



# CONSOLIDATED REPORT

on payments to governments  
for the year ended  
31 December 2018

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## **INTRODUCTION**

### **1. Basis for preparation**

This consolidated report on payments to governments (“consolidated report on payments”) has been prepared in compliance with the requirements of Article 6a of the Accounting Act of 29 September 1994 (Journal of Laws of 2019, items 351), hereinafter referred to as the “Accounting Act”, and Chapter 10 of Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC.

### **2. General information**

The TAURON Polska Energia S.A. Capital Group (the “Group”, the “Capital Group”, the “TAURON Group”) is composed of TAURON Polska Energia S.A. (the “Parent”, the “Company”) and its subsidiaries. TAURON Polska Energia S.A. is located in Katowice at ul. ks. Piotra Ściegiennego 3. The Company operates as a joint-stock company incorporated by a notarized deed on 6 December 2006. Until 16 November 2007 it had operated under the name Energetyka Południe S.A.

The Parent has been entered in the Register of Entrepreneurs of the National Court Register kept by the District Court for Katowice-Wschód, Business Division of the National Court Register, Entry No. KRS 0000271562. It has been assigned statistical number REGON 240524697.

The duration of the Parent and the companies in the Capital Group is unlimited. The entities operate based on appropriate licences granted to individual companies of the Group.

The Group’s consolidated report on payments to governments has been prepared for the year ended 31 December 2018 and comprises comparative information for the year ended 31 December 2017.

This consolidated report on payments was authorized for issue by the Management Board on 29 March 2019.

## **CONSOLIDATED REPORT ON PAYMENTS TO GOVERNMENTS – REPORTING PRINCIPLES**

### **3. Personal scope**

In accordance with Chapter 6a of the Accounting Act, the report on payments to governments shall be prepared by undertakings active in the extractive industry or undertakings active in the logging of primary forests.

An undertaking active in the extractive industry means an undertaking with any activity involving the exploration, prospecting, discovery, development, and extraction of minerals, oil, natural gas deposits or other materials, which falls within the scope of the activities listed in Section B.05-08 of the Polish Classification of Activities.

An entity logging primary forests is understood as an entity engaging in the activities referred to in section A.02.2 of the Polish Classification of Activities in an area covered by primary forests.

In compliance with the requirement of Article 63g of the Accounting Act, the Company has prepared the consolidated report on payments to governments for the Group’s subsidiaries active in the extractive industry. The Group’s subsidiaries do not engage in any activity related to the logging of primary forests.

This consolidated report on payments to governments presents payments arising from the extractive operations of two subsidiaries, namely TAURON Wydobywanie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

In the year ended 31 December 2018 and in the comparative period, the subsidiaries TAURON Wydobywanie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. satisfied the criteria laid down in Article 63f of the Accounting Act, which means that at least two of the three thresholds specified therein were exceeded and the payments made in the year ended 31 December 2018 and in the comparative period were at least the equivalent of PLN 424 700.

The criteria adopted at the level of individual subsidiaries covered by this consolidated report on payments have been presented in the table below.

Criterion		As at 31 December 2018 or Year ended 31 December 2018	As at 31 December 2017 or Year ended 31 December 2017
Item	Threshold*		
<b>Total balance sheet</b>			
TAURON Wydobycie S.A.	<b>85 000</b>	1 813 229	2 261 747
Kopalnia Wapienia Czatkowice Sp. z o.o.		186 806	187 683
<b>Net revenue from sales of products, goods and materials</b>			
TAURON Wydobycie S.A.	<b>170 000</b>	1 265 719	1 541 049
Kopalnia Wapienia Czatkowice Sp. z o.o.		102 382	102 433
<b>Average annual headcount in FTEs</b>			
TAURON Wydobycie S.A.	<b>250</b>	6 659.13	6 572.00
Kopalnia Wapienia Czatkowice Sp. z o.o.		281.00	282.71

\* The threshold has been defined in Article 63f of the Accounting Act. The threshold amounts for the balance sheet total and for sales revenue have been expressed in PLN '000. The average annual headcount is expressed as the number of full-time employees (FTEs).

## 4. Material scope

### 4.1. Governments

This consolidated report on payments presents information concerning payments made in the year ended 31 December 2018 and comparative information for the year ended 31 December 2017 to governments, i.e. central and/or local governments as well as entities overseen or controlled by such governments.

The payments reported herein were made to governments in Poland. In the year ended 31 December 2018 and in the comparative period, no payments were made to foreign governments.

### 4.2. Cash basis

This consolidated report on payments to governments presents payments made in the year ended 31 December 2018 and comparative information for the year ended 31 December 2017.

The payments reported herein concern amounts paid in cash. In the years ended 31 December 2018 and 31 December 2017, no amounts were paid in kind and settled by delivery of a commodity or services relating to extractive operations.

### 4.3. Presentation currency and materiality threshold

The Polish zloty ("PLN") is the presentation currency of this consolidated report on payments and, unless otherwise stated, all figures are in PLN thousand.

Under Article 63f of the Accounting Act, the obligation to prepare a consolidated report on payments arises where a single payment or an aggregate amount of related payments made by an entity in the financial year is the equivalent of at least PLN 424 700.

This consolidated report on payments does not present single payments or aggregate amounts of related payments which are lower than PLN 424 700.

A related payment is a periodic payment or an instalment payment under an agreement.

### 4.4. Project

In its consolidated report on payments the Company has presented data broken down by two categories, i.e. payments to the appropriate government levels by basis, as referred to in Article 63e.6 of the Accounting Act, and by project and basis of payments.

A project means operational activities, in particular extractive operations, carried out by the Company's subsidiaries under an agreement or a decision, in particular lease, rental, licence or concession. An agreement or a decision forms a basis for determination of payments made to governments. Where multiple agreements or decisions are substantially interconnected, the operations carried out thereunder are considered a single project. In the event that there is a single framework agreement or a decision interconnected with detailed agreements or decisions, the operations carried out thereunder are considered a single project.

The payments made to governments in the year ended 31 December 2018 and in the comparative period have been assigned to two projects:

- Extraction of coal from deposits at TAURON Wydobywanie S.A.; and
- Extraction of carboniferous limestone from the “Czatkowice” deposit.

The above projects are carried out as part of the mining business of two subsidiaries subject to the reporting obligation, i.e. TAURON Wydobywanie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

If a payment may not be assigned to a specific project, it is disclosed by the Company at the entity level as opposed to the project level. This is the case when payments are made on account of obligations imposed on the Group companies at the entity level as opposed to the project level. The amount of corporate income tax paid is an example of such an entity-level payment.

#### **4.5. Bases for payment**

Under Article 63e.6 of the Accounting Act, the reporting obligation applies to the following bases for payments:

- Production entitlements

Production entitlements are amounts due in relation to production, paid to governments in kind in the form of raw materials extracted, under an agreement or a decision.

In the year ended 31 December 2018 and in the comparative period, no payments were made to governments in relation to production entitlements.

- Taxes levied on the income, production or profits of companies, excluding taxes levied on consumption such as value added taxes, personal income taxes or sales taxes

This consolidated report on payments presents amounts paid as the Tax Capital Group's corporate income tax.

On 30 October 2017 the articles of association of the Tax Capital Group for the years 2018–2020 were registered. Pursuant to the previous agreement, TCG was registered for the period of three fiscal years from 2015 to 2017.

Since 1 January 2018 the Tax Capital Group has comprised mainly the following companies: TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., TAURON Dystrybucja S.A., TAURON Ciepło Sp. z o.o., TAURON Sprzedaż Sp. z o.o., TAURON Sprzedaż GZE Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o., TAURON Wydobywanie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

Information concerning the Tax Capital Group has been presented in more detail in Note 15.4 to the separate financial statements of the Company for the year ended 31 December 2018 and in Note 27 to the consolidated financial statements of the Group for the year ended 31 December 2018.

This consolidated report on payments presents payments relating to corporate income tax paid by the Tax Capital Group and refers to the subsidiaries subject to the reporting obligation, i.e. TAURON Wydobywanie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. In the years ended 31 December 2018 and 31 December 2017 the payments of corporate income tax of the subsidiary Kopalnia Wapienia Czatkowice Sp. z o.o. were PLN 3 394 thousand and PLN 2 381 thousand, respectively. In the year ended 31 December 2018 and in the comparative period, no payment was made in relation to corporate income tax of TAURON Wydobywanie S.A.

Payments relating to taxes levied on consumption such as value added taxes, personal income taxes or sales taxes (including excise duty and tax on civil law transactions) and payments relating to lump-sum income tax (withholding tax), property tax, agricultural tax and forest tax have not been presented herein.

- Royalties

In the year ended 31 December 2018 and in the comparative period, no payments were made to governments in relation to royalties.

- Dividends

In the year ended 31 December 2018 and in the comparative period, no payments were made to governments in relation to dividends.

- Concession fees and discovery and production bonuses

In the year ended 31 December 2018 and in the comparative period, no payments were made to governments in relation to concession fees or discovery and production bonuses.

- Licence fees, rental fees, entry fees and other considerations for licences and/or concessions

This consolidated report on payments presents amounts paid as development fees, considerations for forest exclusion from forest production, environmental fees, mining usufruct fees, fees for using paid geological information and fees for perpetual usufruct of land.

- Payments for infrastructure improvements

In the year ended 31 December 2018 and in the comparative period, no payments were made to governments in relation to infrastructure improvements.

This consolidated report on payments presents only those bases on which payments were actually made to governments in the year ended 31 December 2018 and in the comparable period ended 31 December 2017.

## CONSOLIDATED REPORT ON PAYMENTS TO GOVERNMENTS

Presented below are payments to governments across government levels by bases for payments made in the years ended 31 December 2018 and 31 December 2017.

### Year ended 31 December 2018

Public administration levels	Taxes levied on the income, production or profits of companies	Licence fees, rental fees, entry fees and other considerations for licences and/or concessions	Total payments
<b>Governments</b>			
Central government	–	11 130	<b>11 130</b>
Local agencies of central government	3 394	1 164	<b>4 558</b>
<b>Total payments to central government</b>	<b>3 394</b>	<b>12 294</b>	<b>15 688</b>
<b>Local governments</b>			
Local governments – regions	–	13 372	<b>13 372</b>
Local governments – municipalities/communes	–	8 328	<b>8 328</b>
Local governments – districts	–	765	<b>765</b>
<b>Total payments to local governments</b>	<b>–</b>	<b>22 465</b>	<b>22 465</b>
<b>Total payments to governments</b>	<b>3 394</b>	<b>34 759</b>	<b>38 153</b>

### Year ended 31 December 2017

Public administration levels	Taxes levied on the income, production or profits of companies	Licence fees, rental fees, entry fees and other considerations for licences and/or concessions	Total payments
<b>Governments</b>			
Central government	–	12 832	<b>12 832</b>
Local agencies of central government	2 381	1 102	<b>3 483</b>
<b>Total payments to central government</b>	<b>2 381</b>	<b>13 934</b>	<b>16 315</b>
<b>Local governments</b>			
Local governments – regions	–	11 044	<b>11 044</b>
Local governments – municipalities/communes	–	11 614	<b>11 614</b>
Local governments – districts	–	586	<b>586</b>
<b>Total payments to local governments</b>	<b>–</b>	<b>23 244</b>	<b>23 244</b>
<b>Total payments to governments</b>	<b>2 381</b>	<b>37 178</b>	<b>39 559</b>

Presented below are payments to governments across projects by bases for payments made in the years ended 31 December 2018 and 31 December 2017.

**Year ended 31 December 2018**

Project	Taxes levied on the income, production or profits of companies	Licence fees, rental fees, entry fees and other considerations for licences and/or concessions	Total payments
<b>Payments at project level</b>			
Extraction of coal from deposits by TAURON Wydobycie S.A.	–	32 197	<b>32 197</b>
Extraction of carboniferous limestone from the "Czatkowice" deposit	–	2 562	<b>2 562</b>
<b>Total payments at project level</b>	–	<b>34 759</b>	<b>34 759</b>
<b>Payments at entity level</b>	<b>3 394</b>	–	<b>3 394</b>
<b>Total payments</b>	<b>3 394</b>	<b>34 759</b>	<b>38 153</b>

**Year ended 31 December 2017**

Project	Taxes levied on the income, production or profits of companies	Licence fees, rental fees, entry fees and other considerations for licences and/or concessions	Total payments
<b>Payments at project level</b>			
Extraction of coal from deposits by TAURON Wydobycie S.A.	–	34 615	<b>34 615</b>
Extraction of carboniferous limestone from the "Czatkowice" deposit	–	2 563	<b>2 563</b>
<b>Total payments at project level</b>	–	<b>37 178</b>	<b>37 178</b>
<b>Payments at entity level</b>	<b>2 381</b>	–	<b>2 381</b>
<b>Total payments</b>	<b>2 381</b>	<b>37 178</b>	<b>39 559</b>

This consolidated report on payments has been prepared for the year ended 31 December 2018 so as to ensure transparency of information concerning payments made to governments, in compliance with the requirements set out in the applicable legal regulations and it contains 8 pages.

**Management Board of the Company**

Katowice, 29 March 2019

Filip Grzegorzczuk – President of the Management Board

Jarosław Broda – Vice-President of the Management Board

Kamil Kamiński – Vice-President of the Management Board

Marek Wadowski – Vice-President of the Management Board