczych sp. z o.o.	04.12.2013
16.	TAURON Dystrybucja Serwis S.A.	17.12.2013
17.	TAURON Wytwarzanie Serwis sp. z o.o.	26.02.2014
18.	SCE Jaworzno III sp. z o.o.	19.12.2014
19.	Biomasa Grupa TAURON sp. z o.o. (formerly: Energopower sp. z o.o.)	19.11.2013

*\* On 29 September 2015 the Extraordinary Meeting of Shareholders of the company TAURON Wytwarzanie GZE sp. z o.o. adopted Resolution no. 1/2015 concerning winding up and liquidation of the company TAURON Wytwarzanie GZE sp. z o.o. On 13 October 2015 the Management Board of TAURON Polska Energia S.A. adopted Resolution no. 330/IV/2015, amending Resolution of the Management Board no. 274/II/2010 of 12 October 2010 concerning the establishment of TAURON Group and admission of companies to TAURON Group, by deleting the company TAURON Wytwarzanie GZE sp. z o.o. from the list of companies included in TAURON Group.*

An essential element enabling operational decision-making within TAURON Group, is the existence of advisory and quasi-supervisory bodies of the Group - the four Committees of TAURON Group:

1. TAURON Group Project Assessment Committee,
2. TAURON Group Management Committee,
3. TAURON Group Compliance Committee,
4. TAURON Group Risk Committee.

The Committees fulfil the following functions:

1. opinion-making function for TAURON Management Board,
2. decision-making function,
3. supervisory function towards management boards of the subsidiaries.

The basic task of the Committees is to supervise the implementation of coherent actions by all participants of the Group, compliant with the TAURON Group Code and the interest of TAURON Group. The specific functions of the Committees have been specifically defined in their by-laws adopted by the Management Board of TAURON Polska Energia S.A.

## 1.2 Entities subject to consolidation

As at 30 September 2015, the parent company - TAURON Polska Energia S.A. - and the following subsidiaries of TAURON Polska Energia S.A. were covered by consolidation:

1. TAURON Wydobycie S.A.
2. TAURON Wytwarzanie S.A.
3. TAURON Ekoenergia sp. z o.o.
4. TAURON Ciepło sp. z o.o.
5. TAURON Dystrybucja S.A.
6. TAURON Dystrybucja Serwis S.A.
7. TAURON Dystrybucja Pomiary sp. z o.o.
8. TAURON Sprzedaż sp. z o.o.
9. TAURON Sprzedaż GZE sp. z o.o.
10. TAURON Czech Energy s.r.o.
11. TAURON Obsługa Klienta sp. z o.o.
12. Kopalnia Wapienia "Czatkowice" sp. z o.o.
13. Polska Energia Pierwsza Kompania Handlowa sp. z o.o. w likwidacji
14. TAURON Sweden Energy AB (publ)
15. Biomasa Grupa TAURON sp. z o.o.

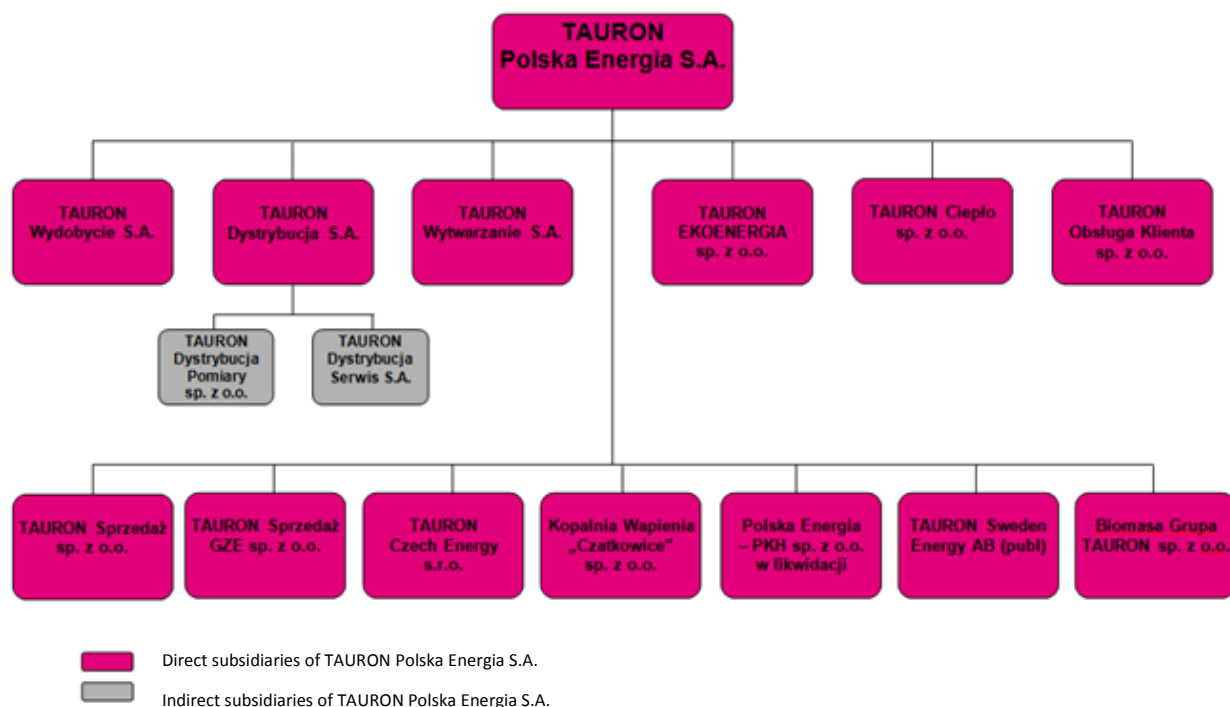
In addition, TAURON Polska Energia S.A. Capital Group holds investments in joint projects:

Elektrociepłownia Stalowa Wola S.A., Elektrownia Blachownia Nowa sp. z o.o. and Grupa TAMEH Holding sp. z o.o. (TAMEH HOLDING sp. z o.o., TAMEH POLSKA sp. z o.o. and TAMEH Czech s.r.o.), evaluated by equity method in the consolidated financial statements.

### 1.3 Structure of TAURON Capital Group and significant changes in its structure

The chart below presents companies whose results are consolidated within TAURON Capital Group, as at 30 September 2015.

Figure no. 1. Consolidated companies of TAURON Capital Group



Below, significant changes in the structure of TAURON Capital Group subsidiaries are described, including the effects of changes which occurred in the 3<sup>rd</sup> quarter of 2015:

#### Purchase of shares in the company Biomasa Grupa TAURON Sp. z o.o.

In accordance with the agreement concluded on 14 January 2015, TAURON Polska Energia S.A. purchased 4,267 shares constituting 100% of the share capital of the company Biomasa Grupa TAURON Sp. z o.o. for the price of PLN 1,224 thousand, from its subsidiary, TAURON Wytwarzanie S.A. The transfer of the ownership of shares took place pursuant to Article 453 of the Civil Code in order to release TAURON Wytwarzanie S.A. from its obligation towards the Company due to the issued bonds with the value of PLN 1,230 thousand. The remaining part of the liability in the amount of PLN 6 thousand was repaid in cash. The transaction did not have any impact on the interim abridged consolidated financial statements.

#### Merger of the company Biomasa Grupa TAURON sp. z o.o. with the company Energopower sp. z o.o.

On 1 July 2015 the District Court in Rzeszów, 12th Commercial Department of the National Court Register entered the merger of the following companies to the register: Energopower sp. z o.o. (the Acquiring

Company) with the company Biomasa Grupa TAURON sp. z o.o. (the Acquired Company).

The merger was executed pursuant to art. 492 § 1 item 1 of the Code of Commercial Companies, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company. At the same time, the name of the enterprise name of the Acquiring Company was changed to Biomasa Grupa TAURON sp. z o.o.

As a result of the merger, the share capital of the Acquiring Company was increased from the amount of PLN 45,000 thousand to the amount of PLN 9,000,000, i.e. by the amount of PLN 8,955,000, through creating 179,100 new shares with the nominal value of PLN 50 per share., i.e. with the total nominal value of PLN 8,955,000. TAURON Polska Energia S.A., as the sole shareholder of the Acquired Company, took up all newly created shares.

The merger of companies Energopower sp. z o.o. and Biomasa Grupa TAURON sp. z o.o. enabled including of the company Biomasa Grupa TAURON sp. z o.o. in the Tax Capital Group.

### **Increase of the share capital of the company TAURON Sweden Energy AB (publ)**

On 13 July 2015 the Extraordinary Meeting of Shareholders of TAURON Sweden Energy AB (publ) company adopted the resolution concerning the increase of the share capital of this company from the amount of EUR 55,000 to the amount of EUR 6,700,000, i.e. by the amount of EUR 6,645,999, through the issue of 6,645,000 new shares. All new shares were taken up by the sole shareholder of this company – TAURON Polska Energia S.A., in exchange for cash contribution in the amount of EUR 6,645,000. On 22 July 2015, the parent company made the payment on account of the acquisition of the newly issued shares of TAURON Sweden Energy AB (publ) in the amount of EUR 645,000. On 8 September 2015, the increase of the share capital was registered by the Swedish Companies Registration Office.

The increase in the share capital of TAURON Sweden Energy AB (publ) company was associated with the process of fund raising for TAURON Capital Group on the German market implemented by the company.

### **Establishment of the company Łagisza Grupa TAURON sp. z o.o.**

On 17 July 2015 the company Łagisza Grupa TAURON sp. z o.o. with its registered office in Katowice was founded by the subsidiary of TAURON Polska Energia S.A. - TAURON Wytwarzanie S.A. TAURON Wytwarzanie S.A., as the sole founder, took up all 50 shares with the nominal value of PLN 100 per share, i.e. with the total nominal value of PLN 5,000. On 5 October 2015 the Łagisza Grupa TAURON sp. z o.o. company was registered in the National Court Register.

The Łagisza Grupa TAURON sp. z o. o. company was established as a special purpose vehicle for the implementation of the project on the construction of the CCGT unit of 413 MW<sub>e</sub> class in TAURON Wytwarzanie S.A. - Elektrownia Łagisza Branch in Będzin, under the implementation of the provisions of the investment agreement concluded on 13 July 2015 by TAURON Wytwarzanie S.A. with Polskie Inwestycje Rozwojowe S.A. company, in order to agree of the rules of the joint implementation of the project. The aforementioned activity is in line with the Corporate Strategy of TAURON Group, assuming building of the sustainable generation portfolio consisting of units based on coal, gas technology and RES.

### **Increase of the share capital of the PGE EJ 1 sp. z o.o. company**

On 29 July 2015 the Extraordinary Meeting of Shareholders of the PGE EJ 1 sp. z o.o. company had been held, which adopted the resolution concerning the increase of the company share capital. Pursuant to the said resolution, the Extraordinary Meeting of Shareholders of the company decided to increase the share capital of the company from the amount of PLN 205,860,000 to the amount of PLN 275,859,450, i.e. by the amount of PLN 69,999,450 through creating 496,450 new shares with the nominal value of PLN 141 each and the total nominal value of PLN 69,999,450, whereas TAURON Polska Energia S.A. took up 49,645 new shares with the nominal value of PLN 141 each and the total nominal value of PLN 6,999,945, and covered them by the cash contribution of PLN 6,999,945.

On 16 October 2015 the increase in the share capital of the PGE EJ 1 sp. z o.o. company was registered in the National Court Register. The said increase in the company share capital is aimed at financing of



operations of the PGE EJ 1 sp. z o.o. company and it is compliant with the provisions of the Shareholders' Agreement.

#### **Establishment of the company R S G sp. z o.o.**

On 31 July 2015 the R S G sp. z o.o. company with its registered office in Katowice was established by TAURON Polska Energia S.A. TAURON Polska Energia S.A., as the sole founder of the company, took up all 1,000 shares with the nominal value of PLN 100 per share, i.e. with the total nominal value of PLN 100,000. On 5 August 2015 the R S G sp. z o.o. company was registered in the National Court Register.

On 8 October 2015 the Extraordinary Meeting of Shareholders of the R S G sp. z o.o. company adopted the resolution concerning the amendment to the company Memorandum of Association, consisting in the change of the company enterprise name to "Nowe Brzeszcze Grupa TAURON sp. z o.o." On 20 October the said amendment was registered in the KRS (National Court Register).

R S G sp. z o.o. was established as a special purpose vehicle in connection with the restructuring processes carried out in TAURON Capital Group.

#### **Winding up and liquidation of the subsidiary - TAURON Wytwarzanie GZE sp. z o.o.**

On 29 September 2015 the Extraordinary Meeting of Shareholders of the company acting under the enterprise name TAURON Wytwarzanie GZE spółka z ograniczoną odpowiedzialnością with its registered office in Gliwice ("TAURON Wytwarzanie GZE") – KRS number: 0000057015, adopted the resolution on winding up and liquidation of this company. TAURON holds 99.998% share in the share capital of TAURON Wytwarzanie GZE and in the general number of votes at the Meeting of Shareholders directly, and 0.002% share indirectly, through the subsidiary – TAURON Dystrybucja Serwis S.A. The current President of a single-person Management Board of this company, Mr Andrzej Rejner was appointed as the liquidator of the TAURON Wytwarzanie GZE company pursuant to Article 276 § 1 of the Code of Commercial Companies.

The Resolution of the Extraordinary Meeting of Shareholders referred to above entered into force on the day of its adopting. The decision on the liquidation of the TAURON Wytwarzanie GZE company is an element of the reorganisation measures intended to simplify and streamline the structure of TAURON Polska Energia S.A. Capital Group. The Company is currently not involved in any business operations and it was not subject to consolidation in the process of drawing up the financial statements of TAURON Group.

The Company informed of the aforementioned event in the current report no. 26/2015.

#### **End of bankruptcy proceedings of a subsidiary of the company Ośrodek Szkoleniowo-Wypoczynkowy "JAGA" sp. z o.o. in liquidation bankruptcy**

On 30 September 2015 the District Court in Nowy Sącz 5th Commercial Division – Bankruptcy Court issued the decision on termination of the bankruptcy proceedings of the company Ośrodek Szkoleniowo-Wypoczynkowy "JAGA" sp. z o.o. in liquidation bankruptcy with its registered office in Muszyna – a subsidiary of TAURON Dystrybucja S.A. The decision will be binding pursuant to the provisions of the Bankruptcy and Reorganization Law.

The information on the termination of bankruptcy proceedings was published in the current report no. 39/2015 of 19 October 2015.

#### **Buy-out of non-controlling shares**

In the TAURON Dystrybucja S.A. company the squeeze-out process of treasury shares is continued with the purpose of their redemption. As a result of those transactions, the value of the non-controlling shares was decreased by PLN 649,000, whereas the retained profits were increased by PLN 59,000.

## 2. Basic information concerning TAURON Polska Energia

### 2.1 Composition of the Management Board and Supervisory Board of TAURON Polska Energia

#### **Composition of the Management Board as at 30 September 2015:**

1. Dariusz Lubera - President of the Management Board
2. Aleksander Grad - Vice-President of the Management Board for Corporate Affairs
3. Katarzyna Rozenfeld - Vice-President of the Management Board for Commercial Affairs
4. Stanisław Tokarski - Vice-President of the Management Board for Strategy and Development
5. Krzysztof Zawadzki - Vice-President of the Management Board for Economics and Finance

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

In the third quarter of 2015 no changes in the composition of the Company Management Board took place.

On 1 October 2015 the Supervisory Board of the Company:

- 1) dismissed the following persons from the Management Board: Dariusz Lubera – President of the Management Board, Aleksander Grad – Vice-President of the Management Board for Corporate Affairs and Katarzyna Rozenfeld – Vice-President of the Management Board for Commercial Affairs.
- 2) appointed the following persons to the Management Board: Jerzy Kurella who was appointed as the President of the Management Board, Michał Gramatyka who was appointed as Vice-President of the Management Board for Commercial Affairs and Henryk Borczyk who was appointed as Vice-President of the Management Board for Corporate Affairs.

On 1 October 2015 the following persons resigned from the positions of the Company Management Board members: Stanisław Tokarski – Vice-President of the Management Board for Strategy and Development and Krzysztof Zawadzki – Vice-President for Economics and Finance.

On 10 October 2015, the Supervisory Board of the Company appointed the following persons to the Management Board: Anna Striżyk who was appointed as Vice-President of the Management Board for Economics and Finance and Piotr Kołodziej who was appointed as Vice-President of the Management Board for Strategy and Development.

#### **Composition of the Management Board as at the day of submission of the report for the third quarter of 2015:**

1. Jerzy Kurella - President of the Management Board
2. Henryk Borczyk - Vice-President of the Management Board for Corporate Affairs
3. Michał Gramatyka - Vice-President of the Management Board for Commercial Affairs
4. Piotr Kołodziej - Vice-President of the Management Board for Strategy and Development
5. Anna Striżyk - Vice-President for Economics and Finance

#### **Composition of the Supervisory Board as at 30 September 2015:**

1. Beata Chłodzińska - Chairwoman of the Supervisory Board
2. Jarosław Zagórowski - Vice Chairman of the Supervisory Board
3. Jacek Szyke - Secretary of the Supervisory Board
4. Grzegorz Barszcz - Member of the Supervisory Board
5. Piotr Ciach - Member of the Supervisory Board
6. Maciej Koński - Member of the Supervisory Board
7. Katarzyna Kosińska - Member of the Supervisory Board



- |    |                   |                                   |
|----|-------------------|-----------------------------------|
| 8. | Leszek Kozirowski | - Member of the Supervisory Board |
| 9. | Maciej Tybura     | - Member of the Supervisory Board |

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

On 7 August 2015 the State Treasury, acting pursuant to § 23 item 1 p. 3 of the Company Articles of Association, dismissed Marek Ściażko from the Supervisory Board of TAURON.

On 7 August 2015 Antoni Tajduś submitted the declaration on his resignation from the function of the member of the Company Supervisory Board, including the position of the Chairman of the Supervisory Board.

On 12 August 2015 the State Treasury, acting pursuant to § 23 item 1 p. 1 and 3 of the Company Articles of Association:

- 1) dismissed the following persons from the Supervisory Board of TAURON: Agnieszka Woś, who held the position of Vice-Chairwoman of the Supervisory Board, Andrzej Gorgol and Michał Michalewski,
- 2) appointed the following persons to the Company Supervisory Board of fourth joint term of office: Grzegorz Barszcz, Beata Chłodzińska, Piotr Ciach, Katarzyna Kosińska and Jarosław Zagórowski.

As of 7 October 2015 Maciej Tybura resigned from his position of the member of the Supervisory Board.

### ***Composition of the Supervisory Board as at the day of submission of the report for the third quarter of 2015:***

- |    |                     |  |
|----|---------------------|--|
| 1. | Beata Chłodzińska   | - Chairwoman of the Supervisory Board    |
| 2. | Jarosław Zagórowski | - Vice Chairman of the Supervisory Board |
| 3. | Jacek Szyke         | - Secretary of the Supervisory Board     |
| 4. | Grzegorz Barszcz    | - Member of the Supervisory Board        |
| 5. | Piotr Ciach         | - Member of the Supervisory Board        |
| 6. | Maciej Koński       | - Member of the Supervisory Board        |
| 7. | Katarzyna Kosińska  | - Member of the Supervisory Board        |
| 8. | Leszek Kozirowski   | - Member of the Supervisory Board        |

## **2.2 Structure of share capital**

As at 30 September 2015, the share capital of the TAURON Polska Energia S.A. amounted to PLN 8,762,746,970 and it was divided into 1,752,549,394 shares with the nominal value of PLN 5 each, including 1,589,438,762 ordinary bearer shares of AA series and 163,110,632 ordinary registered shares of BB series.

## **2.3 Shareholders holding at least 5 per cent in the total number of votes**

In accordance with the notifications received by the Company and according to the best knowledge of the Company, the structure of shareholders holding at least 5 per cent of the total number of votes at the General Meeting of the Company, either directly or indirectly, through subsidiaries, as at the date of publication of this periodical report, i.e. 10 November 2015, was as follows:

**Table no. 2. Structure of the shareholding of TAURON Polska Energia**

Shareholders	Number of shares held	Percentage interest in the share capital	Number of votes held	Percentage interest in the general number of votes
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State Treasury*	526,848,384	30.06%	526,848,384	30.06%
KGHM Polska Miedź S.A.**	182,110,566	10.39%	182,110,566	10.39%
Nationale-Nederlanden Otwarty Fundusz Emerytalny***	88,742,929	5.06%	88,742,929	5.06%
Other shareholders	954,847,515	54.49%	954,847,515	54.49%

\*in accordance with the shareholder's notification of 28 February 2013

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

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

Since the day of submission of the previous quarterly report, i.e. 14 May 2015, until the date of publication of this quarterly report, no significant changes in the proprietary structure of significant blocks of shares of the Issuer have occurred.

## 2.4 Specification of the status of shares held by the members of the management and supervisory bodies

### Managing persons:

The status of holding TAURON Polska Energia shares, or authorisation to hold the shares by persons managing the Company in the period from the day of submission of the report for the first quarter of 2015, i.e. from 14 May 2015, until 10 November 2015 (the date of publication of this quarterly report) was as follows:

Table no. 3. Proprietary status of TAURON Polska Energia shares - managing persons

Name and surname:	Number of shares as at 14 May 2015 (publication of the report for the 1 <sup>st</sup> quarter of 2015)	Change in number of shares held	Number of shares as at 10 November 2015 (day of submission of the report for the 3 <sup>rd</sup> quarter of 2015)
Jerzy Kurella*	-	-	0
Henryk Borczyk*	-	-	935
Michał Gramatyka*	-	-	0
Piotr Kołodziej**	-	-	0
Anna Striżyk**	-	-	0

\* on 1 October 2015, the Supervisory Board of the Company appointed the following persons to the Management Board: Jerzy Kurella who was appointed as the President of the Management Board, Michał Gramatyka who was appointed as Vice-President of the Management Board for Commercial Affairs and Henryk Borczyk who was appointed as Vice-President of the Management Board for Corporate Affairs.

\*\* on 10 October 2015, the Supervisory Board of the Company appointed the following persons to the Management Board: Anna Striżyk who was appointed as Vice-President of the Management Board for Economics and Finance and Piotr Kołodziej who was appointed as Vice-President of the Management Board for Strategy and Development.

### Supervising persons:

According to the Company's best knowledge, in the period from the day of submission of the report for the first quarter of 2015, i.e. from 14 May 2015, until 10 November 2015, Members of the Supervisory Board did not hold any Company shares or authorisation to hold the shares of the Company.

## **2.5 Scope of business operations of TAURON Polska Energia**

The core business of TAURON Polska Energia covers:

- 1) activity of central companies (head offices) and holdings, excluding financial holdings (PKD 70.10 Z),
- 2) electricity trade (PKD 35.14 Z),
- 3) wholesale of fuels and derivative products (trading in coal and biomass) (PKD 46.71 Z),
- 4) trading in gas fuels (PKD 35.23 Z).

As the parent entity TAURON fulfils the consolidating and governing function in TAURON Capital Group.

The basic operations of the Company, besides managing TAURON Capital Group, include trading in wholesale electricity on the territory of the Republic of Poland, based on the concession on trading in electricity issued by the ERO President for the period from 1 June 2008 until 31 May 2018.

As a result of implementation of the business model and centralisation of functions, TAURON concentrated many competences related to the functioning of companies of TAURON Capital Group and it currently carries out operations, among others, in the following areas:

- 1) wholesale trading in electricity and related products, in particular, in the scope of commercial service provided to companies, securing the needs in the area of fuels, CO<sub>2</sub> emission allowances and certificates of energy origin,
- 2) procurement management,
- 3) financial management,
- 4) management of IT model functioning,
- 5) advisory services in the scope of accounting and taxes,
- 6) legal service,
- 7) audit.

The above functions are gradually limited in the companies of TAURON Capital Group. Such centralisation is aimed at improvement of effectiveness in TAURON Capital Group.

The Company has focused on the purchase and sales of electricity for the needs of securing the purchase and sales positions of entities included in TAURON Capital Group and on wholesale electricity trading. Sales of electricity performed by the Company in three quarters of 2015 was mainly oriented to the following companies: TAURON Sprzedaż and TAURON Sprzedaż GZE.

The competence of the Company also includes management of certificates of origin for the needs of the TAURON Capital Group, representing the confirmation of electricity generation in renewable sources, in high-performance co-generation, in gas-fired co-generation, in mining methane-fired or biomass burning co-generation, from sources using agricultural biogas.

The Company also acts as the competence centre in the area of management and trade of CO<sub>2</sub> emission allowances for the companies of the TAURON Capital Group. Due to centralisation of emission trading, the synergy effect was obtained, consisting in optimisation of available resources of the entities included in TAURON Capital Group. Along the centralisation of this function in TAURON, the Company is responsible for settlements of CO<sub>2</sub> emission allowances, securing of emission needs of subsidiaries, taking into consideration the allowances allocated and the support in the process of acquisition of allowances limits for the consecutive periods. While implementing the aforementioned goals, the Company is the active participant of the CO<sub>2</sub> emission allowances trading system.

In addition, TAURON also acts as the Market Operator and the Entity responsible for trade balancing for companies of TAURON Capital Group and for external customers in the scope of electricity.

The function of Market Operator and the Entity responsible for trade balancing is fulfilled on the basis of the transmission Agreement of 21 June 2012 concluded with the Transmission System Operator – PSE. The Company currently holds exclusive generation capacity in the trade and technical scope, it is responsible for optimisation of generation, i.e. selection of generation units for operation as well as relevant distribution of loads in order to execute the contracts concluded, taking into consideration technical conditions of the

generation units, network constraints and other factors, in various horizons. Within the services provided to the Generation Area, the Company participates in preparation of repair plans, plans of available capacity as well as production plans for generation units, in various time horizons, as well as in their settlement with the relevant grid operator.

In accordance with the adopted business model, TAURON fulfils governing functions in the scope of production fuel procurement management for the needs of the generating entities included in TAURON Capital Group. Accordingly, TAURON also develops competence as the Market Operator for gas based on the transmission agreement with the Operator of Gas Transmission Pipelines, GAZ-System S.A. Additionally, as of 1 July 2015 TAURON launches the first balancing group in Poland for entities trading in gas.

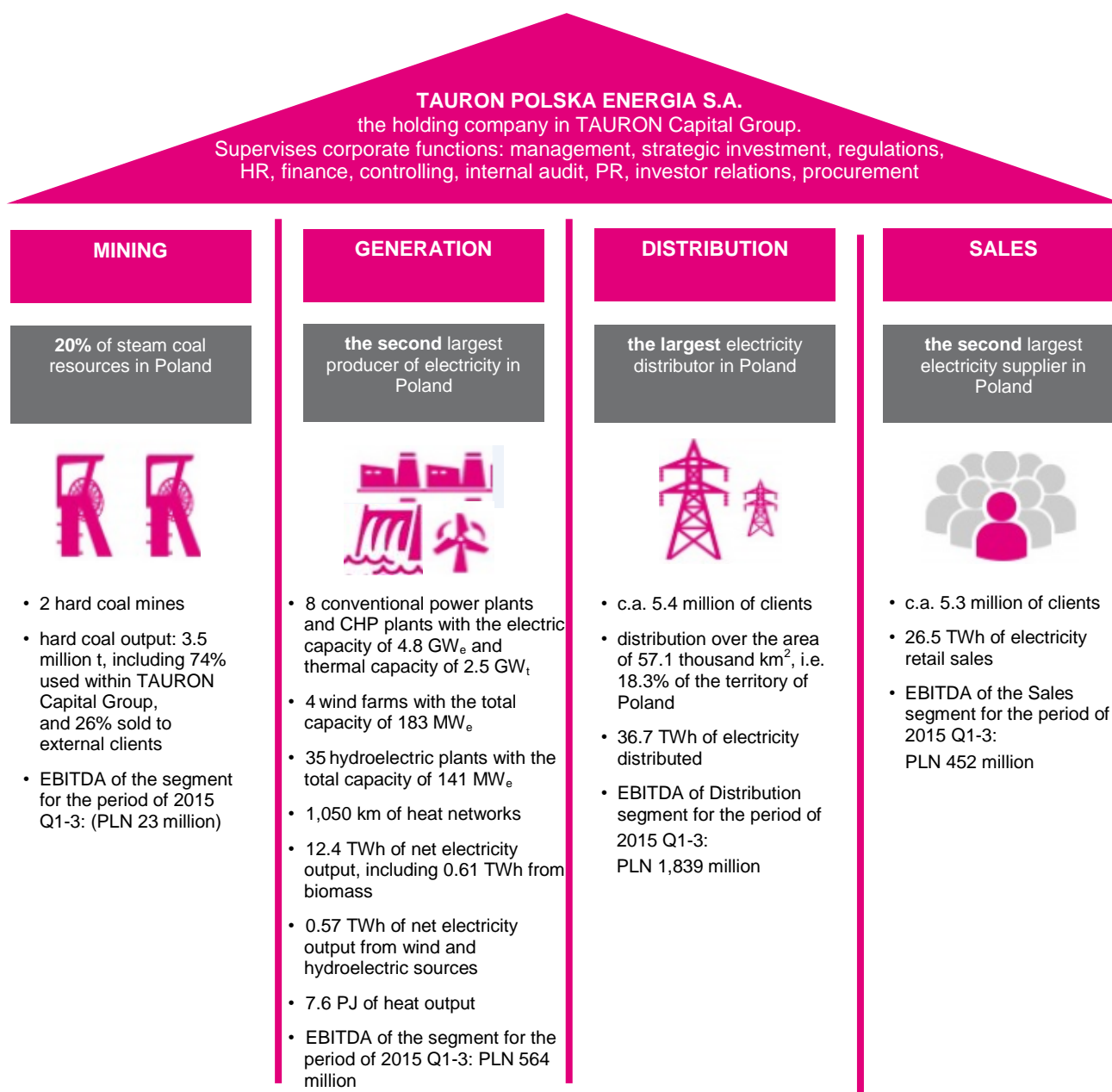
Since 6 February 2015 the Company has been conducting trade in new products on the ICE Futures Europe platform in London. Since that date, besides trading in CO<sub>2</sub> emission allowances and Gasoil products, TAURON has been conducting trade in products of crude oil market - Brent Crude, WTI Crude, whose valuation is associated with oil prices, and Heating Oil, measured based on heating oil quotations.

## 3. Operations of TAURON Capital Group

### 3.1 The core business areas of TAURON Capital Group

TAURON Polska Energia S.A. Capital Group (TAURON Capital Group) is a vertically integrated energy group located in the south of Poland. TAURON Capital Group conducts its operations in all key segments of the energy market (excluding electricity transmission which is the sole responsibility of the Transmission System Operator (TSO)), i.e. in the area of coal mining, generation, distribution as well as trading in electricity and heat.

**Figure no. 2. TAURON Capital Group**



## OTHER

- services provided to consumers of electricity and distribution services for companies of TAURON Capital Group
- provision of support services for entities of TAURON Capital Group in the following areas: Accounting, IT and HR
- limestone mining for the needs of power engineering, metallurgical industry, construction and road building
- financial activities
- EBITDA of the segment for the period of 2015 Q1-3: PLN 98 million

TAURON Capital Group conducts its operations within the following Areas (hereinafter also referred to as Segments):



**Mining Area**, comprising mainly mining, preparation and sale of hard coal in Poland, provided by TAURON Wydobycie.



**Generation Area**, comprising mainly generation of electricity in conventional sources, including co-generation, as well as generation of electricity from renewable energy sources, including combustion and co-firing of biomass, and in hydroelectric power plants and wind farms. The Area also comprises generation, distribution and sales of heat. The basic fuels used by the Generation Area comprise hard coal, biomass and gas. Activity in this area is conducted by TAURON Wytwarzanie, TAURON Ciepło and TAURON EKOENERGIA. Until the end of 2014 companies of TAURON Ciepło and TAURON EKOENERGIA were assigned to the separately operating Areas, respectively, Heat and Renewable Energy Sources (RES), whereas since 2015 the aforementioned companies are recognised within the Generation Segment.



**Distribution Area**, comprising the distribution of electricity using distribution grids located in southern Poland. The activity is carried out by the TAURON Dystrybucja company. This area also comprises companies: TAURON Dystrybucja Serwis S.A. (TAURON Dystrybucja Serwis) and TAURON Dystrybucja Pomiary sp. z o.o. (TAURON Dystrybucja Pomiary).



**Sales Area**, comprising sales of electricity to end-customers and wholesale trading of electricity, as well as trading and management of CO<sub>2</sub> emission allowances and property rights arising from the energy certificates of origin and trading of fuels. Operations in this area are conducted by the following companies: TAURON Polska Energia S.A., TAURON Sprzedaż, TAURON Sprzedaż GZE and TAURON Czech Energy s.r.o. (TAURON Czech Energy).



**Other Area**, comprising the activities in the area of customer service of TAURON Capital Group clients (provided by the TAURON Obsługa Klienta company), extraction of stone, including limestone, for the needs of power engineering industry, metallurgy, construction and road building as well as production of sorbing agents designed for installations of flue gas desulphurisation using the wet method and for the use in the fluidized bed boilers (activity carried out by the Kopalnia Wapienia "Czatkowice" sp. z o. o. company (KW Czatkowice)). This Area also comprises the following companies: TAURON Sweden Energy AB (publ) (TAURON Sweden Energy), dealing with financial activities, Biomasa Grupa TAURON sp. z o.o., (Biomasa GT), dealing mainly with biomass supplies and Polska Energia Pierwsza



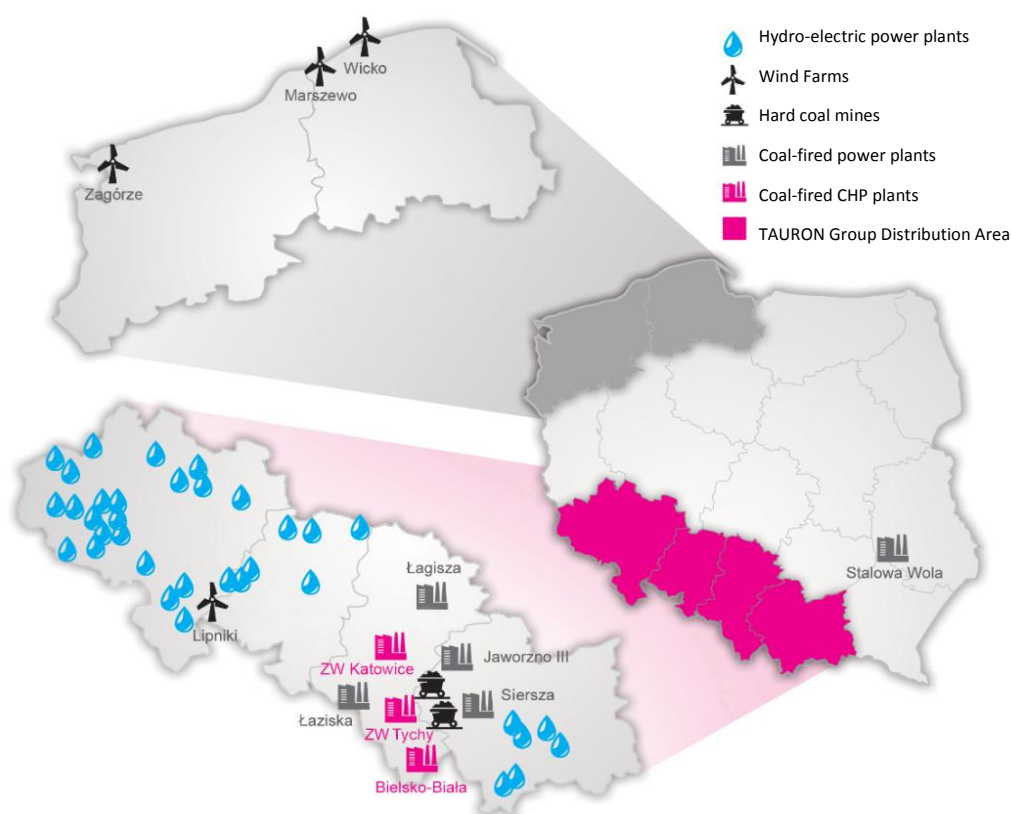


Kompania Handlowa in liquidation (PEPKH in liquidation). Until the end of 2014, the TAURON Obsługa Klienta company was assigned to the separately operating Customer Service Area, whereas since 2015 this company has been recognised within the Other Segment.

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

The figure below shows the location of key assets of TAURON Capital Group as well as the distribution area where TAURON Dystrybucja acts as the Distribution System Operator (DSO).

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



## 3.2 Implementation of TAURON Capital Group investment programme

### Key strategic investment projects under implementation

The table below presents the activities carried out in TAURON Capital Group until the end of the 3<sup>rd</sup> quarter of 2015, in connection with implementation of the key strategic investment projects.

Table no. 4. Implementation status of the key strategic investment projects

No	Investment	Status of investment implementation
1.	Construction of the CCGT unit of 449 MW <sub>e</sub> capacity, including the heat generation component of 240 MW <sub>t</sub> capacity in Stalowa Wola (investment implemented with participation of the strategic partner - Polskie Górnictwo	Construction and assembly works of the gas turbine and steam turbine engine room and the boiler plant building. Works in the scope of electric installations, ventilation, air conditioning as well as control and diagnostic master systems are carried out. Preparation

No	Investment	Status of investment implementation
	<p>Naftowe i Gazownictwo S.A.)</p> <p><b>Contractor:</b> Abener Energia S.A.</p> <p><b>Scheduled date of investment project completion:</b> 2016</p>	<p>of unit systems to the commencement of the stage of trials and tests is in progress. The staff training programme for the needs of the new unit servicing is under implementation. Abener instituted the arbitration proceedings. In the General Contractor's opinion, risks of the site have emerged.</p> <p>In the assessment of the Elektrociepłownia Stalowa Wola S.A. company, the claims filed by Abener in the arbitration suit are not justified. It refers both to the extension of the deadline for delivery of the investment and to the financial claims (raising the Contract Price, compensation for delays in payment of the receivables). No significant impact on the financial result of TAURON Group is assumed, both due to delay in commissioning of the Unit and the claims filed by Abener.</p>
2.	<p>Construction of new generation capacity in co-generation at a level of 50 MW<sub>e</sub> and 86 MW<sub>t</sub> at ZW Tychy (TAURON Ciepło).</p> <p><b>Contractor:</b> Elektrobudowa S.A.</p> <p><b>Scheduled date of investment project completion:</b> 2016</p>	<p>The start-up phase of unit systems was commenced prior to the planned deadline. The process of chemical cleaning of the boiler and steam cleaning of auxiliary steam system pipelines is carried out. Preparatory works of the turbine set are in progress, in the scope of its main systems. The assembly of the electrostatic precipitator has been completed. The staff training programme for the needs of the new unit servicing is ongoing.</p>
3.	<p>Construction of a new power unit with 910 MW<sub>e</sub> capacity, for supercritical parameters on the premises of Jaworzno III Power Plant (TAURON Wytwarzanie).</p> <p><b>Contractor:</b> The RAFAKO S.A. and Mostostal Warszawa S.A. consortium.</p> <p><b>Scheduled date of investment project completion:</b> 2019</p>	<p>The stage of indirect founding of main buildings of the 910 MW unit has been completed. The stage of concreting for foundations of the boiler plant building and the engine room has been launched. The slide of reinforced concrete walls of pylon 1 and 2 is implemented. Reinforcement of the ring foundation of the cooling tower and the inlet channel is in progress. Bidding actions for the purchase of transformers for inverters, high voltage transformers, system of capacitor vacuum generation, were continued. Specifications are developed and procurement procedures are conducted for the construction of part 2 of the external carburisation system, external ash removal system, water treatment station and wastewater treatment plant, auxiliary fuel system, water supply system and compressed air system. Works associated with the track layout reconstruction are continued.</p>
4.	<p>The construction of the installation for flue gas denitrification in 6 units of Jaworzno III Power Plant and 4 units of Łaziska Power Plant (TAURON Wytwarzanie).</p> <p><b>Contractor:</b> Jaworzno III Fortum Power and Heat Oy and ZRE K-ce, Łaziska - Strabag Sp. z o.o. and Strabag AG</p> <p><b>Scheduled date of investment project completion:</b> 2016</p>	<p>The implementation of the project is aimed at reducing nitrogen oxide emission of 200 MW class units to the level of 200 mg/Nm<sup>3</sup>, to be applicable as of 2018. In the years 2015-2016 in Elektrownia Jaworzno, the modernisation process of the remaining 2 of 6 units will be completed, i.e. units 1 and 5. In case of Elektrownia Łaziska the modernisation was completed in the 1st half of 2015, gaining the assumed ecological effect.</p>
5.	<p>Construction of the CCGT unit with 413 MW<sub>e</sub> capacity, including the heat generation component with 266 MW<sub>t</sub> capacity on the premises of Elektrownia Łagisza (TAURON Wytwarzanie).</p> <p><b>Contractor:</b> selection process in progress</p> <p><b>Scheduled date of investment project completion:</b> 2019</p>	<p>In the proceedings for the selection of the general contractor, in August 2015 invitation to submit initial tenders was addressed to 5 selected contractors of the unit (deadline: 30 November 2015). Currently the tender commission receives questions to the preliminary ToR from Contractors. Answering process in ongoing. Formal preparations to concluding of the contract for the fulfilment of the function of the Contract Engineer by the company OTS-IP are in progress. Negotiations with GAZ-System are carried out in the scope of the mode and method of connecting the new unit to the gas network.</p>
6.	<p>Construction of the "Grzegorz" shaft (TAURON Wydobywanie), including the infrastructure (surface and underground) and the accompanying headings.</p> <p><b>Contractor:</b> tender scheduled in 2015</p> <p><b>Scheduled date of investment project completion:</b> 2022</p>	<p>The execution documentation of the shaft has been accepted. The implementation of the construction part of the electric switching station and the earthworks in the scope of 2x20kV cable lines supplying the designed shaft has been completed. Preparations to launch the procedure for the selection of the general contractor are in progress.</p>
7.	<p>Construction of a 800 m level, including the</p>	<p>The 1st stage of shaft drilling was completed, i.e. the ventilation</p>

No	Investment	Status of investment implementation
	<p>commissioning of the fourth wall at ZG Janina in Libiąż (TAURON Wydobycie).</p> <p><b>Contractor:</b> Consortium of KOPEX and Przedsiębiorstwo Budowy Szybów S.A. (main task - shaft drilling)</p> <p><b>Scheduled date of investment project completion:</b> 2019</p>	<p>connection of corridor workings and the drilled shaft was achieved. Drilling of stone mining pitches (Stage II) of access works has been launched. Supplies and assembly of mining infrastructure equipment is under implementation. The modernisation of the Mechanic Coal Processing Plant is in progress - finishing works in the scope of stone storage tank and haulage facilities.</p>
8.	<p>Construction of the 18 MW Marszewo Wind Farm, constituting the second stage of construction of the wind farm with the total capacity of 100 MW in Marszewo location.</p> <p><b>Contractor:</b> Iberdrola Engineering and Construction Poland sp. z o. o. and Iberdrola Ingeniería y Construcción S.A.U. consortium</p> <p><b>Scheduled date of investment project completion:</b> 2015</p>	<p>Mechanical installation and technical acceptance of all turbines (9 pcs.) has been completed. Technical tests have been completed and the permit to use the farm have been obtained. The commissioning (final acceptance) is scheduled in the fourth quarter of 2015.</p>

### ***Project associated with the construction of the nuclear power plant***

With reference to the earlier measures and arrangements concerning the joint implementation of the nuclear energy project in Poland, on 15 April 2015 TAURON, KGHM and ENEA, as Business Partners, and PGE concluded the agreement for the purchase of shares in PGE EJ 1 – a special purpose vehicle which is responsible for development and execution of the investment comprising the construction and operation of the first Polish nuclear power plant with the capacity of approximately 3000 MW<sub>e</sub> (the Project). Business Partners acquired from PGE 10% of shares each (30% of shares in total) in PGE EJ 1 company. TAURON paid the amount of PLN 16,044,000 for the shares purchased. At the same time, one of the obligations arising from the Shareholders' Agreement concluded between the Business Partners and PGE on 3 September 2014 was fulfilled.

In accordance with the Shareholders' Agreement, the parties committed jointly, proportionally to the shares held, to finance activities scheduled under the preliminary stage of the project, in order to define such elements as prospective partners, including the strategic partner, technology suppliers, EPC (Engineering, Procurement, Construction) contractors, nuclear fuel supplier and acquiring funds for the project, as well as organisational and competence related preparation of PGE EJ 1 to the role of the future operator of the nuclear power plant responsible for its safe and efficient operation (integrated procedure). Parties to the Shareholders' Agreement estimate that further decisions concerning the project, including the decision on declaring continued participation of individual parties (including TAURON) at the following stage of the Project, will be taken after the completion of the preliminary stage, directly before the settlement of the integrated procedure.

Under the execution of the aforementioned Shareholders' Agreement, on 29 July 2015 the Extraordinary SM of PGE EJ 1 company adopted the resolution on increasing the share capital from the amount of PLN 205,860,000 to the amount of PLN 275,859,450, i.e. by the amount of PLN 69,999,450 through creating 496,450 new shares with the nominal value of PLN 141 per share and the total nominal value of PLN 69,999,450. Accordingly, TAURON took up 49,645 new shares with the nominal value of PLN 141 per share and with the total nominal value of PLN 6,999,945, which it covered by the cash contribution at a level of PLN 6,999,945.

The Company informed of signing the agreement on purchasing shares in PGE EJ 1 in the current report no. 12/2015 of 15 April 2015.

### ***Project on construction of CCGT unit at Blachownia Power Plant***

The portfolio of investment projects of TAURON Capital Group also comprises the project on the construction of the new CCGT unit with the capacity within the range of 850 on the premises of Blachownia Power Plant. Pursuant to the Memorandum of Understanding concluded on 30 December 2013 by KGHM,

TAURON and TAURON Wytwarzanie, under which it was decided to temporarily suspend the implementation of the project on construction of the CCGT unit in the company Elektrownia Blachownia Nowa (KGHM share: 50%, TAURON Wytwarzanie share: 50%), expressing the willingness to continue the project, the Parties undertook to ensure the continued functioning of the company Elektrownia Blachownia Nowa, securing the existing results of the Project, in particular to update its documentation, and also committed to continuous monitoring of the energy market and the regulatory environment for possible early resumption of the project. As at the day of compiling this report, the aforementioned project is still suspended.

**Investment expenditure**

In the 1st quarter of 2015, the capital expenditure of TAURON Capital Group amounted to about PLN 2,772 million and it was higher by approximately 38% as compared to expenditure incurred in the corresponding period of the previous year (in three quarters of 2014, it amounted to PLN 2,010 million). This results mainly from significant increase of expenditure in the Generation and Mining Area. At the same time, the expenditure slightly decreased in the Distribution Area and in the group of other expenditure.

The aforementioned capital expenditure was mainly incurred for the implementation of the following tasks:

**Mining Area:**

- Increase of production capacity of TAURON Wytwarzanie S.A. through construction of the 800 m level (PLN 52 million),
- Purchase of an additional set of enclosure and equipment for longwalls in seam 207 for ZG Janina (PLN 71 million).

**Generation Area:**

- Construction of new capacity in El Jaworzno III (910 MW) - (PLN 440 million),
- Construction of the NO<sub>x</sub> emission abatement installation (PLN 184 million),
- Construction of stage II of Marszewo wind farm (PLN 57 million),
- Modernisation of hydroelectric power plants (PLN 35 million),
- Replacement of the capacity in Zakład Wytwarzania Tychy – including the construction of the BC-50 unit (PLN 310 million),
- Investments associated with maintenance and development of heating networks (PLN 43 million),
- Installation of supply of the Eastern and Southern Main from Łagisza source (PLN 52 million),
- Installation of supply of the Western and Southern Main from Łagisza source (PLN 20 million).

**Distribution Area:**

- Construction of new connections - (PLN 372 million),
- Modernisation and replacement of grid assets - (PLN 611 million).

## 4. Analysis of the economic and financial situation of TAURON Capital Group

### 4.1 Selected financial data of TAURON Polska Energia and TAURON Capital Group

Table no. 5. Selected financial data of TAURON Polska Energia and TAURON Capital Group

SELECTED FINANCIAL DATA	in thousand PLN		in thousand EUR	
	2015 period from 1.01.2015 to 30.09.2015	2014 period from 1.01.2014 to 30.09.2014	2015 period from 1.01.2015 to 30.09.2015	2014 period from 1.01.2014 to 30.09.2014
<b>Selected consolidated financial data of TAURON Polska Energia S.A. Capital Group</b>				
Revenue on sales	13,634,241	13,717,681	3,278,644	3,281,506
Operating profit	1,532,260	1,546,941	368,465	370,055
Gross profit	1,313,679	1,312,496	315,902	313,972
Net profit	1,079,155	1,053,058	259,506	251,910
Net profit attributable to shareholders of the parent company	1,076,641	1,048,701	258,901	250,868
Net profit attributable to non-controlling interests	2,514	4,357	605	1,042
Other total income	57,241	(17,390)	13,765	(4,160)
Aggregate total income	1,136,396	1,035,668	273,271	247,750
Aggregate total income attributable to shareholders of the parent company	1,133,869	1,031,283	272,663	246,701
Aggregate total income attributable to non-controlling interests	2,527	4,385	608	1,049
Profit per share (in PLN/EUR) (basic and diluted)	0.61	0.60	0.15	0.14
Weighted average number of shares (in pcs) (basic and diluted)	1,752,549,394	1,752,549,394	1,752,549,394	1,752,549,394
Net cash flows from operating activities	2,783,092	1,940,801	669,254	464,273
Net cash from investment activities	(2,791,346)	(2,440,852)	(671,239)	(583,894)
Net cash flows due to financial activities	(319,453)	247,784	(76,819)	59,274
Increase/(decrease) in net cash and equivalents	(327,707)	(252,267)	(78,804)	(60,347)
	Status as at 31.03.2015	Status as at 31.12.2014	Status as at 31.03.2015	Status as at 31.12.2014
Fixed assets	29,165,948	28,162,749	6,881,033	6,607,407
Current assets	5,783,980	6,396,444	1,364,597	1,500,702
Total Assets	34,949,928	34,559,193	8,245,630	8,108,109
Share capital	8,762,747	8,762,747	2,067,368	2,055,873
Equity attributable to shareholders of the parent company	18,837,494	17,966,448	4,444,272	4,215,200
Equity attributable to non-controlling interests	29,207	30,116	6,891	7,066
Total equity	18,866,701	17,996,564	4,451,163	4,222,266
Long-term liabilities	11,935,863	11,744,092	2,815,992	2,755,341
Short-term liabilities	4,147,364	4,818,537	978,475	1,130,502
Total liabilities	16,083,227	16,562,629	3,794,467	3,885,843

**Selected stand-alone financial data of TAURON Polska Energia S.A.**

	in thousand PLN		in thousand EUR	
	2015 period from 01.01.2015 to 30.09.2015	2014 period from 01.01.2014 to 30.09.2014	2015 period from 01.01.2015 to 30.09.2015	2014 period from 01.01.2014 to 30.09.2014
Revenues on sales	6,735,918	6,272,805	1,619,795	1,500,563
Operating profit	36,194	15,360	8,704	3,674
Gross profit	1,618,165	1,113,986	389,122	266,485
Net profit	1,608,637	1,102,690	386,831	263,782
Other total income	50,279	(31,224)	12,091	(7,469)
Aggregate total income	1,658,916	1,071,466	398,922	256,313
Profit per share (in PLN/EUR) (basic and diluted)	0.92	0.63	0.22	0.15
Weighted average number of shares (in pcs) (basic and diluted)	1,752,549,394	1,752,549,394	1,752,549,394	1,752,549,394
Net cash flows from operating activities	205,812	52,806	49,492	12,632
Net cash from investment activities	(48,078)	(395,702)	(11,561)	(94,659)
Net cash flows due to financial activities	(334,689)	338,491	(80,483)	80,973
Increase/(decrease) in net cash and equivalents	(176,955)	(4,405)	(42,552)	(1,054)
	Status as at 30.09.2015	Status as at 31.12.2014	Status as at 30.09.2015	Status as at 31.12.2014
Fixed assets	28,333,818	26,617,011	6,684,711	6,244,753
Current assets	3,327,546	3,723,519	785,058	873,594
Total Assets	31,661,364	30,340,530	7,469,769	7,118,347
Share capital	8,762,747	8,762,747	2,067,368	2,055,873
Equity	21,635,601	20,239,567	5,104,421	4,748,508
Long-term liabilities	7,701,995	7,511,096	1,817,108	1,762,217
Short-term liabilities	2,323,768	2,589,867	548,240	607,622
Total liabilities	10,025,763	10,100,963	2,365,348	2,369,839

The above financial data were converted into EUR, cumulatively for the third quarter of 2015 and 2014, according to the following principles:

- individual items of the statement of financial standing - according to the average NBP exchange rate announced on 30 September 2015 - PLN/EUR 4.2386 (as at 31 December 2014 - PLN/EUR 4.2623)
- individual items of the statement of comprehensive income and the statement of cash flows - according to the exchange rate representing the arithmetic means of average NBP exchange rates announced on the last day of each month of the financial period from 1 January 2015 to 30 September 2015 - PLN/EUR 4.1585 (for the period from 1 January 2014 to 30 September 2014 - PLN/EUR 4.1803 ).

## 4.2 Key operating data of TAURON Capital Group

In the period of three quarters of 2015, TAURON Group reached the following key operating parameters:

Table no. 6. Key operating parameters of TAURON Capital Group

Key operating parameters	unit	Quarters 1-3 2015	Quarters 1-3 2014	Dynamics 2015/2014	Q3 2015	Q3 2014	Dynamics 2015/2014
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Key operating parameters	unit	Quarters 1-3 2015	Quarters 1-3 2014	Dynamics 2015/2014	Q3 2015	Q3 2014	Dynamics 2015/2014
Commercial coal production	M Mg	<b>3.45</b>	3.99	86.5%	<b>1.44</b>	1.44	100.0%
Electricity generation (net production)	TWh	<b>12.38</b>	11.27	109.8%	<b>4.54</b>	3.77	120.4%
Generation of electricity from renewable sources	TWh	<b>1.17</b>	1.33	88.0%	<b>0.22</b>	0.42	52.4%
<i>Production from biomass</i>	<i>TWh</i>	<i><b>0.61</b></i>	<i>0.76</i>	<i>80.3%</i>	<i><b>0.10</b></i>	<i>0.22</i>	<i>45.5%</i>
<i>Production of hydroelectric power plants and wind farms</i>	<i>TWh</i>	<i><b>0.57</b></i>	<i>0.57</i>	<i>100.0%</i>	<i><b>0.12</b></i>	<i>0.19</i>	<i>63.2%</i>
Heat generation	PJ	<b>7.59</b>	8.78	86.4%	<b>0.75</b>	0.95	78.9%
Distribution of electricity	TWh	<b>36.69</b>	35.74	102.7%	<b>12.10</b>	11.86	102.0%
Retail sales of electricity (by Sales and Generation Areas)	TWh	<b>26.46</b>	26.78	98.8%	<b>8.44</b>	8.58	98.4%
Number of clients - Distribution	thous.	<b>5,404</b>	5,369	100.7%	<b>5,404</b>	5,369	100.7%

### 4.3 Sales structure according to areas of operations

The table below presents the volumes and structure of sales of TAURON Capital Group, divided into individual Areas (Segments) of operations for the period of Quarters 1 - 3, 2015 and 2014, and for the third quarter of 2015, compared to the third quarter of 2014.

Table no. 7. Volumes and structure of sales of TAURON Capital Group according to individual Areas of operations

Specification	unit	Quarters 1-3 2015	Quarters 1-3 2014	Dynamics 2015/2014	Q3 2015	Q3 2014	Dynamics 2015/2014
Sales of coal by the Mining Area	M Mg	<b>3.66</b>	3.53	103.7%	<b>1.37</b>	1.34	102.2%
Sales of electricity and heat by the Generation Area	TWh	<b>15.89</b>	12.04	132.0%	<b>5.29</b>	4.23	125.1%
	PJ	<b>9.65</b>	10.11	95.5%	<b>0.65</b>	0.91	71.4%
Sales of electricity distribution services by the Distribution Area	TWh	<b>36.69</b>	35.74	102.7%	<b>12.10</b>	11.86	102.0%
Retail sales of electricity by the Sales Area	TWh	<b>26.45</b>	26.51	99.8%	<b>8.43</b>	8.50	99.2%

#### Mining Area

The basic activity conducted by TAURON Capital Group within the Mining Area covers mining, enrichment and sales of hard coal. Through TAURON Wydobywanie, TAURON Capital Group indirectly holds and runs ZG Sobieski and ZG Janina.

In the period of the three quarters of 2015, the volume of coal sales reached 3.66 million Mg which, as compared to the corresponding period of 2014, means a growth by approximately 3.7%. The main reason of the growth in the volume of sales is the increased sales of medium assortments and fine coal, both to power plants and to combined heat and power plants of TAURON Capital Group, as well as external customers.

Only in the third quarter of 2015 the growth in the volume of sales by approximately 2.2% was recorded (mainly medium assortments and fine coal), resulting mainly from the higher demand for coal from Companies of the Group.

In the period of the three quarters of 2015, about 43% of the current demand of TAURON Capital Group for coal used for generation of electricity and heat was satisfied by hard coal coming from own mining plants.

The remaining part of the demand was covered from external sources.

Production of commercial coal in the third quarter of the current year achieved the level comparable to the corresponding period of the previous year.

### **Generation Area**

The basic activity of the Generation Area within TAURON Capital Group comprises generation of electricity and heat in:

- 1) coal-fired and biomass burning power plants and combined heat and power plants,
- 2) hydroelectric power plants,
- 3) wind farms.

The total available capacity of generation units of the Generation Area at the end of September 2015 amounted to 5.1 GW<sub>e</sub> of electric capacity and 2.5 GW<sub>t</sub> of thermal input.

In the period of three quarters of 2015, the Generation Area produced about 12.4 TWh of net electricity (including about 1.17 TWh from RES), i.e. by about 9.8% more than in the corresponding period of 2014 when the production of net electricity reached approximately 11.3 TWh (including 1.33 TWh from RES). Sales of electricity from own production, including energy purchased for trading purposes in the period of three quarters of 2015 reached about 15.9 TWh, which means the growth by approximately 32%, in relation to the corresponding period of 2014. It is mainly the consequence of the higher resale of energy purchased, in relation to the corresponding period of the previous year (3.4 TWh in the period of three quarters of 2015; 0.7 TWh in the period of three quarters of 2014).

The higher production of electricity is mainly the consequence of the adopted commercial strategy and the beneficial trends in the electricity market as well as the favourable wind conditions. In relation to the corresponding period of the previous year, the increase in domestic energy consumption by 1.97% occurred, with the simultaneous growth in the total electricity production by 3.48%.

Heat sales of the Generation Area in the period of three quarters of 2015 amounted to 9.7 PJ and it was lower by approximately 4.5% in relation to the corresponding period of 2014, which results from recognising in 2014 heat sales by entities separated to TAMEH POLSKA sp. z o.o. (TAMEH POLSKA) (after applying the comparability, a growth in heat sales by approximately 6% occurred, which resulted from lower temperatures YoY).

### **Distribution Area**

TAURON Capital Group is the largest electricity distributor in Poland, both in terms of the volume of the electricity supplied and the revenue gained from distribution activity. The Distribution Area operates distribution grids of considerable range, located in the southern part of Poland.

In the period of three quarters of 2015, the Distribution Area supplied the total of 36.7 TWh of electricity, including 35.0 TWh to end consumers. In this period, the Distribution Area provided distribution services to approximately 5.4 million consumers. In the corresponding period of the previous year, the Distribution Area supplied, in total, approximately 35.7 TWh of electricity to about 5.37 million consumers, including 34.1 TWh to end consumers. The year-over-year increase of the volume of supplies to end consumers is correlated with GDP and depends on the growth of energy consumption in relation to the growth of production sold, mainly in the metallurgical and mining industry.

### **Sales Area**

Sales Area comprises activities in the scope of electricity sales and wholesale trading of electricity and other products of the energy market. Operations in the area of sales comprise sales of electricity to end customers, including key accounts. On the other hand, operations within wholesale trading comprise mainly wholesale trading in electricity, trade and management of CO<sub>2</sub> emission allowances, property rights arising from the certificates of electricity origin and fuels.

In the period of three quarters of 2015 companies of the Sales Area sold the total of 26.5 TWh of electricity to over 5.3 million clients, both households and enterprises, i.e. at a similar level as in the corresponding period of the previous year.

## 4.4 Financial situation of TAURON Capital Group following the third quarter of 2015.

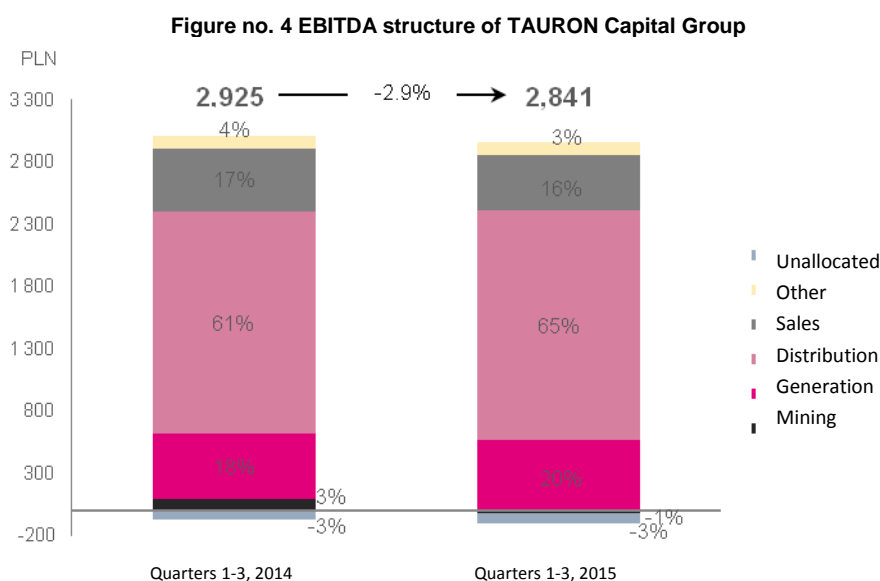
### 4.4.1 Financial results according to areas of operations

The table below presents the EBITDA results of TAURON Capital Group, divided into individual Areas (Segments) of operations for the period of three quarters and the third quarter of 2015, as compared to the corresponding periods of 2014. The data for individual Areas do not include consolidation exclusions.

**Table no. 8. EBITDA of TAURON Capital Group according to Areas of operations**

EBITDA (PLN thous.)	Quarters 1-3 2015	Quarters 1-3, 2014	Dynamics 2015/2014	Q 3 2015	Q 3 2014	Dynamics 2015/2014
Mining	<b>(23,232)</b>	83,553	-	<b>134,670</b>	55,252	243.7%
Generation	<b>564,039</b>	534,316	105.6%	<b>97,637</b>	135,550	72.0%
Distribution	<b>1,839,293</b>	1,777,892	103.5%	<b>596,633</b>	608,152	98.1%
Sales	<b>451,935</b>	501,464	90.1%	<b>116,782</b>	109,830	106.3%
Other	<b>98,183</b>	109,539	89.6%	<b>37,188</b>	42,296	87.9%
Non-attributable items and exemptions	(89,142)	(81,388)	109.5%	(49,706)	(30,319)	163.9%
<b>Total EBITDA</b>	<b>2,841,076</b>	2,925,376	97.1%	<b>933,204</b>	920,761	101.4%

The figure below shows the EBITDA structure of TAURON Capital Group for three quarters of 2014 and 2015.



The Distribution Area as well as the Generation Area and the Sales Area have the highest share in EBITDA of TAURON Capital Group. As compared to the corresponding period of 2014 the growth in the share in EBITDA structure occurred mainly in the Distribution and Generation Area, due to better results obtained in the period of quarters 1-3, 2015.

## Mining Area

The table below shows the results of the Mining Area.

Table no. 9. Results of the Mining Area

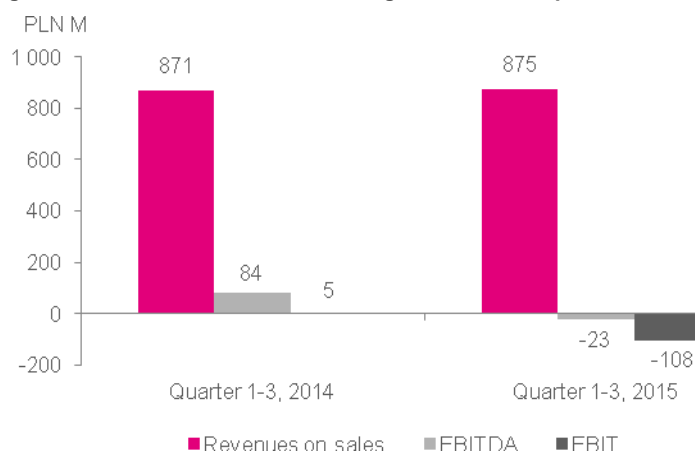
Specification (PLN thous.)	Quarters 1-3 2015	Quarters 1-3 2014	Dynamics 2015/2014	Q3 2015	Q3 2014	Dynamics 2015/2014
<b>Mining</b>						
Revenues on sales	<b>874,814</b>	<b>870,843</b>	<b>100.5%</b>	<b>332,863</b>	<b>341,431</b>	<b>97.5%</b>
<i>coal - coarse and medium assortments</i>	246,177	268,550	91.7%	111,245	115,271	96.5%
<i>steam coal</i>	611,903	577,945	105.9%	215,758	217,612	99.1%
<i>other products, materials and services</i>	16,734	24,348	68.7%	5,860	8,548	68.6%
Operating profit	<b>(107,579)</b>	<b>5,347</b>	-	<b>106,686</b>	<b>29,132</b>	366.2%
Depreciation and write-downs	84,347	78,206	107.9%	27,984	26,120	107.1%
<b>EBITDA</b>	<b>(23,232)</b>	<b>83,553</b>	-	<b>134,670</b>	<b>55,252</b>	<b>243.7%</b>

The operating results, EBIT and EBITDA of the Mining Segment in the period of quarters 1-3 of 2015 reached a lower level than in 2014, due to the following factors:

- 1) growth in the volume of the sold coal by approximately 3.7%, which results from higher sales of fine coal (by 6.9%), and medium assortments (by 9.6%), with the simultaneous decline in sales of coarse assortments (by 12.0%),
- 2) lower prices of the sold coal, on average, by 2.3%, mainly as a result of the decline in prices of coarse assortments (by ca. 1.8%), medium assortments (by ca. 4.5%) and the increased share of cheaper fine coal in the structure of sales,
- 3) growth of own cost of the sold coal, mainly as a result of the unfavourable relation of coal production and sales and the settlement of the preparatory works. The aforementioned factors have been partly mitigated through savings generated by the company of the Mining Area in the scope of costs of consumption of materials, energy, external services and labour as well as the reversal of the actuarial provision originally recognised in operating costs,
- 4) growth of other operating revenues as a result of reversal of the actuarial provision,
- 5) growth in other operating costs, which is associated with the adjustment in the quantity of commercial coal reserves and semi-products after stock-taking and the verification of the real value of cost prepayments due to works associated with drilling of production longwall pits and wall reinforcement.
- 6) The operating EBIT and EBITDA result of the Mining Segment in the third quarter of 2015 reached a level higher than in the third quarter of 2014, which was affected by the reversal of the actuarial provision and the settlement of wall discontinuation cost in ZG Sobieski. It should be mentioned that the Company recorded the growth in the volume of coal sales, on average by approximately 1.9%, at the average decline of the price by approximately 3.6%, which has contributed to the slight decline in the revenues by ca. 1.8%. In the reported quarter the Company continued the process of reducing fixed costs, which contributed to the decline in own costs of sales by approximately 4.7%.

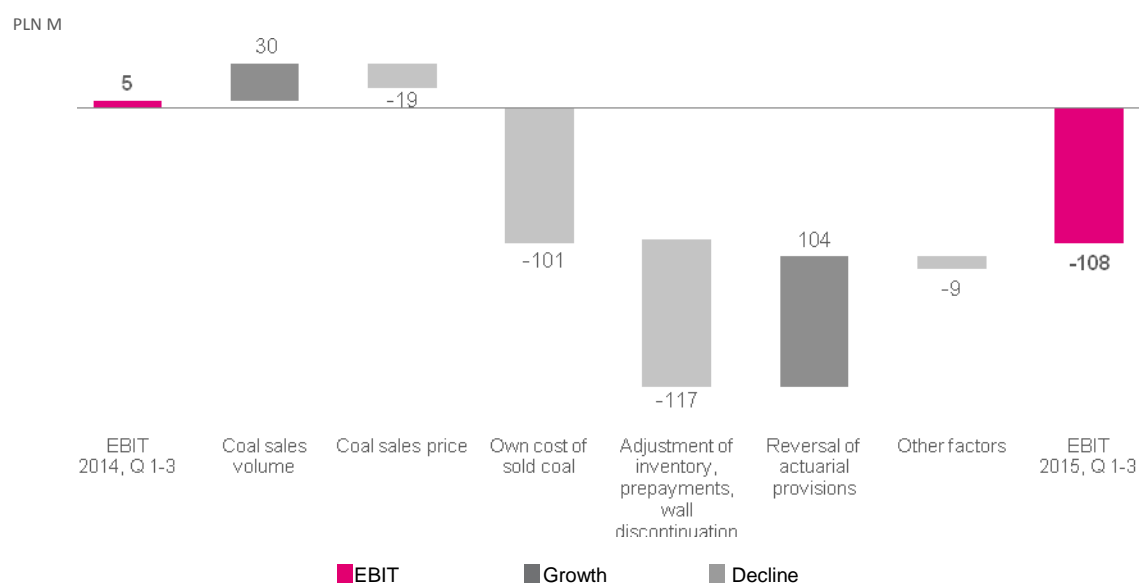
The figure below presents the financial data of the Mining Area for three quarters of 2015 as compared to three quarters of 2014.

**Figure no. 5 Financial data of the Mining Area for three quarters of 2014 and 2015.**



The figure below shows the EBIT result of the Mining Area, including the significant factors influencing the YoY change.

**Figure no. 6 EBIT result of the Mining Area**



## Generation Area

The table below shows the results of the Generation Area.

**Table no. 10. Results of the Generation Area**

Specification (PLN thous.)	Quarters 1-3 2015	Quarters 1-3 2014*	Dynamics 2015/2014	Q 3 2015	Q3 2014*	Dynamics 2015/2014
<b>Generation</b>						
Revenues on sales	3,911,459	3,583,878	109.1%	1,164,371	1,184,469	98.3%

Specification (PLN thous.)	Quarters 1-3 2015	Quarters 1-3 2014*	Dynamics 2015/2014	Q 3 2015	Q3 2014*	Dynamics 2015/2014
electricity	2,960,352	2,360,038	125.4%	993,811	850,657	116.8%
heat (including heat transmission)	557,568	563,426	99.0%	106,588	115,808	92.0%
property rights arising from certificates of electricity origin	357,745	438,341	81.6%	51,235	140,357	36.5%
wind of blast furnace	0	127,506	0.0%	0	44,366	0.0%
compressed air	44	55,743	0.1%	16	20,236	0.1%
other	35,750	38,824	92.1%	12,721	13,045	97.5%
Operating profit	<b>130,489</b>	<b>(755)</b>	-	<b>(51,447)</b>	<b>(39,176)</b>	-
Depreciation and write-downs	433,550	535,071	81.0%	149,084	174,726	85.3%
<b>EBITDA</b>	<b>564,039</b>	<b>534,316</b>	<b>105.6%</b>	<b>97,637</b>	<b>135,550</b>	<b>72.0%</b>

\*Data for quarters 1-3 and the third quarter of 2014, in order to maintain comparability, comprise three areas presented in the previous year: Generation, RES and Heat.

In the period of three quarters of 2015, the revenues on sales in the Generation Segment were higher by approximately 9% as compared to the corresponding period of the previous year, mainly due to the higher revenue on sales of electricity (higher sales volume and price). The decline referred to revenues on sales of property rights arising from certificates of electricity origin (a lower volume of production and sales of property rights from RES and a lower sales price).

In addition, the revenues of the Generation Segment in the period of three quarters of 2014 included revenues from sales of wind of blast furnace and compressed air, gained by ZW Nowa, transferred as a contribution in-kind to TAMEH POLSKA company in December 2014 (the joint venture recognised in the consolidated financial statement by applying the equity method).

EBITDA and EBIT results of the Generation Segment in the period of three quarters of 2015 reached a higher level than in the corresponding period of 2014, which arises from the following factors:

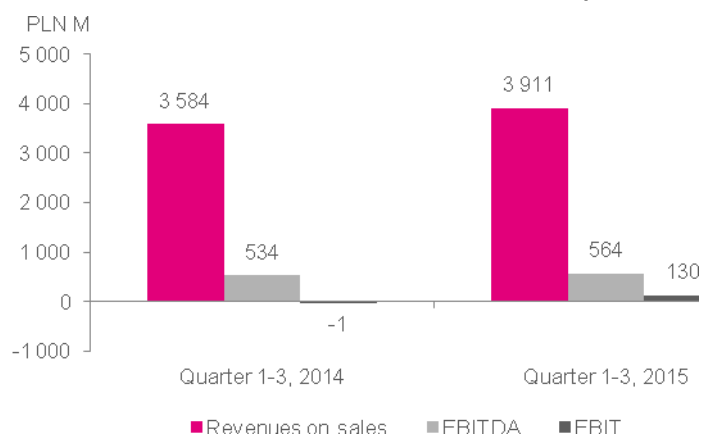
- 1) higher margin on electricity trading – as a result of both a higher volume of trade and a higher unit margin; the higher volume of sales of electricity within the turnover in the period of three quarters of 2015 arises from the adopted sales strategies,
- 2) lower average price of electricity sales YoY,
- 3) higher volume of electricity sales resulting from production of power plants and conventional combined heat and power plants,
- 4) low revenues from OPR - the consequence of the lower level of prices of this service and the higher volume of contractual sales in relation to 2014,
- 5) higher costs of CO<sub>2</sub> reserve – in 2014 the number of free allowances for installations belonging to TAURON Wytwarzanie exceeded the emission for that year – the Group did not create a provision for liabilities due to emission of gases for those installations - with the exception of TAURON Ciepło (where the deficit of free allowances in relation to emission occurred). In the period of three quarters of 2015, in case of installations of both companies, the emission exceeded the number of free allowances, consequently, the costs of CO<sub>2</sub> reserve were higher YoY,
- 6) lower fixed costs (mainly depreciation, labour costs and costs of repairs),
- 7) separation of assets of ZW Nowa and Elektrownia Blachownia to TAMEH POLSKA company (share in the EBIT result in the period of three quarters of 2014: approximately PLN 76 million).

The aforementioned factors had also a significant impact on the achieved result for the third quarter of 2015. In addition, only in the third quarter of 2015, the profitability of the Generation segment decreased, due to the significantly lower volume of production from RES resulting from the lower production of hydroelectric power plants (due to the drought) and the lower production from biomass co-burning (due to the low level of prices of property rights from RES).



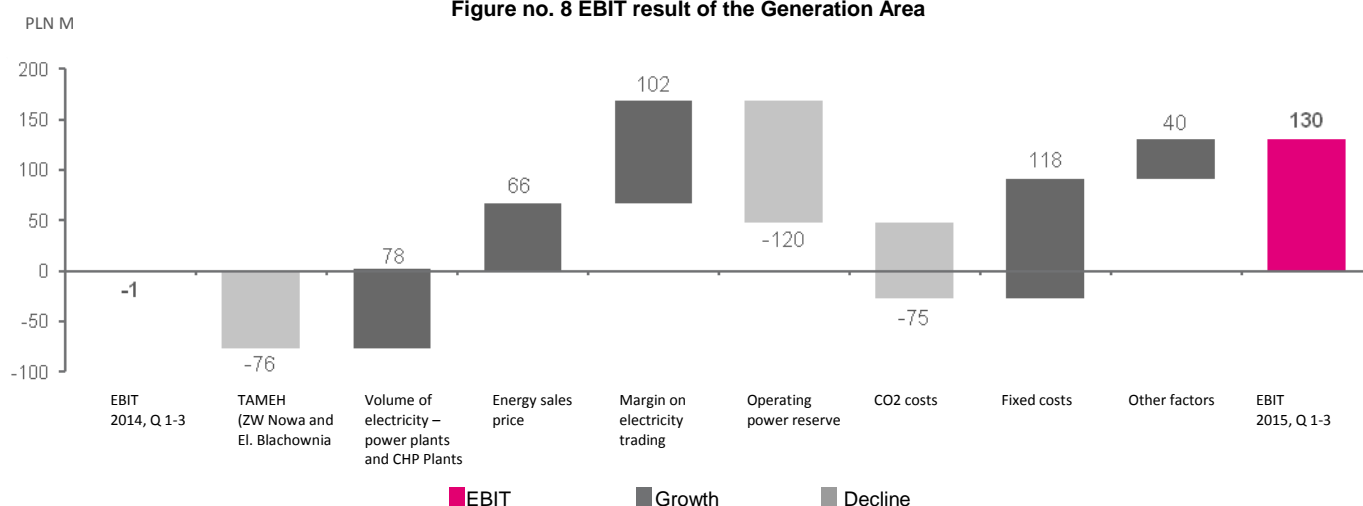
The figure below presents the financial data of the Generation Area for three quarters of 2015 as compared to three quarters of 2014.

**Figure no. 7. Financial data of the Generation Area for three quarters of 2014 and 2015.**



The figure below shows the EBIT result of the Generation Area, including the significant factors influencing the YoY change.

**Figure no. 8 EBIT result of the Generation Area**



## Distribution Area

The table below shows the results of the Distribution Area.

**Table no. 11. Results of Distribution Area**

Specification (PLN thous.)	Quarters 1-3 2015	Quarters 1-3 2014	Dynamics 2015/2014	Q 3 2015	Q 3 2014	Dynamics 2015/2014
<b>Distribution</b>						
Revenues on sales	4,792,875	4,528,811	105.8%	1,564,518	1,479,860	105.7%
<i>distribution services</i>	4,489,699	4,219,230	106.4%	1,459,756	1,378,865	105.9%
<i>connection fees</i>	94,034	94,074	100.0%	31,744	27,360	116.0%

Specification (PLN thous.)	Quarters 1-3 2015	Quarters 1-3 2014	Dynamics 2015/2014	Q 3 2015	Q 3 2014	Dynamics 2015/2014
<i>maintenance of street lightning</i>	86,239	82,748	104.2%	29,147	39,052	74.6%
<i>other services</i>	122,903	132,759	92.6%	43,871	34,583	126.9%
Operating profit	<b>1,106,723</b>	<b>1,070,837</b>	<b>103.4%</b>	<b>348,307</b>	<b>370,825</b>	<b>93.9%</b>
Depreciation and write-downs	732,570	707,055	103.6%	248,326	237,327	104.6%
<b>EBITDA</b>	<b>1,839,293</b>	<b>1,777,892</b>	<b>103.5%</b>	<b>596,633</b>	<b>608,152</b>	<b>98.1%</b>

In the period of three quarters of 2015, as compared to the corresponding period of 2014, the Distribution Segment recorded the growth in revenues by about 5.8% and the increase of results at the operating EBIT and EBITDA level by approximately 3.5%. The following factors determined the growth of results.

#### Revenues:

- increase of the average rate of the distribution service sales to end consumers by 4.1%,
- growth of supplies in each tariff group, in particular, among industrial consumers from B and A group,
- growth of revenues and supplies as a result of additional accounting estimation of sales in G group in connection with the completed migration of complex agreements to the Central Billing System (in the 2<sup>nd</sup> quarter of 2015),
- decline of revenues from excessive reactive power uptake.

#### Variable costs:

- higher rate of the transitional and qualitative TSO fee,
- lower level of balance sheet difference in relation to the volume of supplies, including, as a result of additional accounting estimation (reduction) of the purchase volume in connection with the completed migration of complex agreements to the Central Billing System,
- significantly lower price of balancing of energy losses, as the resultant of purchase and resale prices in the Group.

#### Fixed costs:

- growth of depreciation costs and tax on grid assets as a result of the implemented investment projects,
- growth in the rate of taxes on real property of municipalities,
- higher costs of external services associated with the metering activity, higher costs of write-downs on receivables.

#### Other factors:

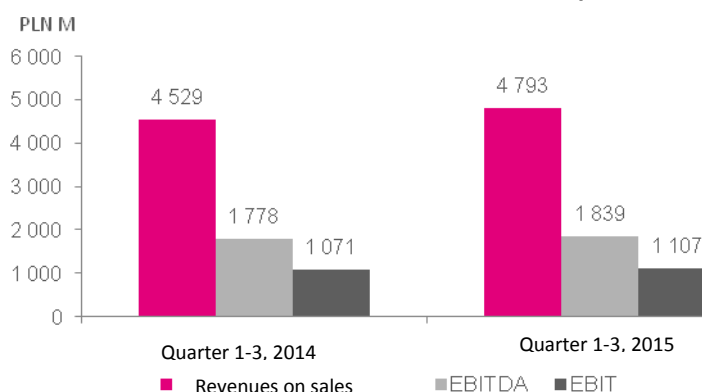
- higher result on other operating activities (negative balance of reversal / creation of provisions, higher result on sales of tangible fixed assets),
- higher result on services in the framework of other core activities, inter alia, on street lighting.

The most important factors which affected the result achieved in the third quarter of 2015 included:

- increased demand for energy among industrial consumers, limitation of supplies in August in connection with the temporary announcement of the 20th power supply level by PSE,
- improvement of the balance sheet difference indicator,
- growth of energy purchase price to cover balance sheet differences,
- significant growth of the TSO transitional fee (transferred in the tariff),
- growth of remuneration costs in connection with creating of the reserve for PDO (Voluntary Redundancy Programmes),
- growth of depreciation and tax on grid assets.

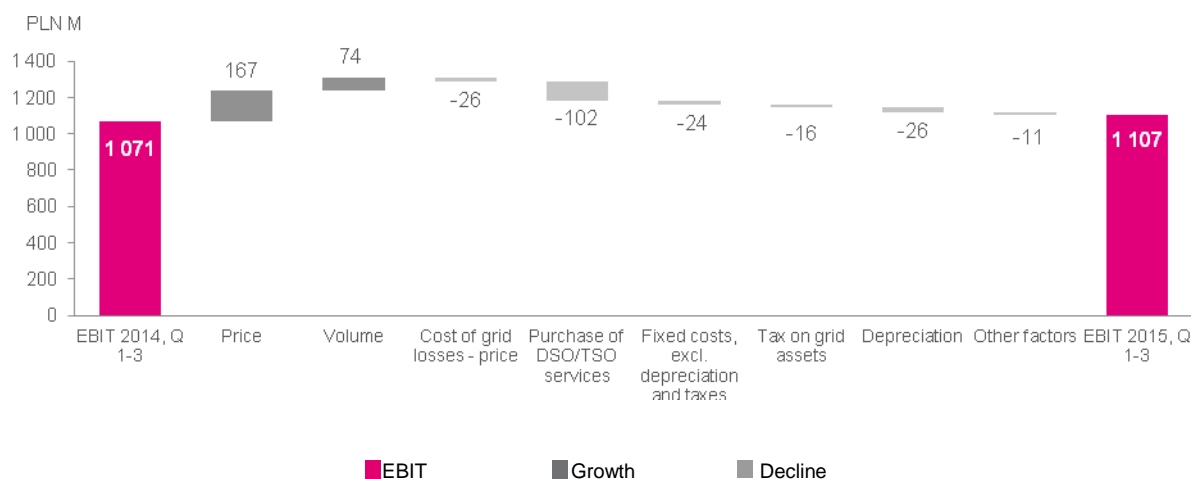
The figure below presents the financial data of the Distribution Area for three quarters of 2015 as compared to three quarters of 2014.

**Figure no. 9. Financial data of the Distribution Area for three quarters of 2014 and 2015.**



The figure below shows the EBIT result of the Distribution Area, including the significant factors influencing the YoY change.

**Figure no. 10. EBIT result of the Distribution Area**



## Sales Area

The table below shows results of the Sales Area.

**Table no. 12. Results of the Sales Area**

Specification (PLN thous.)	Quarters 1-3 2015	Quarters 1-3 2014	Dynamics 2015/2014	Q 3 2015	Q 3 2014	Dynamics 2015/2014
<b>Sales</b>						
Revenues on sales	11,813,153	11,266,992	104.8%	3,719,173	3,691,883	100.7%
electricity, including:	7,672,074	7,205,118	106.5%	2,390,328	2,313,275	103.3%
revenues from retail sales of electricity	5,991,091	5,864,295	102.2%	1,901,394	1,879,765	101.2%
greenhouse gas emission allowances	153,862	73,661	208.9%	26,654	0	-
fuel	1,315,415	1,402,335	93.8%	388,065	552,285	70.3%
distribution service (transferred)	2,522,151	2,498,967	100.9%	803,315	801,236	100.3%

Specification (PLN thous.)	Quarters 1-3 2015	Quarters 1-3 2014	Dynamics 2015/2014	Q 3 2015	Q 3 2014	Dynamics 2015/2014
other services, including commercial services	149,650	86,911	172.2%	110,811	25,087	441.7%
Operating profit	<b>443,797</b>	<b>478,799</b>	<b>92.7%</b>	<b>114,042</b>	<b>105,291</b>	<b>108.3%</b>
Depreciation and write-downs	8,138	22,665	35.9%	2,740	4,539	60.4%
<b>EBITDA</b>	<b>451,935</b>	<b>501,464</b>	<b>90.1%</b>	<b>116,782</b>	<b>109,830</b>	<b>106.3%</b>

In the period of three quarters of 2015 revenues from sales in the Sales Segment were higher by approximately 4.8% as compared to the corresponding period of the previous year, mainly as a result of higher revenues from sales of electricity (higher total sales volume), including higher revenues from sales of retail energy (sales price higher by approximately 2.39%) and revenues from sales of greenhouse gas emission allowances (volume of sales higher by 108.9% as a result of trading activities) and fuel (coal sales volume higher by 7%).

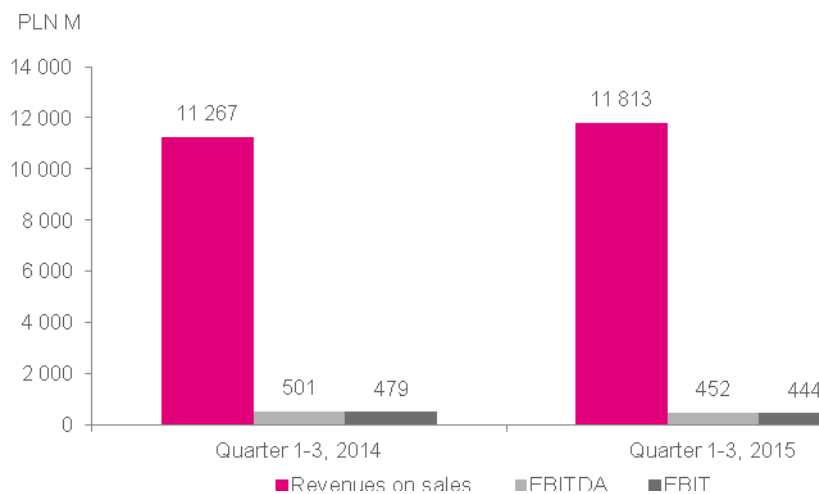
EBITDA and EBIT results of the Sales Segment in the period of three quarters of 2015 reached a lower level than in the corresponding period of 2014, which was affected by the following factors:

- 1) energy prices - the negative impact on the result arises from the change in the structure of loyal customers (business clients, SMEs and individual clients), from the tariff to a product, change in the structure of clients (higher share of industrial clients) which is reflected in the reduced sales price due to the change in the structure of price components (through recognising the cost of only "white" certificates and reduction in the share of excise costs) and the high share of sales of exchange products, where the sales price depends on the level of conventional energy quotations at the TGE,
- 2) prices of property rights - positive impact on the result through taking advantage of the favourable market situation, mainly in the scope of "green" certificates (execution of the PMOZE purchase at lower prices),
- 3) obligation to redeem property rights - adverse impact on the result as a consequence of growth in the level of the obligation for "green" certificates from 13% to 14%, for "violet" certificates from 1.1% to 1.3% and recovery of the obligation to redeem certificates from co-generation (for "red" certificates - to 23.2% and for "yellow" certificates - to 4.9%),
- 4) growth in the level of revenues from commercial fees - as a result of the undertaken sales activities aimed at reducing the variable component of the sales price (which is imposed by the market) and transfer of this revenue to the fixed component,
- 5) other revenues/costs - positive impact on result associated with higher revenues from other operating activities, lower allowance on uncollectible accounts and higher margins gained on products associated with electricity (property rights, CO<sub>2</sub> emission allowances and gas - as a consequence of accelerated contracting and use of favourable trends in the gas market).

Other factors which affected the result achieved in the Sales Area in the third quarter of 2015 included: lower volume of electricity retail sales, negative impact of electricity prices (due to transfer of loyal clients from the tariff to a product, change in the structure of clients and sales price based on exchange products), increase in the level of redemption obligation of certificates as well as lower PMOZE purchase prices and higher commercial fees.

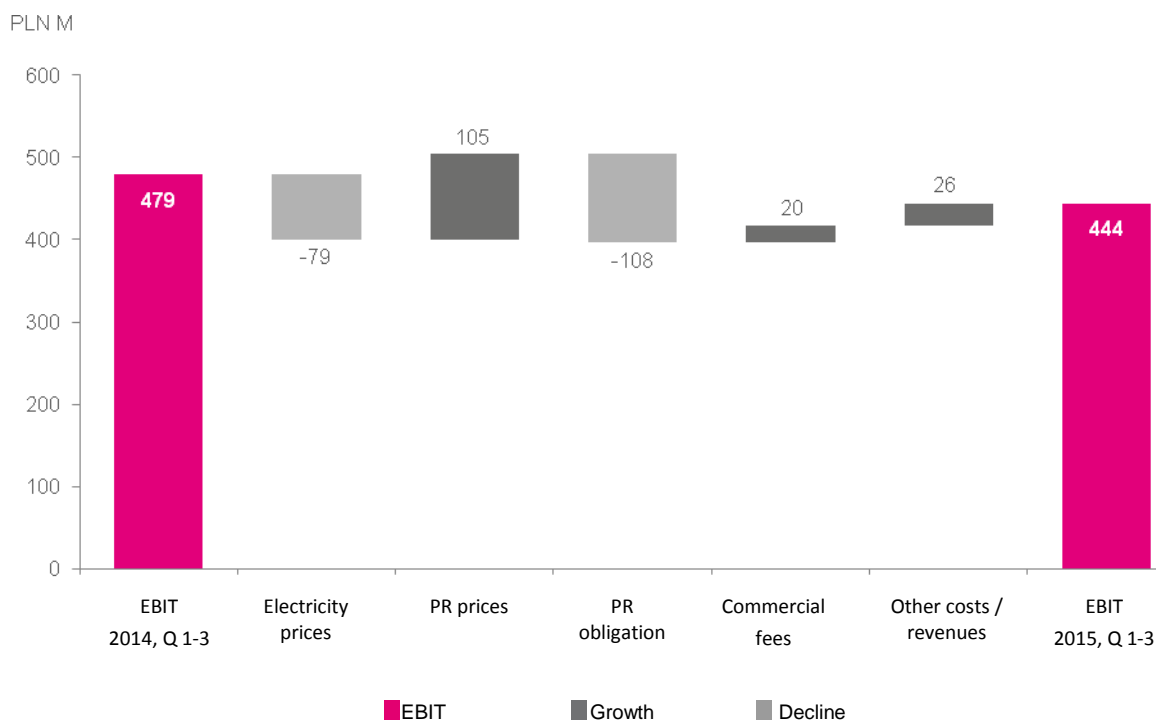
The figure below presents the financial data of the Sales Area for three quarters of 2015 as compared to three quarters of 2014.

**Figure no. 11. Financial data of the Sales Area for three quarters of 2014 and 2015.**



The figure below shows the EBIT result of the Sales Area, including the significant factors influencing the YoY change.

**Figure no. 12. EBIT result of the Sales Area**



## Other Area

The table below shows the results of Other Area.

**Table no. 13. Results of Other Area**

Specification (PLN thous.)	Quarters 1-3 2015	Quarters 1-3 2014	Dynamics 2015/2014	Q 3 2015	Q 3 2014	Dynamics 2015/2014
<b>Other</b>						
Revenues on sales	<b>702,794</b>	<b>659,223</b>	<b>106.6%</b>	<b>199,648</b>	<b>233,889</b>	<b>85.4%</b>
customer service, accounting and IT services	442,270	453,129	97.6%	147,848	154,235	95.9%
electricity and property rights arising from certificates of electricity origin	69,333	138,257	50.1%	3,155	53,367	5.9%
biomass	115,929	-	-	21,387	-	-
aggregates	67,997	65,567	103.7%	23,605	25,383	93.0%
other revenues	7,265	2,270	320.0%	3,653	904	404.1%
Operating profit	<b>47,972</b>	<b>74,101</b>	<b>64.7%</b>	<b>20,076</b>	<b>28,734</b>	<b>69.9%</b>
Depreciation and write-downs	50,211	35,438	141.7%	17,112	13,562	126.2%
Impairment losses	140	(10)	-	1	(15)	-
<b>EBITDA</b>	<b>98,183</b>	<b>109,539</b>	<b>89.6%</b>	<b>37,188</b>	<b>42,296</b>	<b>87.9%</b>

\*Data for quarters 1-3 2014, in order to maintain comparability, comprise two areas presented in the previous year: Customer Service and Other.

In the period of three quarters of 2015, revenues on sales of the Other Area increased by approximately 6.6% in relation to the corresponding period of the previous year, which is mainly the result of recognising the financial data of Biomasa GT company as of 1 January 2015, due to increase of its turnover and significance level in TAURON Capital Group.

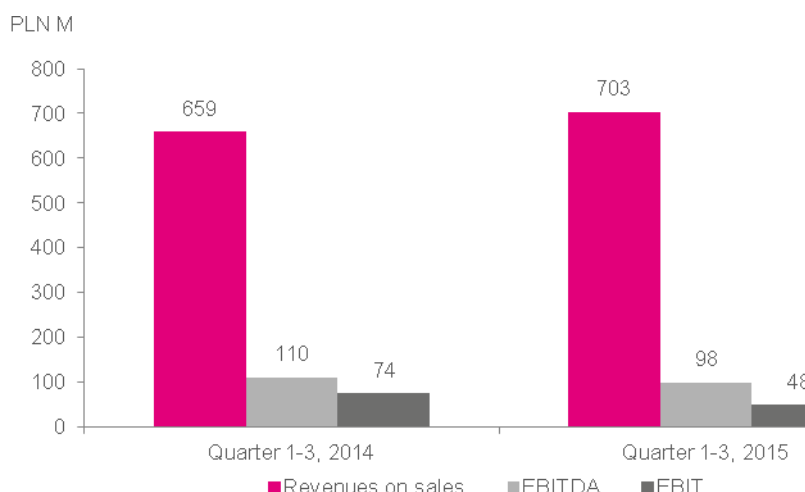
Lower results of the Other Area YoY are the effect of accomplishing a lower volume of sales of property rights and electricity as well as gaining a lower margin on the aforementioned products. The increase of costs of the activity conducted by the Area results from recognising of costs associated with biomass trading, which did not occur in the corresponding period of the previous year.

The operating EBIT and EBITDA result of the Other Segment in the third quarter of 2015 reached a level lower than in the third quarter of 2014, which was affected by achieving of a lower margin and volume of sales of property rights and electricity as well as sales of a lower volume of aggregates.

The figure below presents the financial data of the Other Area for three quarters of 2015 as compared to three quarters of 2014.



**Figure no. 13. Financial data of the Other Area for three quarters of 2014 and 2015.**



#### 4.4.2 Analysis of financial situation

In the table below the analysis of financial situation of TAURON Capital Group for three quarters of 2015 is presented, as compared to the status as at the end of 2014.

**Table no. 14. Structure of the interim condensed consolidated statement of financial situation**

Consolidated statement of financial situation	Status as at 30 June 2015	Status as at 31 December 2014
<b>ASSETS</b>		
Fixed assets	83%	81%
Current assets	17%	19%
<b>TOTAL ASSETS</b>	<b>100%</b>	<b>100%</b>
<b>LIABILITIES</b>		
Equity attributable to shareholders of the parent company	54%	52%
Non-controlling shares	0.1%	0.1%
<b>Total equity</b>	<b>54%</b>	<b>52%</b>
Long-term liabilities	34%	34%
Short-term liabilities	12%	14%
<b>Total liabilities</b>	<b>46%</b>	<b>48%</b>
<b>TOTAL LIABILITIES</b>	<b>100%</b>	<b>100%</b>
Financial liabilities	8,263,093	8,113,766
Net financial liabilities	7,148,333	6,692,857
Net debt/EBITDA ratio	1.97	1.85
Current liquidity ratio	1.06	1.05

In the structure of assets as at 30 September 2015, fixed assets constitute about 83% of the balance sheet total, which means change by almost 2% in relation to the status as at the end of 2014.

The share of current assets as at 30 September 2015 decreased to the level of 17% of total assets.

In the structure of total liabilities as at 30 September 2015, liabilities make about 46% of total liabilities, out of which, long-term liabilities make approximately 34%, short-term liabilities - about 12% of the balance sheet total, which means a slight change in the structure of debt as compared to the end of 2014 when the share of liabilities, amounted to, respectively: 34% and 14%.

In relation to 2014, in the period of three quarters of 2015, the increase in net financial liabilities by approximately 6.8% occurred, which translated into the growth of net debt/EBITDA ratio - to the level of 1.97x (the ratio expressed in relation to EBITDA for the previous year).

The current liquidity ratio increased to the level of 1.06. The liquidity of the Company is not at risk - the indicators are maintained at a high, safe level.

### Consolidated statement of comprehensive income

The table below presents selected items of the consolidated statement of comprehensive income of TAURON Capital Group for the period of 9 months, ended on 30 September 2015, as well as comparative data for the period of 9 months ended on 30 September 2014. These items are quoted in accordance with the condensed interim consolidated financial statements of TAURON Capital Group, compliant with the International Financial Reporting Standards for the period of 9 months ended on 30 September 2015.

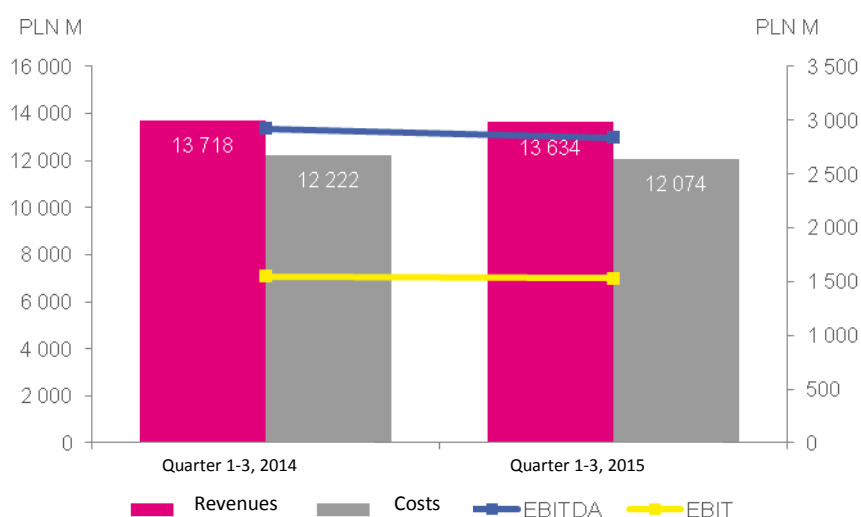
Table no. 15. Condensed interim consolidated statement of comprehensive income

Table no. 15: Condensed interim consolidated statement of comprehensive income					
Statement of comprehensive income	Quarters 1-3, 2015		Quarters 1-3, 2014		Dynamics 2015/2014
	thous. PLN	% of total revenue on sales	thous. PLN	% of total revenue on sales	
Continued operations					
Revenues on sales	13,634,241	100.0%	13,717,681	100.0%	99.4%
Own cost of sales	(11,247,977)	82.5%	(11,328,544)	82.6%	99.3%
Gross profit (loss) on sales	2,386,264	17.5%	2,389,137	17.4%	99.9%
Other operating revenue	141,119	1.0%	139,002	1.0%	101.5%
Costs of sales	(359,945)	2.6%	(401,487)	2.9%	89.7%
Overheads	(466,493)	3.4%	(491,627)	3.6%	94.9%
Other operating expenses	(168,685)	1.2%	(88,084)	0.6%	191.5%
Operating profit (loss)	1,532,260	11.2%	1,546,941	11.3%	99.1%
Operating profit margin (%)	11.2%		11.3%		99.7%
Financial revenues	59,706	0.4%	41,558	0.3%	143.7%
Financial expenses	(278,597)	2.0%	(274,827)	2.0%	101.4%
Share in profit (loss) of the affiliate	310	0.0%	(1,176)	0.0%	
Gross profit (loss)	1,313,679	9.6%	1,312,496	9.6%	100.1%
Gross profit margin (%)	9.6%		9.6%		100.7%
Income Tax	(234,524)	1.7%	(259,438)	1.9%	90.4%
Net profit (loss) for financial year	1,079,155	7.9%	1,053,058	7.7%	102.5%
Net profit margin (%)	7.9%		7.7%		103.1%
Other comprehensive income for financial year including tax	57,241	0.4%	(17,390)	0.3%	-
Total income for financial year	1,136,396	8.3%	1,035,668	7.5%	109.7%
Profit attributable to					
Shareholders of the parent company	1,076,641	7.9%	1,048,701	7.6%	102.7%
Non-controlling interests	2,514	0.0%	4,357	0.0%	57.7%

Statement of comprehensive income	Quarters 1-3, 2015		Quarters 1-3, 2014		Dynamics 2015/2014
	thous. PLN	% of total revenue on sales	thous. PLN	% of total revenue on sales	
Total income attributable to					
Shareholders of the parent company	1,133,869	8.3%	1,031,283	7.5%	109.9%
Non-controlling interests	2,527	0.0%	4,385	0.0%	57.6%
EBIT and EBITDA					
EBIT	1,532,260	11.2%	1,546,941	11.3%	99.1%
EBITDA	2,841,076	20.8%	2,925,376	21.3%	97.1%

The figure below shows the financial results of TAURON Capital Group for the period of three quarters of 2015, as compared to the corresponding period of 2014.

**Figure no. 14. Financial results of TAURON Capital Group for three quarters of 2014 and 2015.**

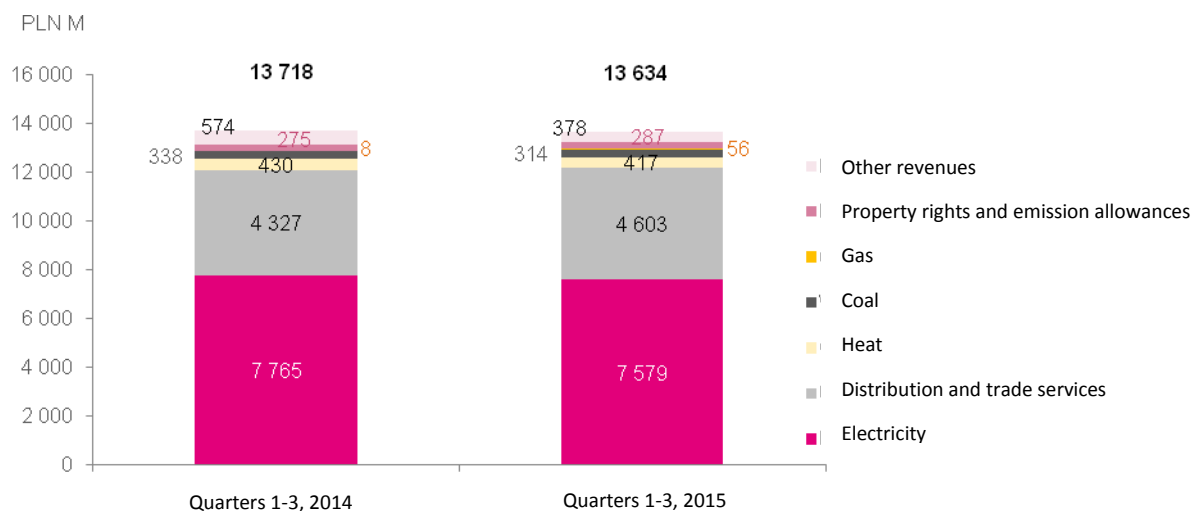


In the period of three quarters of 2015 TAURON Capital Group generated revenues at a level slightly lower in relation to the revenues reported for the period of three quarters of 2014. The loss of revenues due to sales of electricity, wind of blast furnace and compressed air, as a result of separation of ZW Nowa and Elektrownia Blachownia from the TAURON Capital Group structures to TAMEH POLSKA, was compensated by the growth in revenues from the distribution service and sales of CO<sub>2</sub> emission allowances. Despite the difficult situation in the coal market, TAURON Group recorded the decline in revenues from coal sales by approximately 7.4% YoY. The growth in revenues from sales of distribution services is the consequence of the higher electricity consumption by consumers connected to the HV and MV grid, as a result of the growth in production and new contracts in metallurgical industry, as well as commissioning of the successive railway lines in the second quarter of 2015, following their modernisation. The growth in revenues from sales of CO<sub>2</sub> emission allowances arises from the increase in the volume and gaining a higher price than in the corresponding period of 2014.

In relation to revenues outside TAURON Capital Group, the highest dynamics of growth, as compared to the corresponding period of 2014 (by 16.0%), was achieved by the Distribution Segment as a result of sales of a higher volume of distribution services, with the simultaneous increase in the rate for end consumers.

The figure below shows the structure of revenues of TAURON Capital Group for three quarters of 2015 as compared to three quarters of 2014.

**Figure no. 15. Structure of revenues of TAURON Capital Group for the period of quarters 1-3 of 2014 and 2015.**



In the period of three quarters of 2015 costs of TAURON Capital Group operations reached a level lower by approximately 1.2% than in the corresponding period of 2014. The decline of prime costs YoY was, to a major extent, neutralised by recognising reserves of commercial coal sold and accruals associated with mining excavations in TAURON Wdobyćie in costs, which is associated with the sales of coal volume exceeding the production level.

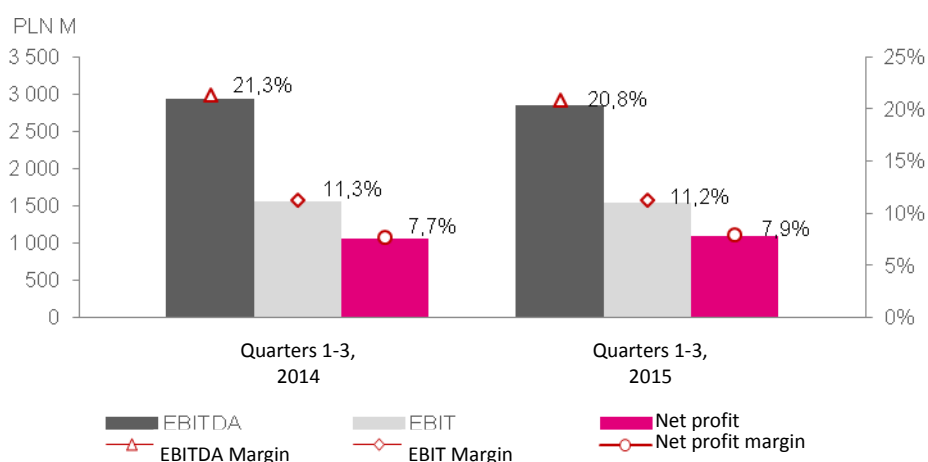
The margin of EBITDA and EBIT for three quarters of 2015 reached a level slightly lower than in the corresponding period of the previous year, amounting, respectively, to 20.8% and 11.2% (21.3% and 11.3%, respectively, in the corresponding period of 2014). The net profit margin was higher by approximately 0.2 percentage points (7.9% vs 7.7% YoY).

In accordance with the presented consolidated statement of comprehensive income, in the reporting period, the total aggregate income of TAURON Capital Group, taking into account the net profit increased or decreased by the change in value of hedging instruments, currency translation differences arising from conversion of a foreign unit and other revenues after tax deduction, amounted to PLN 1,136.4 million, as compared to PLN 1,035.7 million in the comparable period.

The total income attributable to shareholders of the parent company reached, respectively, about PLN 1,133.9 million, as compared to PLN 1,031.3 million in the corresponding period of 2014, and the profit attributable to the parent company shareholders reached a level higher by approximately 2.7% than a year before.

The figure below shows the financial results of TAURON Capital Group and the level of margins accomplished in the period of three quarters of 2015 as compared to the corresponding three quarters of 2014.

**Figure no. 16. Financial results of TAURON Capital Group and the level of accomplished margins**



#### 4.4.3 Status of assets

In the table below, the consolidated statement of financial standing as at 30 September 2015, as compared to 31 December 2014, is presented.

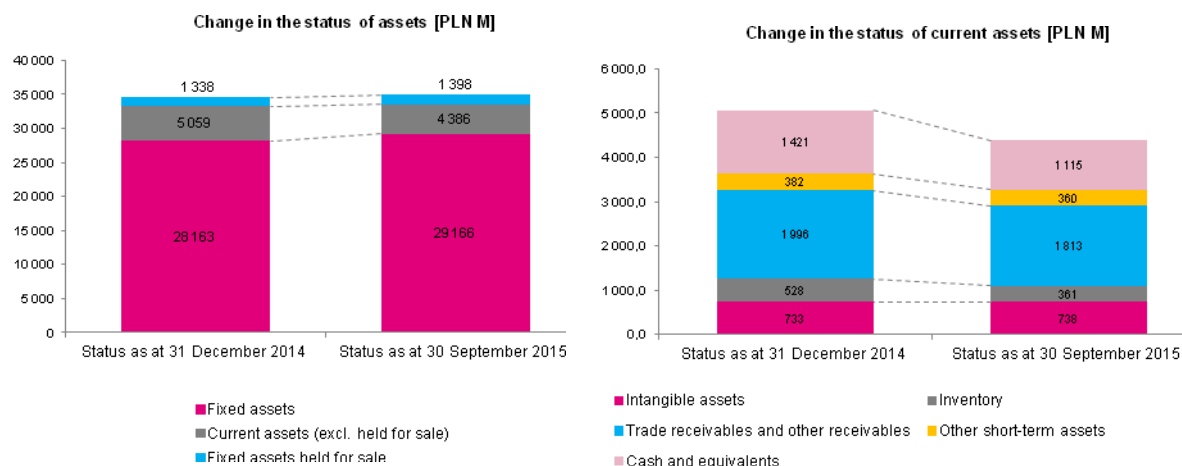
**Table no. 16. Condensed interim consolidated statement of financial standing - assets (data in PLN thousand)**

Statement of financial standing	Status as at 30 September 2015 ( <i>unaudited</i> )	Status as at 31 December 2014	Dynamics (2015/2014)
<b>ASSETS</b>			
<b>Fixed assets</b>	<b>29,165,948</b>	<b>28,162,749</b>	<b>103.6%</b>
Tangible fixed assets	26,239,783	24,850,942	105.6%
Goodwill	195,155	195,155	100.0%
Intangible assets	1,295,459	1,604,634	80.7%
Shares and stocks in joint ventures	411,881	414,584	99.3%
Other financial assets	410,692	377,383	108.8%
Other non-financial assets	559,551	657,943	85.0%
Assets due to deferred tax	53,427	62,108	86.0%
<b>Current assets</b>	<b>5,783,980</b>	<b>6,396,444</b>	<b>90.4%</b>
Intangible assets	737,632	733,048	100.6%
Inventory	361,351	527,596	68.5%
Receivables due to income tax	1,281	26,489	4.8%
Trade receivables and other receivables	1,811,345	1,969,169	92.0%
Other short-term financial assets	7,518	27,539	27.3%
Other short-term non-financial assets	352,176	353,989	99.5%
Cash and equivalents	1,114,760	1,420,909	78.5%
Fixed assets and disposable assets of the group, classified as held for sale	<b>1,397,917</b>	1,337,705	<b>104.5%</b>
<b>TOTAL ASSETS</b>	<b>34,949,928</b>	<b>34,559,193</b>	<b>101.1%</b>

As at 30 September 2015 the statement of financial situation of TAURON Capital Group indicates balance sheet total higher by 0.1%, as compared to 31 December 2014.

The figure below shows the change in the status of assets and current assets as at 30 September 2015, as compared to 31 December 2014.

**Figure no. 17. Change in the status of assets and current assets**



Fixed assets represent the biggest item of assets at 30 September 2015, with the 85% share in the value of balance sheet total. As compared to 31 December 2014, the value of fixed assets is higher by approximately PLN 1,003.2 million (3.6%). The change results, among others, from investments in fixed assets of segments of operations, implemented in the reporting period of 2015, in particular, in the assets of the Distribution and Generation Areas.

Changes in analytical items of fixed assets resulted from the following factors:

- 1) tangible fixed assets – growth by 5.6% as a result of ongoing investments, implemented in the companies of TAURON Capital Group,
- 2) intangible assets – decline by 19.3% arising from re-classification of electricity certificates of origin to current assets, in connection with the fulfilment of the statutory obligation of their redemption for 2014,
- 3) value of stocks and shares in joint ventures – decrease by 0.7% arising from the share of TAURON Capital Group in the profit generated by TAMEH HOLDING in the period of three quarters of 2015,
- 4) other long-term financial assets - growth by 8.8% arising from the purchase of shares in PGE EJ 1,
- 5) other long-term non-financial assets - decline by 15% arising from activation of costs of some preparatory works in longwall pits.

The following factors had an impact on the decline in the value of current assets by 9.6%:

- 1) lower status of cash and equivalents (by 21.5%) – reasons of the change are described in subparagraph 4.4.3. hereof, concerning the cash flow account,
- 2) the decline in the status of inventory (by 31.5%) as a result of the partial liquidation of coal reserves due to the increased demand of customers of TAURON Capital Group, lower coal production by TAURON Wydobycie and increased consumption by companies of the Generation Segment, in connection with the growth in electricity production.
- 3) decrease of trade receivables by 8.0%.

The value of fixed assets and disposable assets of the Group, classified as held for sale, mainly assets of Wind Farms separated from structures of TAURON Ekoenergia, has slightly changed (growth by 4.5%).



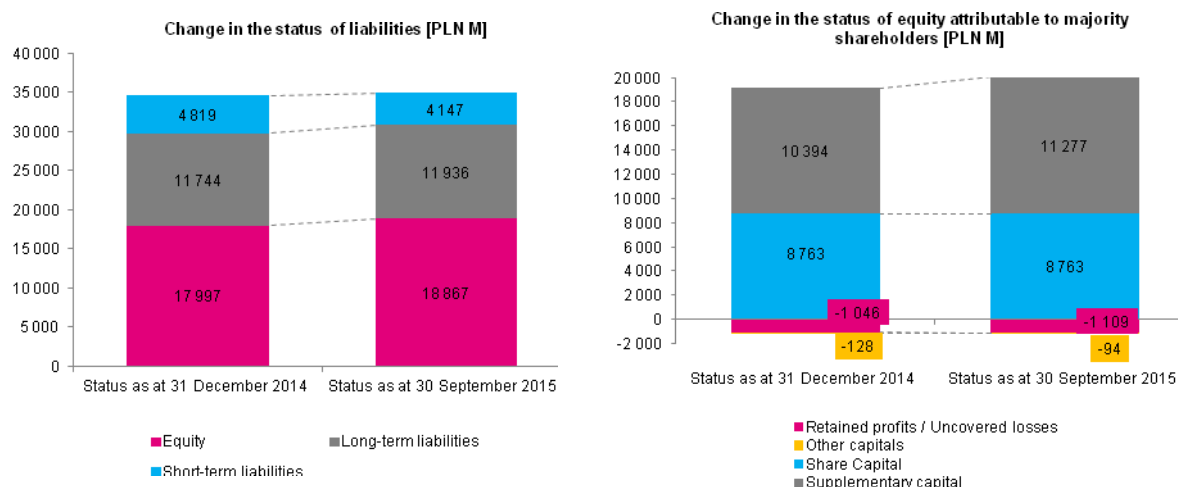
In the table below, interim consolidated statement of financial situation - liabilities, is presented.

**Table no. 17. Condensed interim consolidated statement of financial situation - liabilities (data in thousand PLN)**

Statement of financial standing	Status as at 30 September 2015 (unaudited)	Status as at 31 December 2014	Dynamics (2015/2014)
<b>LIABILITIES</b>			
<b>Equity attributable to shareholders of the parent company</b>	<b>18,837,494</b>	<b>17,966,448</b>	<b>104.8%</b>
Share capital	8,762,747	8,762,747	100.0%
Supplementary capital	11,277,247	10,393,686	108.5%
Hedging instruments revaluation reserve	(92,755)	(143,019)	64.9%
Currency exchange differences due to translation of a foreign unit	(1,099)	(1,386)	79.3%
Retained profits / Uncovered losses	(1,108,646)	(1,045,580)	106.0%
<b>Non-controlling shares</b>	<b>29,207</b>	<b>30,116</b>	<b>97.0%</b>
<b>Total equity</b>	<b>18,866,701</b>	<b>17,996,564</b>	<b>104.8%</b>
<b>Long-term liabilities</b>	<b>11,935,863</b>	<b>11,744,092</b>	<b>101.6%</b>
Loans, credits and debt securities	7,648,162	7,422,332	103.0%
Liabilities due to financial leasing	37,430	46,443	80.6%
Trade liabilities and other financial liabilities	82,828	48,986	169.1%
Derivatives	54,838	93,501	58.6%
Provisions for employee benefits	1,837,619	1,948,323	94.3%
Other provisions	167,772	165,278	101.5%
Accruals and governmental subsidies	634,492	662,072	95.8%
Liabilities due to deferred income tax	1,472,722	1,357,157	108.5%
<b>Short-term liabilities</b>	<b>4,147,364</b>	<b>4,818,537</b>	<b>86.1%</b>
Current portion of credits, loans and debt securities	564,548	631,530	89.4%
Current part of liabilities due to financial leasing	12,953	13,461	96.2%
Trade liabilities and other liabilities	1,370,925	1,866,865	73.4%
Derivatives	99,559	102,615	97.0%
Provisions for employee benefits	147,881	158,954	93.0%
Other provisions	879,583	1,081,415	81.3%
Accruals and governmental subsidies	324,934	245,520	132.3%
Liabilities due to income tax	41,021	13,518	303.5%
Other non-financial liabilities	578,900	619,689	93.4%
Liabilities of the group for disposal, classified as held for trade	127,060	84,970	149.5%
<b>Total liabilities</b>	<b>16,083,227</b>	<b>16,562,629</b>	<b>97.1%</b>
<b>TOTAL LIABILITIES</b>	<b>34,949,928</b>	<b>34,559,193</b>	<b>101.1%</b>

The figure below shows the change in the status of liabilities and equity as at 30 September 2015 and 31 December 2014.

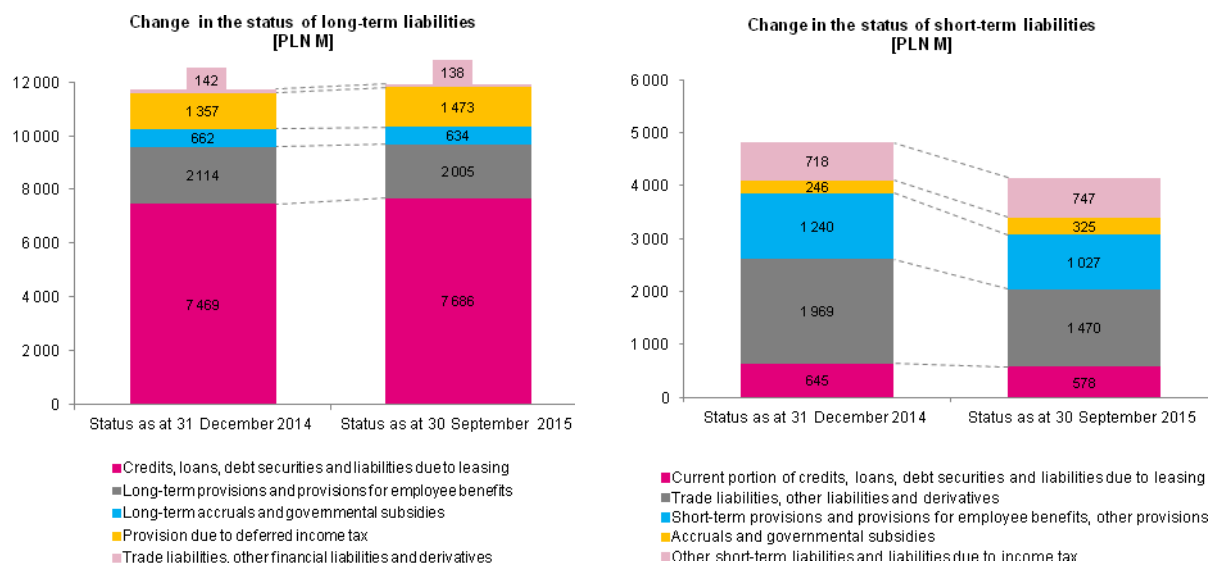
**Figure no. 18. Change in the status of liabilities and equity**



Similar to previous years, the equity is still the dominating source of financing of the assets, and its share in the balance sheet total increased to 54.0%.

The figure below shows the change in the status of liabilities as at 30 September 2015 and 31 December 2014.

**Figure no. 19. Change in the status of liabilities**



The value of long-term liabilities of TAURON Capital Group as at 30 September 2015 has not changed significantly, and the values of the analytical items reached the level similar to that recorded as at 31 December 2014. The only change to be emphasised is the slight growth in financial liabilities by 2.9%. The value of short-term liabilities of TAURON Capital Group decreased by 13.9%, due to the following factors:

- 1) decline in the status of other provisions by approximately 18.7%, which results from the use of the provision (created in 2014), combined with the creation of the provision for the period of quarters 1-3 of 2015, for the fulfilment of the obligation to submit electricity certificates of origin for redemption, arising from the provisions of the Energy Law, as well as creation of the provision for redemption of CO<sub>2</sub> emission allowances, which did not take place in 2014.

- 2) decline in trade liabilities and other liabilities by 21.6%,
- 3) reduction of financial liabilities by 10.5%, arising from their current repayment,
- 4) growth in prepayments and governmental subsidies by 32.3%, which results from the growth in provision due to unused holiday leaves, bonuses and environmental protection fees,
- 5) growth of disposable obligations of the Group classified as held for trade by 49.5%.

#### 4.4.4 Cash Flows

In the table below, condensed interim statement of cash flows is presented for a period of nine months of 2015, in relation to the corresponding period of 2014.

**Table no. 18. Condensed interim statement of cash flows (data in thousand PLN)**

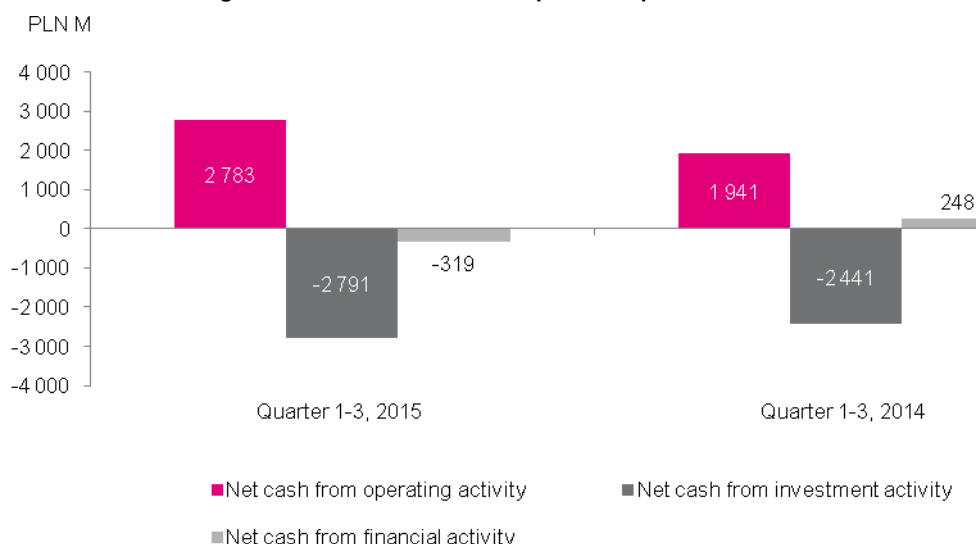
Statement of cash flows	Period of 9 months ended on 30 September 2015 (unaudited)	Period of 9 months ended on 30 September 2014 (unaudited)
<b>Cash flows from operating activities</b>		
Gross profit/(loss)	1,313,679	1,312,496
Adjustments	1,469,413	628,305
<b>Net cash from operating activities</b>	<b>2,783,092</b>	<b>1,940,801</b>
<b>Cash flows from investment activities</b>		
Sales of tangible fixed assets and intangible assets	22,511	38,138
Purchase of tangible fixed assets and intangible assets	(2,825,828)	(2,473,020)
Redemption of debt securities	21,732	0
Sales of financial assets	2,497	1,852
Purchase of financial assets	(29,000)	(6,279)
Dividends received	4,684	3,766
Interest received	5,708	541
Repayment of loans granted	14,500	5,850
Loans granted	(8,150)	(11,700)
<b>Net cash from investment activities</b>	<b>(2,791,346)</b>	<b>(2,440,852)</b>
<b>Cash flows from financial activities</b>		
Repayment of liabilities due to financial leasing	(10,296)	(13,677)
Cash inflows due to loans/credits	295,000	0
Repayment of loans/credits	(67,126)	(91,078)
Issue of debt securities	0	1,200,000
Redemption of debt securities	(150,000)	(300,000)
Dividends paid to shareholders of the parent company	(262,882)	(324,182)
Dividends paid to non-controlling shareholders	(2,669)	(1,252)
Interest paid	(126,101)	(136,469)
Purchase of non-controlling shares	(588)	(125,328)
Subsidies received	14,963	48,770
Commissions paid	(9,754)	(9,000)

Statement of cash flows	Period of 9 months ended on 30 September 2015 (unaudited)	Period of 9 months ended on 30 September 2014 (unaudited)
<b>Net cash from financial activities</b>	<b>(319,453)</b>	<b>247,784</b>
<b>Increase/(decrease) in the status of net cash and equivalents</b>	<b>(327,707)</b>	<b>(252,267)</b>
Net exchange differences	574	186
<b>Cash opening balance</b>	<b>1,408,071</b>	<b>541,148</b>
<b>Cash closing balance</b>	<b>1,080,364</b>	<b>288,881</b>

The sum of all cash streams of net flows of cash from operating, investment and financial activities in the period of quarters 1-3 of 2015 was a negative value and reached approximately PLN (327.7) million.

The figure below presents cash flows for the period of quarters 1-3 of 2015 and 2014.

**Figure no. 20. Cash flows for the period of quarters 1-3 of 2015 and 2014.**



The value of cash flows on operating activities accomplished in the reporting period was lower by approximately 43.4% than the cash stream acquired in the corresponding period of the previous year. The following factors had the most noticeable impact on the change in this position of cash flows account:

- 1) incurring expenses for the purchase of electricity certificates of origin, lower by approximately PLN 230 million in the period of 9 months, which is associated, inter alia, with the delays in issuance of certificates of origin by the ERO President in 2013, and the accumulation of the implementation of supplies in the 1st quarter of 2014,
- 2) contribution of the substitution fee in the 2<sup>nd</sup> quarter of 2015, due to the fulfilment of the obligation for 2014, in the amount higher by PLN 62 million than in the corresponding period of 2014,
- 3) purchase of CO<sub>2</sub> emission allowances in the 1<sup>st</sup> half of 2014 for the amount of PLN 98 million, which did not take place in the corresponding period of the current year,
- 4) expenditure on income tax, lower by approximately PLN 157 million, which resulted from the surplus generated as at 31 March 2014 due to the settlement of the PGK and the resulting liability as at the balance sheet day of 2015,
- 5) liquidation and consumption of some part of coal stocks by companies of the Mining and Generation Areas, which results in the positive change of the status of inventory by approximately PLN 206 million,

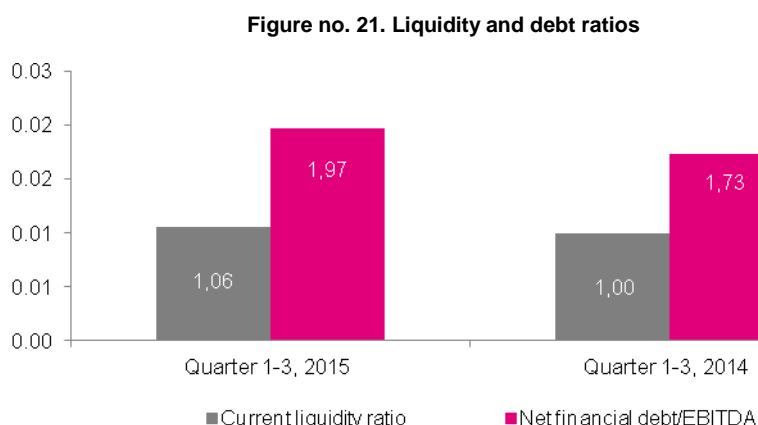
- 6) positive change in the balance of receivables and liabilities resulting in the positive cash flow stream in the net amount of PLN 151 million.

Expenditures due to the purchase of tangible fixed assets represented the factor of the highest impact on the developments of the cash stream of investment nature, which were higher by 14.3% in the reporting period than the expenditures incurred in the corresponding period of 2014. In the current period, the highest expenditures were incurred by the Generation and Distribution Segments.

The negative value of cash of financial nature arises from the repayments of financial liabilities executed in the reporting period, through redemption of debt securities and the repayment of loans drawn. In addition, in the third quarter of 2015 the Capital Group paid the dividend at a level of PLN 263 million. Moreover, in the third quarter of 2015 additional external financing in the amount of PLN 295 million was acquired.

Irrespective of the negative value of cash flows it can be stated that TAURON Group continues the development process and keeps strengthening its market position. It should be stressed that the value of operating flows shows a positive balance, consequently enabling TAURON Capital Group to finance its current operations independently. In the analysed period, TAURON Capital Group did not incur any external financial resources. The ratio of current liquidity and the net debt to EBITDA ratio are maintained at a safe level.

The figure below presents cash flow and debt ratio in the period of quarters 1-3 of 2015 and 2014.



TAURON Capital Group effectively manages cash flows, using the centrally implemented model of financing and the central policy of financial risk management. In order to minimise the potential disturbances in cash flows and the risk of liquidity loss, TAURON Capital Group uses the *cash pooling* mechanism. Currently TAURON Capital Group uses various sources of funding, such as, for example, overdraft, bank facilities, loans from environmental funds, issue of bonds, financial leasing contracts and lease contracts with the purchase option.

#### **4.5 Factors and events, particularly of unusual nature, significantly affecting the financial results achieved**

In the third quarter of 2015, no factors or events of unusual nature occurred, which would significantly affect the financial results achieved.

#### **4.6 Factors which, according to the opinion of the Issuer, may have impact on the financial results achieved by it in the perspective of at least the next quarter**

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

- the macroeconomic situation, especially in Poland, as well as the economic situation in the area where TAURON Capital Group operates and at the European Union (EU) level and global economy level, including volatility of interest rates, currency rates, etc., influencing the measurement of assets and liabilities recognised by the Company in the statement of financial situation,
- political environment, especially in Poland as well as at the EU level, including the positions and decisions of public administration institutions and bodies, e.g.: Office for Competition and Consumer Protection (UOKiK), Energy Regulatory Office (ERO) and the European Commission,
- changes in regulations related to the energy sector as well as changes in the legal environment, including: tax law, commercial law, environmental protection law, in particular: the announced liberalisation of electricity prices for households, the announcement of the ERO President related to the application of maximum prices in tariffs for G group (instead of fixed priced), in order to protect consumers against rapid changes of prices upon full liberalisation,
- resumption of the support system for electricity generation in high-performance co-generation, resulting, on the one hand, in the growth of redemption costs of "red" and "yellow" certificates of electricity sellers to end consumers, and, on the other hand, in the growth of revenues on sales of "red" and "yellow" certificates of generators of energy in co-generation,
- situation in electricity sector, including the activity and measures undertaken by competition in the energy market,
- the number of CO<sub>2</sub> emission allowances allocated free of charge, as well as the price of the allowances purchased - under the circumstances of the deficit in free allowances,
- electricity prices on the wholesale market;
- sales prices of electricity and coal as well as distribution tariffs, as factors influencing the level of revenues,
- prices of certificates of origin of energy from renewable sources and co-generation,
- prices of energy resources,
- geological and mining conditions,
- environmental protection requirements,
- scientific and technical progress,
- potential failures of equipment, installations and grids owned by TAURON Capital Group,
- demand for electricity and other products of the energy market, including changes arising from seasonality and weather conditions.

The activity of TAURON Capital Group demonstrates seasonality which refers, in particular, to production, distribution and sales of heat, distribution and sales of electricity to individual consumers and sales of coal to individual consumers for heating purposes. Sales of heat depends on the atmospheric conditions, in particular, on air temperature, and it is higher in the autumn and winter season. The level of electricity sales to individual consumers depends on the length of a day, which usually makes electricity sales in this group of consumers lower in the spring and summer season and higher in the autumn and winter season. Sales of coal to individual consumers is higher in the autumn and winter season. The seasonality of the remaining areas of TAURON Capital Group operations is limited.

Changes in the aforementioned external factors may constitute premises obliging the Group, in accordance with IAS 36, to perform impairment tests on assets. Results of such tests may affect the financial results of the Group in the perspective of the consecutive reporting periods.

Considering the premises related to maintaining of the market value of the Company net assets at a level below the carrying amount and the general situation in the energy market, the analysis as at 30 September 2015 was conducted, which has indicated that in the third quarter the volatility of the Company environment was insignificant as compared to 30 June 2015 when the last impairment tests had been performed. Due to this fact, it has been recognised that results of the last impairment tests on intangible assets, including goodwill, and tangible fixed assets, conducted as at 30 June 2015, are valid. If the market value of net assets of the Company is maintained at a level below the carrying amount, or if other premises



occur, the tests will be performed as at 31 December 2015.

The following internal factors affecting the result of TAURON Capital Group activity are most significant:

- implementation of the *effectiveness improvement programme in TAURON Capital Group for the years 2013-2015* and preparation of a new Programme for the years 2016-2018, including the consolidation and restructuring programmes, voluntary redundancy programmes,
- implementation of key investment projects, in particular, in the scope of construction of new and modernisation of the existing generation capacity, building new connections and modernisation of the existing distribution grids, heating networks, construction of underground excavations,
- marketing activities in the scope of acquisition of new clients and loyalty activities in terms of maintaining existing clients,
- centralising the financial management area in TAURON Capital Group, supported by such tools as: central model of financing, cash flow management policy with the cash pool, risk management policy in the financial area, insurance policy,
- PGK activity, aimed mainly at optimising the implementation of the obligations associated with the settlement of corporate income tax by key companies of TAURON Capital Group,
- procurement management by TAURON, in particular, fuel purchases for the needs of generation entities included in TAURON Capital Group.

The impact of the aforementioned factors on the financial result achieved in the third quarter of 2015 is described in item 4 of this report. Effects of this impact are visible both in a short-term and long-term perspective.

#### **4.7 Position of the Management Board concerning a possibility to implement forecasts of results for a given year, published earlier**

TAURON Capital Group did not publish any forecasts of financial results for 2015. The financial situation of TAURON Capital Group is stable and no negative events occurred which would cause any threat to its business continuity or significant deterioration of its financial standing.

The detailed description concerning the financial situation understood as the provision of financial resources for both the operational and the investment activity is included in this chapter 4.

### **5. Other information and events which occurred in the third quarter of 2015**

#### **5.1 Significant events which occurred in the third quarter of 2015**

##### **Concluding of the investment agreement concerning the implementation of the project on construction of the CCGT unit at Elektrownia Łagisza**

On 13 July 2015, in connection with the execution of the project on "Construction of 413 MW<sub>e</sub> CCGT unit at TAURON Wytwarzanie Spółka Akcyjna Oddział Elektrownia Łagisza w Będzinie" (the "Project"), the subsidiary of the Issuer – TAURON Wytwarzanie ("TAURON Wytwarzanie") concluded an Investment Agreement (the "Agreement") with Polskie Inwestycje Rozwojowe S.A. ("PIR"). The purpose of the Agreement is to determine the terms and conditions of joint execution of the Project by TAURON Wytwarzanie and PIR. In particular, the provisions of the Agreement include the obligation of the parties to invest by establishing a company Łagisza Grupa TAURON sp. z o.o. ("Special Purpose Vehicle") whose purpose would be the execution of the investment process and, subsequently, the operation of the 413 MWe CCGT unit (the "Unit"). TAURON Wytwarzanie undertakes, under the terms and conditions defined in the Agreement, to ensure the achievement of the purpose of the Project by the Special Purpose Vehicle, which consists in launching regular commercial operation of the unit on the date defined by the parties,

following the successful completion of the technological start-up and fulfilment of the foreseen requirements. PIR plans to invest in the project up to PLN 750 million, taking over 50% less one share in the Special Purpose Vehicle. The total value of Project is estimated at approximately PLN 1.5 billion.

The obligation of PIR to join the Special Purpose Vehicle depends on (apart from establishing the Special Purpose Vehicle and contribution of initial capital by TAURON Wytwarzanie), among others, signing further agreements enabling the execution of the Project (including shareholders' agreement between the parties, the Issuer and the Special Purpose Vehicle, the agreement for Unit connection to the power grid) and agreeing on all the issues related to the execution of the Project (including, inter alia, management-related, organisational and technical matters), obtaining clearance for concentration and any other necessary permissions. A major breach of agreement by TAURON Wytwarzanie would be the discontinuation or lack of electricity generation in the Unit as well as discontinuation or lack of gas supply to the Unit for a period exceeding 6 months. Other terms and conditions of the Agreement (including possible termination by the parties) arise from the characteristics of the Project and do not vary significantly from standard provisions typical for such agreements. The Agreement was concluded for a period of 30 years, with a possibility of its extension.

The Project is in line with the Corporate Strategy of TAURON Capital Group, presented in current reports no. 25/2011 and 28/2014, which stipulates building of the sustainable generation portfolio which would consist of units based on coal, gas technologies and renewable energy sources. The investment in the construction of the new CCGT unit at Elektrownia Łagisza will also contribute to securing TAURON Capital Group position as the second largest electricity generator on the domestic market.

The Company informed of the aforementioned event in the current report no. 17/2015.

#### **Fitch affirms ratings for TAURON Polska Energia S.A.**

On 16 July 2015 Fitch rating agency ("Fitch") affirmed the following ratings of the Company:

- international long-term local and foreign currency rating at "BBB" with stable outlook,
  - international short-term local and foreign currency rating at "F3" level, - national long-term rating at "A (pol)" level with stable outlook, - national unsecured and unsubordinated debt rating at "A (pol)" level.
- Affirmed ratings reflect high share of regulated distribution segment in the EBITDA result of TAURON Capital Group (approximately 60%), which translates into higher predictability of cash flows and helps stabilise cash flows in the unfavourable period for the generation segment. According to Fitch the ratings take into account the balance of risk related to the stable distribution segment and generation segment operating in difficult environment.

The Company informed of the aforementioned event in the current report no. 18/2015.

#### **Purchase of a part of KWK Brzeszcze assets**

On 16 January 2015, in response to the inquiry of Kompania Węglowa S.A. (Kompania Węglowa) and Spółka Restrukturyzacji Kopalń S.A. (SRK) regarding possible purchase from SRK of all or part of mining assets belonging at that time to Kompania Węglowa, the Management Board of TAURON expressed initial interest in the acquisition of all or part of KWK Brzeszcze assets. It was stressed that the final decision regarding the purchase of all or a part of KWK Brzeszcze mining assets would be made following a detailed analysis, including economic and technical analyses, confirming the possibility of economically viable coal mining.

In March 2015, the team of technical and economic advisers appointed for the analysis of the Brzeszcze coal mine assets, based on the conducted first stage of analyses, recommended the path for the purchase of these assets, in accordance with the variant assuming their takeover from SRK.

Until mid-May the works under the second stage of the comprehensive analysis of technical, geological, legal and economic-business aspects were continued. Within the framework of the team's work, the opportunities of potential cooperation with the financial or infrastructural partner were also analysed, including the terms of such cooperation supported by the conducted market research. Moreover, the analysis also focused on the structure of the transaction based on the special purpose vehicle (SPV),

assuming the lack of consolidation of assets purchased and, at the same time, the elimination of risk associated with the potential deterioration of financial indicators of TAURON Capital Group, in particular, the net debt to EBITDA ratio.

On 15 May 2015 TAURON and SRK signed the Letter of Intent concerning the intention of the Parties to start cooperation in the scope of possible purchase of KWK Brzeszcze assets.

In accordance with the provisions of the Letter of Intent, the Parties expressed their intention to start works aimed at defining the assets of KWK Brzeszcze that would be the subject of possible purchase by TAURON and then possible legal and actual steps the purpose of which would be to prepare and execute the transaction of assets purchase. It should be emphasised that TAURON was interested in purchasing of only those assets that could be used as a basis for the development of a new mining plant capable of running profitable and effective business in the scope of hard coal and methane extraction from deposits. The Parties also declared that they would start close cooperation on operation of KWK Brzeszcze in the acquisition period, i.e. after the transfer of the mine to SRK and prior to the potential purchase of KWK Brzeszcze assets by TAURON.

The prerequisite for TAURON to purchase the KWK Brzeszcze assets was the restructuring of the coal mine by SRK.

The Letter of Intent was signed for a definite period until 31 December 2015 with a possibility of its extension.

On 4 August 2015 the Management Board of TAURON, based on the results of the analyses conducted and the recommendations of the Company advisers, expressed its consent to submit an offer to purchase a part of assets of KWK Brzeszcze belonging to SRK, under a public procurement procedure and the following boundary conditions:

1. Due to the risk of potentially having to return prohibited public aid, the offer will be submitted only if the assets are sold by SRK under a public procurement procedure,
2. The price of the offer will be a "token sum" of PLN 1,
3. Due to the necessity to recognise the assets purchase transaction by the Company as the off-balance sheet transaction, the offer to purchase the assets will be submitted by a special purpose vehicle (SPV) to be established by Partners, including Małopolska Agencja Rozwoju Regionalnego S.A. (Małopolska Regional Development Agency),
4. The offer will be submitted provided that the Partners sign the Agreement defining the boundary terms and conditions of joint investment prior to the offer submission and then, before the day of concluding the final asset purchase agreement by the SPV, the partners to the SPV sign an agreement defining, in particular, their mutual obligations towards each other,
5. Due to the existing business risk related to operation of the assets and the necessity to ensure profitability of this investment, before signing the final purchase agreement by the SPV, SRK should implement the asset restructuring programme, comprising, in particular:
  - 1) reducing the number of permanent employees to 828 FTEs,
  - 2) employing up to 715 outsourced employees,
  - 3) change of the existing remuneration system to a performance-related remuneration system (approx. PLN 5,000 of fixed remuneration plus variable remuneration depending on financial results),
  - 4) bearing the previously planned – due to the division of assets – required expenditure on the ventilation system

The basis for filing the offer for the purchase of a part of assets are the opinions and reports prepared by the Company's advisers defining the aforementioned underlying requirements for project viability in the years 2016-2018 at a level of PLN 253 million and assuming the target annual output of approximately 1.5 million tons starting from 2017.

The Company informed of its preliminary interest in the purchase of assets of Brzeszcze coal mine in the current report no. 2/2015 of 16 January 2015. The Company informed of the letter of intent with the Coal Mine Restructuring Company (SRK) in the current report no. 16/2015 of 15 May 2015, whereas the issue of defining boundary conditions were communicated by the Company in the current report no. 19/2015 of 4

August 2015.

In connection with the procurement procedure for the sale of the Assets announced by SRK and the agreement concluded with Małopolska Agencja Rozwoju Regionalnego S.A. ("MARR") and Zespół Elektrowni Wodnych Niedzica S.A. ("ZEW Niedzica") on defining the basic boundary conditions of the joint investment, on 10 September 2015 an offer was submitted for purchase of the Assets under the public procurement procedure announced by SRK.

The offer for purchase of Assets was submitted by a special purpose vehicle - RSG sp. z o.o. whose sole partner, at the moment, was TAURON. According to the signed agreement, MARR and ZEW Niedzica have undertaken to take up shares in RSG so that the shareholding structure in RSG is as follows: TAURON – 40%, ZEW Niedzica – 40% and MARR – 20% and the share capital of RSG reaches up to PLN 150 million.

The Company informed of the submission of the offer in the current report no. 24/2015 of 10 September 2015.

In reference to the agreement signed by TAURON, MARR and ZEW Niedzica an annex was additionally concluded in which the parties agreed that the consecutive partner - FTF Columbus S.A. ("FTF Columbus") may join the RSG company. As a consequence, a new agreement (term sheet) was concluded between TAURON, MARR, ZEW Niedzica and FTF Columbus on defining the basic terms and conditions for the purchase of some assets of KWK Brzeszcze from SRK and the joint running of business by the special purpose vehicle. In accordance with the signed Agreement the parties undertook to increase the share capital of RSG to total amount of PLN 210 million and take up shares in the increased share capital of RSG, so that the target shareholding structure in RSG is as follows: TAURON – shares with the total nominal value of PLN 60 million, ZEW Niedzica – shares with the total nominal value of PLN 60 million, FTF Columbus – shares with the total nominal value of PLN 60 million and MARR – shares with the total nominal value of PLN 30 million.

The Company informed of the aforementioned events in the current reports no. 24/2015 of 24 September 2015 and no. 25/2015 of 25 September 2015.

Under the ongoing public procurement procedure, negotiation meetings were held in SRK in September, mainly aimed at presenting the positions of the Parties concerning individual issues being subject to the procedure and defining the wording of the preliminary conditional sales agreement. The settlement of Bidder's selection tentatively scheduled on 21 September 2015 was postponed by SRK to 30 September 2015.

In accordance with the communication of SRK, on 30 September 2015 negotiations between SRK and RSG concerning the agreement for sale of Brzeszcze coal mine were suspended for an unlimited period, due to the failure to agree on the wording of the preliminary conditional agreement between SRK and RSG, related to the sales of the designated part of the mining plant in Brzeszcze.

### **Important events after 30 September 2015**

On 2 October 2015, the Management Board of TAURON Polska Energia S.A., having taken into account the progress of works on the executed project aimed at purchasing the selected part of Brzeszcze mining plant from SRK, declared the will to continue negotiations with the purpose of purchasing the abovementioned assets.

The Company informed of the aforementioned event in the current report no. 28/2015 of 2 October 2015.

On 8 October 2015, the agreements were concluded on the termination of the agreement between TAURON, MARR, ZEW Niedzica and FTF Columbus concerning defining the basic terms and conditions for the purchase of some assets of KWK Brzeszcze from SRK and the joint running of business by the special purpose vehicle. The parties decided to resign from further joint execution of the project concerning the purchase of the abovementioned assets. The parties unanimously acknowledged that the termination of the agreements does not cause and will not cause in the future, any claims that any of the parties may raise against the other parties.

The Company informed of the termination of the agreements in the current report no. 31/2015 of 8 October 2015.

As a result of the resumed negotiations held under the public procurement procedure for the sale of the

designated part of the Brzeszcze mining plant announced by SRK, on 15 October the wording of preliminary conditional agreement for the sale of Assets was agreed. The parties to the preliminary conditional sale agreement are: SRK as the Seller and RSG sp. z o.o. as the Buyer. The subject of the preliminary conditional sale agreement comprises the obligations of the Parties to conclude the promised agreement for sale of the designated part of the Brzeszcze mining plant as an organised part of an enterprise. The purchase price of the Subject of Sale amounted to PLN 1.

The draft of the preliminary conditional sale agreement agreed by the Parties includes the following conditions precedent for concluding the Promised Agreement that must be fulfilled jointly by 24 December 2015:

1. Submission by SRK of the approval of the general meeting of SRK, at which the rights to vote under all shares are exercised by the Minister of State Treasury, as an attachment to the Promised Agreement,
2. Submission by RSG, as attachments to the Promised Agreement:
  - a) approvals of relevant bodies of RSG arising from the provisions of the Code of Commercial Companies and the articles of association of RSG as well as approvals of relevant bodies of the Issuer,
  - b) clearance of the President of Office for Competition and Consumer Protection for concentration consisting in the purchase of the Subject of Sale by RSG,
  - c) decision of the Minister of the Environment to transfer to RSG, as of the date of purchase of the Subject of Sale, the permission for extraction of coal and methane as an additional fossil from the "Brzeszcze" deposit, and other related decisions.

The Parties also agreed that regardless of the conditions indicated above, the concluding of the Promised Agreement will take place under the condition precedent stipulating that Kompania Węglowa S.A. should reduce the amount of coal belonging to it (approximately 600 thousand tons) stored in coal bings ("Bing") on the premises belonging to the designated part of the Brzeszcze mining plant, by at least 100 thousand tons by the day preceding the day of concluding the Promised Agreement, but not later than within 45 days following concluding of the preliminary conditional sale agreement (whichever occurs first) and submission by Kompania Węglowa S.A. to RSG of a schedule of complete removal of the hard coal from the Bing within 6 months following signing of the Promised Agreement. The conditions precedent have been reserved in favour of the Buyer.

The Parties agreed that the Promised Agreement will be concluded by 31 December 2015.

TAURON also informed that some of the boundary terms and conditions (defined in current report no. 19/2015) were abandoned. The preliminary conditional sale agreement does not define the number of employees or the remuneration of employees of the purchased organised part of an enterprise. The transfer of employees to the new employer will take place pursuant to Article 23(1) of the Labour Code.

The Parties agreed that in view of the need for the correct and uninterrupted running of business by the Parties they would define, at the latest by the date of signing the Promised Agreement, in a separate agreement, the terms and conditions of cooperation between the Parties after purchase of the Subject of Sale by RSG, in particular the terms and conditions of mutual services pertaining to the ventilation of the Brzeszcze mining plant. The agreement will be in force until 31 December 2018.

The Company informed of the agreement on the wording of the preliminary agreement in the current report no. 37/2015 of 15 October 2015.

On 19 October 2015 the preliminary conditional agreement for sale of the designated part of the Brzeszcze mining plant was concluded between RSG (a 100% TAURON-owned subsidiary) and SRK.

The subject of the Preliminary Agreement are the obligations of the parties to conclude the agreement for sale of the designated part of the Brzeszcze mining plant as an organised part of an enterprise, which comprises tangible and intangible assets used for extraction, production and sale of hard coal and methane; its major terms and conditions were presented in the current report no. 37/2015.

Moreover, on 19 October 2015 an agreement was concluded between the Buyer and trade unions operating in KWK Brzeszcze, under which the Buyer undertook to continue business operations conducted at the mine so far, maintaining the economic result. The transfer of the part of KWK Brzeszcze staff, i.e. approximately 1,500 employees, to the new employer will take place under Article 23 (1) of the Labour Code. The Parties to the Agreement undertook to sign a new Corporate Collective Labour Agreement implementing incentive employee remuneration system with payments depending on the results achieved



by the company and task performance.

Moreover, in the third quarter of 2015 changes in the composition of the Management Board and the Supervisory Board described in sub-paragraph 2.1 took place.

## **5.2 Other events which occurred in the third quarter of 2015**

### **Act on the greenhouse gas emission allowance trading scheme**

In June 2015 the *Act on the greenhouse gas emission allowance trading scheme* was adopted, which entered into force on 9 September 2015. The Act adopted supplements the implementation of Directive 2009/29/EC into the Polish law, aimed at improvement and extension of the Community greenhouse gas emission allowance trading scheme and implements the regulations required for full functioning of the system in our country. The Directive has essentially changed this system in the third settlement period, i.e. in the years 2013 - 2020, among others, by introducing a new, auction-based method of emission allowance distribution by Member States. Owing to this Act it will be possible, under the tender procedure, to select the national auction platform managed by companies operating on the regulated market, under the condition of obtaining the licence of the Polish Financial Supervision Authority (KNF).

The Act introduces two exceptions from the auction system: derogations for the energy sector and national enforcement measures. Within the derogation for the energy sector installations generating electricity gained a possibility to obtain the specific quantity of free emission allowances in exchange for the investments made. The Act also regulates the method of acquisition of emission allowances for installations from the general European Union reserve in case of commissioning of new installations or modernisation of the existing ones.

### **Obtaining free carbon dioxide emission allowances**

In accordance with Directive 2003/87/EC of the European Parliament and the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC, TAURON Capital Group is entitled to receive free emission allowances pursuant to Article 10c of the aforementioned Directive ("derogation allowances"). In April 2015 accounts of installations were supplied by free allowances for heat production for 2015 and allowances under the derogation due to electricity generation for 2014. In order to obtain free allowances under the derogation due to electricity generation for 2015, on 29 September 2015 TAURON Capital Group submitted the material and financial reports to KOBIZE (National Centre of Emission Balancing and Management) on the implementation of investment tasks contained in the KPIs for a reporting period from 1 July 2014 - 30 June 2015. The settlement of the capital expenditures incurred for individual investment tasks contained in the KPIs is the basis for applying for free CO<sub>2</sub> emission allowances. In connection with the entry into force of the new Act on the greenhouse gas emission allowance trading scheme of 12 June 2015 companies of GK TAURON, as entities implementing investment tasks contained in the KPIs and applying for free CO<sub>2</sub> emission allowances, were committed to submit applications for the approval of the compliance indicators, i.e. the parameters aimed at substantiating that a given investment task is implemented in accordance with the rules defined in the Commission Communication no. 2011/C 99/03. The applications for the approval of the compliance indicators for the investment tasks implemented by TAURON Capital Group were submitted to the Ministry of Environment on 9 October 2015. The process of submitting applications for the approval of the compliance indicators is a part of the process of acquisition of free emission allowances - the so-called derogations for energy industry.

### **Letter of intent concerning the joint development of renewable capacity**

On 2 July 2015 TAURON and ENEA signed a letter of intent concerning joint implementation of the strategy ensuring the optimum method of increasing renewable capacity and financing the purchase transaction of wind assets. The letter of intent assumes establishing of working teams in order to develop the assumptions related to the cooperation, including, in particular, the schedule of activities and the financial model favourable for both parties. Any business decisions will be made only based on results of



working teams' activity. The strategy of both companies assumes the development of RES, in particular, wind farms. TAURON decided to resign from the continuation of negotiations with investors concerning the sales of rights to a part of wind assets belonging to TAURON Capital Group. The reason of this decision is the significant change in market terms and conditions of the transaction, in particular, the low current level of prices, of the so-called "green" certificates and electricity and the expectations concerning the level of those prices in the future.

### **Increasing the value of the bond issue programme**

On 10 July 2015 TAURON signed an annex with Bank Gospodarstwa Krajowego to the programme agreement regarding the organisation of the bond issue programme. The objective of the bond issue is the financing of capital expenditure, mainly in the areas: Distribution and Generation, in accordance with the development strategy of TAURON Capital Group. Participation of Bank Gospodarstwa Krajowego in this project is implemented under the "Polish Investments" programme.

The level of the issue programme of bonds with the maximum maturity period of 15 years, with six-month interest payment period, pursuant to the concluded annex, amounts to PLN 1.7 billion. Within the amount by which the bond issue programme was increased (PLN 700 million), as at the day of concluding the annex, the amount of PLN 300 million was covered by the guarantee. The financial structure stipulates bond issue in series in the years 2015 - 2016, with redemption deadlines maturing from 2020 to 2029. In this project, Bank Gospodarstwa Krajowego acts as the organiser, programme guarantor and depository.

### **Information on proceedings where Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. in liquidation is the party**

With reference to the information provided in the interim report, concerning the termination of contracts for the purchase of electricity and property rights arising from certificates of origin of energy from renewable sources by the Issuer's subsidiary - Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. in liquidation (PE-PKH), the Issuer indicates that PE-PKH is the defendant in the lodged proceedings on determining the ineffectiveness of termination of the aforementioned contracts. In the Issuer's opinion, the claims are unjustified, and the judgments of courts of appeal concerning rejection of the motions of plaintiffs for securing the non-cash claims arising from the aforementioned contracts confirm the relevance of this position.

Moreover, in the third quarter, the winding up and liquidation of the subsidiary of TAURON Wytwarzanie GZE sp. z o.o. described in sub-paragraph 1.3. took place.

## **5.3 Market situation**

### **Situation in the energy market**

In the third quarter of 2015 energy consumption in the National Power System (KSE) amounted to 39,278 GWh and it was higher by 2.3% as compared to the corresponding period of the previous year. High temperatures recorded in August caused that the quarterly average was higher by 1.4°C than a year earlier, reaching 19.51°C. In August 2015 the average temperature was one of the highest in the history of measurements and amounted to 22.63°C, which resulted in the 4.1% growth of demand in August calculated year-over-year. Comparing energy consumption during three first quarters of 2015, a growth by 2.0% in relation to the corresponding period of the previous year was noted. The installed capacity of wind farms at the end of September reached 4,231 MW, which means its growth year-over-year by 621 MW (in the third quarter itself - by 222 MW). This has contributed to the growth in energy production from wind by 45.3% year-over-year. The regulatory instability and the persisting low prices of RES property rights have significantly decreased the dynamics of new capacity growth in renewable sources. In the period of quarters 1-3 of 2015, 6,573 GWh was generated from wind, i.e. by 27.9% more year-over-year.

The total production of electricity in Poland in the third quarter of 2015 amounted to 39,537 GWh and it was higher by 4.6% in relation to 2014. The highest quantity of energy, i.e. 20,863 GWh was produced by hard-

coal fired professional power plants (growth in production by 10.1% in relation to the third quarter of 2014), which was caused by low hard coal prices. In the analysed period, lignite-fired power plants produced 13,648 GWh (decline by 4.7% year-over-year). Due to the persisting drought, hydroelectric power plants produced only 378 GWh, i.e. by 37.7% less. Energy production has also slightly decreased in gas-fired power plants which produced 626 GWh in the period from July to September 2015 (decline by 0.6% year-over-year). In the analysed quarter Poland was the net energy exporter, and the surplus of exports over imports reached 258 GWh. It is the opposite situation as compared to the previous year – in the third quarter of 2014 the import balance at a level of 596 GWh was recorded. During the overall three quarters of the current year, Poland was a net importer of energy at a level of 126 GWh, thus, by 93.1% less than a year earlier (1,828 GWh). The highest quantity of energy was imported from Sweden (SwePol Link), followed by Germany, Czech Republic and Slovakia.

### Electric energy prices on the wholesale market

For energy prices on the wholesale SPOT market, the third quarter of 2015 was definitely a period of growth, mainly due to the heat wave persisting in August and the high power depletion associated with repairs of units. The average price on the Day-Ahead Market (RDN) of TGE S.A. in the whole third quarter reached PLN 172.05/MWh and it was by even PLN 17.97/MWh lower than in the third quarter of 2014. However, in the current year it was the most expensive quarter since the RDN prices in the first half of the year reach, on average, only PLN 150.20/MWh. The high energy prices were not fostered by macroeconomic factors and prices of energy-producing raw materials. The declining prices of steam coal and oil did not prevent the concerns related to the power balance in the KSE (National Power System) and whereas July was a relatively cheap month, with the average of PLN 162.32/MWh, prices in August and September reached PLN 176.87/MWh and PLN 177.13/MWh, respectively. In August, the possibility of blackout definitely affected the prices, which raised the cost of energy in peak hours even over PLN 1,400/MWh. Introduction of constraints in consumption for industrial customers quickly normalised the level of available capacity. Nevertheless, the average price of Peak in August amounted to PLN 222.80/MWh, whereas in July it reached PLN 187.13/MWh.

In the neighbouring markets of Poland, despite similar atmospheric conditions, prices on the spot market were not significantly higher than in the previous quarters. On the German EPEX spot, in the third quarter of 2015 the average price amounted to EUR 32.84/MWh and it was higher by EUR 1.34 than a year earlier. The relatively insignificant growth of prices during the period of extreme temperatures was mainly attributed to the PV sector (photovoltaics) and a high level of energy generation from those sources during hot days. Due to network conditions, import of this energy to Poland was strongly limited. In the Czech Republic, prices in the third quarter of 2015, due to the renovation of the unit in Temelin power plant, were slightly higher than those in Germany, amounting, on average, to EUR 34.27/MWh. The cheapest market in Europe was the Scandinavian NordPool, where the favourite hydrological situation resulted in a low average spot price in the third quarter, reaching EUR 13.31/MWh.

In the third quarter of 2015 forward contracts followed a downward trend due to low prices of coal and oil. Base Y-16 contract lost PLN 7.90 in the third quarter, to reach the historic minimum, i.e. PLN 154.00/MWh on 28 September. On the same day, Peak Y-16 contracts recorded a historic minimum at a level of PLN 197.25/MWh, i.e. by PLN 8.20 less than at the beginning of the third quarter. The downward trend was also recorded in prices of contracts for the following years – during the third quarter, Base Y-17 lost almost PLN 13 reaching the price of PLN 152.80/MWh, and Base Y-18 - PLN 13.50 (decline to PLN 157.00/MWh). For the first time for many years, contracts for 2017 were cheaper than those with the delivery in 2016. Such a trend in the neighbouring markets has already been recorded for over a year, where the predicted dynamic development of the renewable energy sources segment suggests the reduction of wholesale energy prices in the forthcoming years.

On the EEX exchange, prices of German annual Base contracts at the end of September reached, respectively, EUR 29.08/MWh for 2016; EUR 28.38/MWh for 2017 and EUR 28.37/MWh for 2018. The spread between the valuation of German and Polish contracts amounts to over PLN 30/MWh.

### Prices of Property Rights

In the third quarter of 2015 the market of property rights was subject to dynamic changes. They occurred mainly in the area of valuation of PM OZE\_A property rights, whose price in the 1<sup>st</sup> half of 2015 dropped by 30% to the level of PLN 106.51/MWh. The main reason of decline in PM OZE\_A prices is the high oversupply of those rights in the market. At the end of the third quarter of 2015 the value of the surplus reached 21.2 TWh. Taking into consideration the number of certificates blocked for redemption at a level of

2.4 TWh, the oversupply of 18.8 TWh occurs (growth by 28.3 % as compared to the status as at the end of the second quarter of 2015). Despite the growing oversupply on the market of green certificates, prices have not shown further downward trend, as observed in the first half of this year. Having reached the minimum level of PLN 101.00/MWh, already at the end of July the value of OZEX\_A index started to increase, reaching PLN 121.25/MWh at the end of the quarter. The level of the substitution fee determined for 2015 amounts to PLN 300.03/MWh, and the obligation to submit PMOZE\_A certificates amounts to 14.0%.

Prices of property rights confirming electricity generation in high-performance coal co-generation (PMEC-2015) demonstrated high stability, and the value of the KECX index ranged from PLN 10.57/MWh to PLN 10.69/MWh. The average value of the KECX index in the third quarter of 2015 reached PLN 10.64/MWh. The lack of possibility of right banking has caused that the balancing of the system remains at an adequate level and the values of KECX index in 2015 oscillate around the substitution fee of PLN 11.00/MWh.

Similar situation occurred on the market of property rights confirming generation in 2015 of electricity in high-performance gas co-generation (PMGM-2015) and from methane removal from coal mines (PMMET-2015). The value of KGMX index ranged from PLN 116.42/MWh to PLN 117.68/MWh, with the substitution fee reaching PLN 121.61/MWh, whereas in case of KMETX index the quarterly volatility was contained in the brackets of PLN 61.06/MWh - PLN 62.00/MWh while the substitution fee for 2015 amounts to PLN 63.26/MWh. The analogical situation occurred on the market of the so-called white certificates – a slight volatility of the market translated into the average weighted price of PLN 959.94/toe, which, in relation to the average price of the first half of 2015 was lower by approximately 0.8%.

### Prices of CO<sub>2</sub> emission allowances

Prices of CO<sub>2</sub> emission allowances in the third quarter of 2015 followed a clear upward trend. At the beginning of July the EUA DEC-15 product was quoted at a level of EUR 7.40/MgCO<sub>2</sub>, and at the end of September only EUR 8.15/MgCO<sub>2</sub>. was paid for one allowance on the London ICE exchange. In the period under discussion the average price of CO<sub>2</sub> emission allowances on the spot market reached the level of EUR 7.97/MgCO<sub>2</sub> and it was higher by EUR 0.63/MgCO<sub>2</sub> (growth by 8.57%) than the average price in the second quarter of 2015.

On the market of forward contracts the average prices for EUA DEC-15 and EUA DEC-16 products reached the level of EUR 8.00/MgCO<sub>2</sub> and EUR 8.08/MgCO<sub>2</sub>, respectively. The reason of the growth in prices were the events associated with the fundamental reform of the EU ETS. On 8 July, in the European Parliament the proposal of earlier establishment of the mechanism of the so-called Market Stability Reserve (MSR) was adopted with 495 voices "for", 158 "against" and 49 abstentions. Adoption of the proposal means entry into force of the mechanism already as of 1 January 2019. It means that already in 2019 a part of allowances corresponding to 12% of the surplus of 2017 will be withdrawn from the EU ETS market. Another significant event in terms of future of the emission allowances trading system was the announcement of the new proposal of emission reduction targets for 2021-2030. The general level of emission reduction is to reach 40% in relation to 1990 and in order to achieve this target, reduction in the ETS must reach the level of 43%. On 18 September 2015, despite the objection of Poland, in July ministers of environment of the European Union Member States accepted the proposal of earlier launch of the MSR mechanism. This decision has concluded the long negotiation process and finally sealed the launch of operation of the Stability Reserve as of 1 January 2019.

## 6. Information and events which occurred after the balance sheet day

### 6.1 Significant information and events which occurred after the balance sheet day

#### Convening of Extraordinary General Meeting of TAURON concerning the increase of the share capital and extending of the composition of the Supervisory Board

On 13 October 2015, the Management Board of TAURON, acting pursuant to Article 398, Article 399 § 1 and Article 402<sup>1</sup> of the Code of Commercial Companies and § 30 item 1 of the Company Articles of

Association, convened the Extraordinary General Meeting of the Company for 9 November 2015 at 11:00 a.m. at Angelo Hotel in Katowice at ul. Sokolska 24.

The agenda of the Extraordinary General Meeting comprises the adoption of a resolution to increase the share capital of the Company by way of the issuance of non-voting preferred C series shares, the exclusion of all the existing shareholders' pre-emptive rights to all of the C series shares, and the amendment to the Company Articles of Association.

In accordance with the provisions of the draft resolution on the increase of the share capital of the Company by way of the issuance of non-voting preferred C series [...] the share capital of the Company is to be increased by the amount of PLN 400 million, through the issuance of 80 million new C series shares with a nominal value of PLN 5.00 each, which will be registered non-voting shares (with voting rights excluded) preferred in terms of the dividend. The C Series Shares will be issued by way of private placement with the meaning of Article 431 §2.1 of the Code of Commercial Companies (CCC) by way of: (i) the Company making an offer to one of the shareholders, the State Treasury, to subscribe for the C Series Shares; and (ii) the State Treasury accepting the offer to subscribe for the C Series Shares. The State Treasury will cover the increased share capital of the Company by way of a non-cash contribution comprising shares of a company publicly traded on the regulated market operated by the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

In the documentation prepared for the General Meeting, the justification of the intended transaction and the increase of the share capital was presented. It was indicated therein that in 2014 the Company adopted the document updating its strategy for the consecutive years - "TAURON Group's Corporate Strategy for the years 2014-2017 with estimates up to the year 2023". This document determines the strategic nature of the Company and its capital group for the energy security of the country. In view of the above nature of the Company as well as the mission, vision and its principal objective, the Company has determined its CAPEX plan for 2014 – 2023 to amount to approximately PLN 37 billion. The plan covers, inter alia, the following key investment projects:

- construction of the 910 MW unit at the Jaworzno III Power Plant,
- construction of the 413 MWe combined gas and steam unit at the Łagisza Power Plant;
- investments in the development of the distribution network allowing for the connection of sources (including distributed resources) and meeting the challenges of the introduced quality regulation,
- investments in co-generation sources as well as the modernisation and development of the heating network,
- investments in mining to secure fuel for the existing and planned generating units.

Regardless of the strategic importance of the above investments with respect to the energy security in Poland and for the Company as well as the Company's group, there is a high risk that not all of the above investments will be implemented as planned. Contrary to the reasonable expectations of experts and the rational assumptions of the Company, energy prices remain low and there is no expected increase in demand for power and energy. Consequently, it needs to be assumed that the existing and forecast market conditions could result in the cash flows generated by TAURON Polska Energia S.A. capital group from operations being insufficient to implement the entire capital expenditure plan. Therefore, the Company must consider further course of action.

Abandoning the investments is, in principle, contrary to the interests of the Company and constitutes a threat for the energy security of the country. For several years, experts have predicted periodic problems with covering the demand for electricity as a result of the changing structure of the generation sources, which was clearly confirmed in August 2015 when the transmission system operator was forced to introduce electricity constraints to protect the integrity of the power system and safety of its operations. This issue may prove to be much more serious in the next few years, in particular, if the dynamics of growth of renewable energy sources is maintained and the decline in investments in conventional power sources results in the lack of connection of stable power sources to the system.

In addition, the above issue is amplified by the plans of TAURON Polska Energia S.A. capital group in terms of decommissioning of over 1,485 MW capacity by 2019 in consequence of, inter alia, regulatory changes. If the investments are not implemented, besides the adverse effect on the energy security of the country, it would mean a decrease of production capacity of TAURON Polska Energia S.A. capital group,



which would adversely affect its financial results. Therefore, it is necessary that the capital expenditure plan is implemented unchanged which is justified from the perspective of the TAURON Polska Energia S.A. capital group. However, this requires raising additional financing.

An obvious, independent solution is for the Company to raise debt financing. However, at present the resources of the banks and other investors are more and more restricted. In addition, TAURON Polska Energia S.A. capital group is bound by commitments and restrictions contained in existing financial agreements which impose the condition of maintaining the net debt to EBITDA ratio at no more than 3.0. Any potential exceeding of that threshold would constitute grounds for the declaration of the entire debt owed by TAURON Polska Energia S.A. capital group as immediately due and payable.

In light of the above, it is proposed to acquire financing by increasing the share capital which does not constitute debt financing and will not adversely affect the net debt to EBITDA ratio. In addition, such action should meet with a positive response of the financial institutions and should result in an improved assessment of creditworthiness of Company by improving the ratio of equity to third-party debt. The fact is also significant that in the case of certain sources of further financing, the increase of equity would allow to increase the pool of available resources (e.g. in case of the European Investment Bank, the available limit of preferential financing is a certain percentage of equity).

It should be also assumed that such action should be positively assessed by the rating agencies, as the support of the leading shareholder. Improved ratings, if any, could be of significant importance if the Management Board decided to enter the Eurobonds market to raise financing in the future.

Taking the above into account and in view of the decision of the Management Board of December 2012 concerning the adoption of the "Concept of financing the capital expenditure plan of the TAURON Group in 2012 – 2015", which allowed for the increase of the share capital as a supplementary source of financing if the net debt to EBITDA ratio was high, it should be assumed that such method of financing investments by the Company and its group seems to be a justified and reasonable option.

Moreover, the agenda of the General Meeting envisages the adoption of the resolution concerning determining the number of members of the Supervisory Board and the supplementary elections to appoint a new member of the Supervisory Board of the Company.

The Company informed of the aforementioned event in the current report no. 34/2015. The text of draft resolutions of the Extraordinary General Meeting was provided in the current report no. 35/2015.

On 22 October 2015 the Management Board of TAURON Polska Energia S.A. received a letter from the Ministry of Treasury stating that on 20 October 2015 the Council of Ministers had accepted the motion of the Minister of Treasury requesting the Council of Ministers to approve the disposal – in the manner other than defined in Article 33 item 1 of the Act on commercialization and privatization, through an in-kind contribution to TAURON Polska Energia S.A. of some shares of Powszechna Kasa Oszczędności Bank Polski S.A. held by the State Treasury, constituting up to 1.01% of the share capital, in exchange for acquisition of shares in the increased share capital of TAURON Polska Energia S.A.

The Company informed of the aforementioned event in the current report no. 40/2015.

#### **Planned amendments to the Articles of Association of TAURON Polska Energia S.A.**

On 13 October 2015 the Management Board publicly informed of the planned amendments to the Company Articles of Association following the inclusion in the agenda of the forthcoming Extraordinary General Meeting of Company convened for 9 November 2015 of an item concerning the increase of the Company share capital by way of the issuance of non-voting preferred C series shares, the exclusion of all the existing shareholders' pre-emptive rights to all the C series shares and the amendment to the Company's Articles of Association. The proposed amendments to the Articles of Association refer to the increase of the share capital from the amount of PLN 8,762,746,970 to the amount of PLN 9,162,746,970, i.e. by the amount of PLN 400,000,000, by way of issuance of 80,000,000 registered non-voting C series shares preferred in terms of dividend, to be taken up by the shareholder, the State Treasury, in exchange for a non-cash contribution in the form of shares of a company or companies publicly traded on the

regulated market.

The Company informed of the aforementioned event in the current report no. 36/2015.

#### **Fitch affirms ratings for TAURON Polska Energia S.A. and revises outlook from stable to negative**

On 27 October 2015 Fitch rating agency affirmed the following long-term ratings for TAURON Polska Energia S.A. company at "BBB" and revised outlook of those ratings from stable to negative:

- Long-term foreign and local currency Issuer Default Ratings (IDR) at "BBB", outlook revised from stable to negative
- Short-term foreign and local currency IDRs affirmed at "F3" level
- National long-term rating affirmed at "A(pol)"; outlook revised from stable to negative
- National senior unsecured rating affirmed at "A(pol)"

According to Fitch revision of the outlook reflects expected lower revenue of the TAURON Group from distribution operations starting from 2016 (decline in EBITDA by PLN 240 million in 2016 following WACC reduction by the regulator) and the planned acquisition of a part of the assets of KWK Brzeszcze. The negative impact of these developments is partly mitigated by an increase of share capital proposed by the State Treasury. The Agency has also indicated that there is a risk of a breach of loan covenants by the Company that are embedded in existing financing agreements (exceeding the 3x net debt/ EBITDA ratio in 2016-2019).

The Agency informs that the outlook could be revised back to stable if the Company CAPEX is reduced and adjusted to projected operating cash flows in the next few years. The outlook revision would also depend on an improvement in the Company's medium-term liquidity position as well as reduced risk of breach of 3x net debt/ EBITDA ratio.

The Company informed of the aforementioned event in the current report no. 41/2015.

#### **Decision on adjournment of the Extraordinary General Meeting of TAURON Polska Energia S.A.**

The Extraordinary General Meeting convened for 9 November 2015 considered items 1 to 6 of the agenda. Following examining of item 6, the decision on adjournment of the session until 23 November 2015 at 11:30 a.m. was taken. The meeting will be resumed in Novotel Katowice Centrum hotel in Katowice at al. Roździeńskiego 16 (conference room – ground floor). During the General Meeting none of the shareholders raised any objection against the agenda of the General Meeting.

The Company informed of the aforementioned event in current reports no. 43/2015 and 44/2015.

Moreover, in the third quarter changes in the composition of the Management Board and the Supervisory Board described in sub-paragraph 2.1 took place.

## **6.2 Other events after the balance sheet day**

#### **Summary and providing more detailed information concerning the purchase of a part of KWK Brzeszcze assets**

On 30 October 2015, in response to questions asked by a shareholder of the Company outside the general meeting, pursuant to Article 428 § 6 of the Act of 15 September 2000 Code of Commercial Companies, the Management Board of TAURON Polska Energia S.A. presented the summary and provided more detailed information concerning the purchase of a part of KWK Brzeszcze assets.

In the assessment of the Management Board, the acquisition of a part of KWK Brzeszcze assets ("KWK Brzeszcze" or "Mine", or "Assets") by Nowe Brzeszcze Grupa TAURON sp. z o.o., with its registered office



in Katowice ("Nowe Brzeszcze"), will not trigger any changes in the key investment plans regarding the key investment projects specified in the Corporate Strategy. In the assessment of the Company, based on the current market data, cash flows of Nowe Brzeszcze company will not have a significant impact on financial results and economic standing of the Group. While adopting the decision on the acquisition of Assets, the Management Board of the Company was driven only by business aspects.

In accordance with the current report no. 19/2015 of 4 August 2015, the basis for filing the Asset purchase offer were opinions and reports prepared by the Company advisers, defining, inter alia, the level of capital expenditures estimated at PLN 253 million for the years 2016-2018. The detailed type and level of capital expenditure to be spent on Assets will be determined and proposed by Nowe Brzeszcze following concluding of the promised agreements on the sales of Assets.

After concluding of the transaction concerning the purchase of Assets, the restructuring process of KWK Brzeszcze will commence. After the restructuring of the Mine, measures are planned which will lead to the merger of the Nowe Brzeszcze company with TAURON Wydobycie S.A. ("TAURON Wydobycie"). Based on these assumptions, Nowe Brzeszcze prepared a business plan for the planned project on acquisition of Assets. The current value of the project concerning the purchase of Assets was estimated at a level of several dozen million Polish zloty, based on the following key assumptions:

- 1) planned output – approximately 1.3 million tons in 2016 and about 1.8-1.9 million tons/year in the following years;
- 2) purchase of Assets excluding Ruch Jawiszowice and Partia Wschodnia KWK "Brzeszcze" designed for liquidation by Spółka Restrukturyzacji Kopalń S.A. ("SRK") and covering costs of this liquidation by SRK;
- 3) purchase of Assets for 1 PLN;
- 4) at the moment of the purchase of Assets - employment level and conditions corresponding to the current status at KWK Brzeszcze (approximately 1500 employees);
- 5) forecast of coal prices in accordance with the assumptions of the Group for all mining projects;
- 6) the risk of potentially having to return the budgetary subsidy granted to SRK, associated with the Assets purchased has been taken into account.

Measures aimed at achieving the shortest possible period of return on investment will be undertaken.

The boundary terms and conditions of the Assets purchase transaction defined in the current report no. 19/2015 constituted a part of the offer and a starting point for negotiations with SRK. The effect of the negotiations are the terms and conditions of the purchase defined in reports no. 37/2015 and 38/2015. While taking the decision in the scope of conditions for the purchase of Assets the Company considered experts' opinions indicating the viability of the project despite deviation from the primary boundary conditions.

According to the assessment of the Company Management Board, under current conditions on the raw material market, the acquisition of mining assets is an investment opportunity which will enable the Group to develop its activity based on the full value chain – from mining, through generation, distribution, to sales of electricity and heat to clients and, accordingly, to strengthen the position of the Group as a strong fuel and energy holding, simultaneously building the Company value for its shareholders. The Management Board of the Company assumes that due to the purchase of KWK Brzeszcze mining plants of TAURON Group will cover the demand of generation units contained in the Group for fuel in 50-60%. Currently, this ratio amounts to approximately 45% (for 2014). Purchasing of the Mine will enable the Group to become more independent from external raw material supply and control costs of its acquisition.

On 19 October 2015 an agreement was concluded between the Nowe Brzeszcze company and trade unions operating in KWK Brzeszcze, under which the Nowe Brzeszcze company undertook to continue business operations conducted within the Mine so far, maintaining the economic result. The transfer of the part of KWK Brzeszcze staff, i.e. approximately 1,500 employees, to the new employer will take place under Article 23 (1) of the Labour Code. In accordance with the said agreement, the parties undertook to sign a new Corporate Collective Labour Agreement by 31 October 2016. The document will contain the agreed new terms and conditions on remuneration, bonuses and awards comprising the incentive system, in which the new rules of compensation will be determined in the scope of fixed salary and the incentive remuneration system with payments depending on the positive financial results achieved by the Mine and

the level of task performance.

In accordance with the intention of parties to the agreement concluded between the Nowe Brzeszcze company and trade unions operating in KWK Brzeszcze on 19 October 2015, the new Corporate Collective Labour Agreement should be agreed so that the operations of the Mine can be continued with account being taken of the economic result. Currently, no reasons exist to assume the lack of consensus with the social party which is vividly interested in good financial results to be achieved by the Nowe Brzeszcze company and implementation of investment necessary for the development of the Mine in a longer-term perspective.

After completing of the transaction, the restructuring process of Assets will be continued, consisting, inter alia, in optimisation of work organisation and achieving higher effectiveness. In accordance with the earlier announcement of the Company, the intention is to merge the Nowe Brzeszcze company with TAURON Wydobywanie.

In the Management Board's assessment, the Mine may achieve positive financial results in the future. Measures will be undertaken to help the Nowe Brzeszcze company achieve profitability in the shortest time possible. Gaining the profitability will depend, inter alia, on the mining volume, effects of the planned restructuring and other external factors, including, in particular, the situation in the coal market.

As indicated in the current report no. 38/2015 of 19 October 2015, on 19 October 2015 the agreement was concluded, pursuant to which, after conducting of the transaction of Assets purchase by the Group business operations carried out within the Mine so far should be continued, with account being taken of economic result. The transfer of the part of KWK Brzeszcze staff, i.e. approximately 1,500 employees, to the new employer is to take place under Article 23 (1) of the Labour Code. At present, own employment of the Mine is assumed at a level of approximately 1,500 persons. In accordance with the agreement concluded with the trade unions, external companies will be also employed to perform specialised mining works, to the necessary extent. It should be emphasised that in the period of operation of the Mine within SRK structures, the staff was significantly restructured. Within the framework of the restructuring process, employment was reduced by approximately 500 persons.

Moreover, in response to the shareholder's question, the Company presented a list of consulting companies it cooperated with under the implementation of the project on the purchase of a part of KWK Brzeszcze assets.

The Company informed of the aforementioned event in the current report no. 42/2015.

Moreover, after the balance sheet day, the termination of the bankruptcy proceedings of the subsidiary, Ośrodek Szkoleniowo-Wypoczynkowy "JAGA" sp. z o.o. in liquidation bankruptcy, took place, as described in sub-paragraph 1.3.

## **7. Proceedings pending before the court, competent arbitration authority or public administration authority**

In the third quarter of 2015 no proceedings were pending in TAURON Capital Group (related to the Issuer or its subsidiaries) concerning liabilities and receivables whose single or aggregate value would exceed 10% of the equity of TAURON Polska Energia.

## **8. Information on transactions with affiliated entities**

All transactions with affiliated entities are concluded on arm's length basis. Detailed information on significant transactions with affiliated entities was provided in notes 18 and 36 of the Condensed interim consolidated financial statement for a period of nine months, ended on 30 September 2015.

## **9. Information on granted guarantees, loan or credit sureties**

In the third quarter of 2015, neither TAURON Polska Energia, nor its subsidiaries granted any loan or credit sureties or guaranties – jointly to one entity or this entity's subsidiary, at the aggregate value equivalent to the value of at least 10% of TAURON Polska Energia equity.

## **10. Other information which, according to the Issuer's opinion, could be essential for the evaluation of the human resources, assets, financial situation, financial result and their changes, and which is essential to assess the possibility of fulfilment of the obligations by the Capital Group of the Issuer**

Besides the reported events indicated above in this document, from 1 July 2015 until the day of submission of this report, no other events occurred which are significant for the assessment of the possibility of fulfilment of the obligations by TAURON Polska Energia Capital Group.

According to the position of the Management Board of TAURON Polska Energia S.A., the information presented in this report describes the human resources, material and financial situation of the Company in a comprehensive manner, and confirms that no other events occurred, undisclosed by the Company, which could be relevant for the assessment of the situation.