

**RESOLUTION No. 327/IV/2015**  
**of the Management Board of TAURON Polska Energia S.A.**  
**dated 13 October 2015**

**on:** *convening Extraordinary General Meeting for 9 November 2015 to adopt resolution on increase of the share capital of the Company by way of the issuance of non-voting preferred series C shares, the exclusion of all the existing shareholder's pre-emptive rights to all of the series C shares, and the amendment of the Company's Articles of Association, adoption of the Management Board's report on the non-cash contribution made to cover the increased share capital, and adoption of the Management Board's opinion on exclusion of all the existing shareholder's pre-emptive rights to all of the series C shares in relation to planned increase of share capital of the Company by issuance of series C shares and the method of determining issue price of the series C shares*

Acting pursuant to § 14 section 1, § 14 section 2 item 15), § 35 section 1 item 9) and item 18) and § 36 section 1 of the Articles of Association of TAURON Polska Energia S.A. ("**Company**") and Article 353 § 1 of Commercial Companies Code ("**CCC**") the Management Board resolves as follows:

**§1**

1. Following the need to recapitalize the Company with the amount of PLN 400,000,000 to execute the investments resulting from the adopted „TAURON Group's Corporate Strategy for the years 2014-2017 with estimates up to the year 2023" the Company's Management Board:
  - 1) decided to convene Extraordinary General Meeting of the Company for 9 November 2015,
  - 2) adopted the report of the Management Board of TAURON Polska Energia Spółka Akcyjna on the non-cash contribution made to cover the increased share capital which is presented in Enclosure No. 1 herewith,
  - 3) adopted the opinion of the Management Board of TAURON Polska Energia S.A. regarding the exclusion of all of the shareholder's pre-emptive rights in connection with the proposed increase of the Company's share capital through the issuance of the series C shares and the method of determination of the issue price for the series C shares which is presented in Enclosure No 2. herewith,
  - 4) asks the Extraordinary General Meeting to increase the share capital of TAURON Polska Energia S.A. by PLN 400,000,000.00 (say: PLN four hundred million), i.e. from PLN 8,762,746,970.00 (say: PLN eight billion seven hundred sixty two million seven hundred forty six thousand and nine hundred seventy) to PLN 9,162,746,970.00 (say nine billion one hundred sixty two million seven hundred forty six thousand and nine hundred seventy) by way of issuance of 80,000,000 (say: eighty million) registered non-voting series C shares preferred in terms of dividend in such a manner whereby the dividend per each series C share will amount to 200% of the dividend per each other, non-preferred share in the Company with nominal value of PLN 5 (say: PLN five) each ("**Series C Shares**"), that will be offered for subscription by the Polish State

Treasury ("**State Treasury**") in exchange for in-kind contribution in the form of shares that are publicly traded on regulated market operated by the Warsaw Stock Exchange ("**WSE**").

- 5) asks the Extraordinary General Meeting to exclude, acting in the Company's interest, all the pre-emptive rights of the existing Company's shareholders to all of the series C shares, for reasons indicated in the opinion of the Management Board regarding the exclusion of all of the shareholder's pre-emptive rights in connection with the proposed increase of the Company's share capital through the issuance of the series C shares and the method of determination of the issue price for the series C shares, which is presented in Enclosure No. 2 herewith.
- 6) Asks the Extraordinary General Meeting to amend the Company's Articles of Association as follows:

(a) The existing wording of §6 of the Articles of Association will be replaced with the following:

*"The share capital of the Company is PLN 9,162,746,970.00 (nine billion, one hundred and sixty-two million, seven hundred and forty-six thousand, nine hundred and seventy) and is divided into 1,832,549,394 (one billion, eight hundred and thirty-two million, five hundred and forty-nine thousand, three hundred and ninety-four) shares with a nominal value of PLN 5 (five) each, including 1,589,438,762 (one billion, five hundred and eighty-nine million, four hundred and thirty-eight thousand, seven hundred and sixty-two) ordinary bearer series AA shares, 163,110,632 (one hundred and sixty-three million, one hundred and ten thousand, six hundred and thirty-two) ordinary registered series BB shares and 80,000,000 (eighty million) preferred registered series C shares. The share capital of the Company, in the amount as provided in the Company's Articles of Association adopted at the time of the establishment thereof (i.e. PLN 500,000.00) was paid up in full in cash prior to the registration of the Company."*

(b) The existing wording of §7 of the Articles of Association is replaced with the existing wording of §8 of the Articles of Association.

(c) The existing wording of §8 of the Articles of Association is replaced with the following:

*"1. The series C shares are registered, non-voting shares preferred in terms of dividend (pursuant to Article 353 of the Commercial Companies Code).*

*2. The series C shares were subscribed for by one of the shareholders, the State Treasury, and covered by a non-cash contribution of [●]shares of [●] which are publicly traded on the regulated market operated by the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) ("**WSE**") ("**In-kind Contribution**").*

*3. The series C shares are preferred in terms of dividend in such a manner whereby: (i) the dividend per each series C share will amount to 200% of the dividend per each*

*other non-preferred share in the Company; and (ii) the series C shares will be preferred in terms of the satisfaction of the right to dividend before the other shares.*

*4. The preference of the series C shares expires if the total sum of the additional dividend paid for all of the series C shares amounts to at least (it may be greater) the sum determined as follows:*

$$W_a - W_r + K_p$$

*where:*

*W<sub>a</sub> means the value of the In-kind Contribution determined for the purposes of covering the issue price of the series C shares;*

*W<sub>r</sub> means the market value of the ordinary bearer shares in the Company that are subject to public trading on the regulated market of the WSE and marked with the ISIN code: PLTAURN00011, determined as the average weighted price at which the shares in the Company were traded on the regulated market during the six months directly preceding the date of making the In-kind Contribution;*

*K<sub>p</sub> means the sum of interest calculated at the annual WIBOR 6M (determined for each half-year period two business days prior to the end of each such period) increased by 50 basis points per each day of the period from the date of making the In-kind Contribution until the date of payment as additional dividend for the series C shares of the full value of the difference between the above-mentioned value of the In-kind Contribution and the market value of the shares in the Company (W<sub>a</sub> – W<sub>r</sub>). On each day of such period, the sum of interest is calculated as accruing on the amount equal to the non-received (on account of additional dividend) amount for a given date, by the holder of the series C shares, of the difference between the above-mentioned value of the In-kind Contribution and the market value of the shares in the Company (W<sub>a</sub> – W<sub>r</sub>).*

*The amount of “additional dividend” shall be understood as the difference between the value of the dividend paid to the shareholder holding the series C shares, and the value of the dividend which would have been paid to such shareholder for the holding of the same number of non-preferred share in the Company as the series C shares. For the purposes of calculating the above amount, the dividend paid to the shareholder holding the series C shares on account of holding other shares in the Company will not be taken into account.*

*5. The date of the expiry of the preferred status of the series C shares is the date on which the account of the holder of the series C shares is credited with a given amount of additional dividend resulting in exceeding the threshold referred to in the previous section.*

*6. Upon the expiry of their preferred status, the series C shares will become ordinary registered shares which, at the request of the holder of the series C shares, may be converted into bearer shares and introduced to trading on the regulated market.*

*Pursuant to Article 419 §3 of the Commercial Companies Code, upon the revocation of their preferred status, the series C shares will entitle their holder to vote as with respect to all other shares in the Company.*

*7. Subject to the restrictions under the Commercial Companies Code, the series C shares are transferrable. In the case of the transfer of the shares during the period of their preference, the series C shares remain preferred, provided that, if a part of the series C shares is sold, each holder of the series C shares is subject to the above regulations in the proportion to the number of the series C shares held by each such shareholder.”*

## **§2**

Pursuant to § 36 section 1 of the Company's Articles of Association, the Management Board submits the motion to the General Meeting described in this resolution for the opinion of the Supervisory Board.

## **§3**

Director of Corporate Bodies Department is responsible for execution of the resolution.

## **§4**

President of the Management Board, Jerzy Kurella supervises the execution of this resolution.

## **§5**

The resolution comes into force as of its adoption date.

***The resolution was adopted in an open ballot with 5 votes for.***

## **REPORT OF THE MANAGEMENT BOARD OF TAURON POLSKA ENERGIA SPÓŁKA AKCYJNA ON THE NON-CASH CONTRIBUTION MADE TO COVER THE INCREASED SHARE CAPITAL**

### **Introduction**

An Extraordinary General Meeting of the shareholders of TAURON Polska Energia S.A. with its registered office in Katowice ("**Company**") has been convened for 9 November 2015. Its agenda includes, *inter alia*, the adoption of a resolution regarding the increase of the share capital of the Company by way of the issuance of non-voting preferred series C shares, the exclusion of all the existing shareholder's pre-emptive rights to all of the series C shares, and the amendment of the Company's Articles of Association ("**Issue Resolution**"). Pursuant to the Issue Resolution, the share capital of the Company will be increased through the issuance of 80,000,000 (eighty million) registered, non-voting shares preferred in terms of dividend in the manner as provided in the Issue Resolution ("**Series C Shares**"). The Series C Shares will be covered by a non-cash contribution. In view of the above, the Management Board of the Company, acting pursuant to Article 311, in connection with Article 431, §7 of the Act of 15 September 2000 – the Commercial Companies Code ("**CCC**"), made this report concerning the non-cash contribution made on account of the payment for the Series C Shares.

### **Subject of the non-cash contribution**

The non-cash contribution made to pay for the Series C Shares will comprise shares of one or several companies listed in a schedule to the Issue Resolution which are publicly traded on the regulated market operated by the Warsaw Stock Exchange (*Giełda Papierów Wartościowych w Warszawie S.A.*) ("**WSE**") ("**In-kind Contribution**"). The In-kind Contribution will comprise highly liquid shares. Therefore, the Company will be able to sell them or to use them as collateral for the obligations of the Company.

### **Person making the non-cash contribution**

Pursuant to the Issue Resolution, the Series C Shares will be offered for subscription by the State Treasury, a shareholder of the Company, which will pay for them by way of a non-cash contribution comprising the In-kind Contribution.

### **Number and type of shares issued in exchange for the non-cash contribution**

In exchange for the non-cash contribution, the Company will issue a total of 80,000,000 (eighty million) Series C Shares which are registered, non-voting shares preferred in terms of dividend in the manner as provided in the Issue Resolution, i.e. in such a way whereby: (i) the dividend for each Series C Share will constitute 200% of the dividend payable for each other, non-preferred share in the Company; and (ii) the Series C Shares will have priority in the satisfaction of the dividend rights before all other shares. The preference of the Series C Shares will expire on the terms as provided in the Issue Resolution.

## **Method of valuation of the non-cash contribution**

The value of the shares that comprise the non-cash contribution to be made on account of the payment for the Series C Shares will be determined pursuant to Article 3121 §1.1 in connection with Article 431 §7 of the CCC as the product of the number of shares that comprise the In-kind Contribution and the mid weighted price of the shares comprising the In-kind Contribution at which they were traded on the regulated market during the six months preceding the date of making the In-kind Contribution.

## **Justification for the intended transaction**

In 2014, the Company adopted an update of its strategy for the following years, "TAURON Group's Corporate Strategy for the years 2014-2017 with estimates up to the year 2023". The document provides that the Company and its group are of strategic importance to the energy safety in Poland.

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 cogeneration 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 safety 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 the 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 safety in Poland. For several years, experts predicted periodic problems with covering the demand for electricity in result of the changing structure of the power sources, which was clearly confirmed in August 2015 when the transmission system operator was forced to introduce electricity restrictions 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, specifically if the dynamics of growth of renewable energy sources are 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 the TAURON group in terms of decommissioning more than 1,485 MW by 2019 in consequence of, *inter alia*, regulatory changes. If the investments are not implemented, besides the adverse effect on national

power safety, it may result in a decrease of the Group's production capacity 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 group and the national economy. 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, the Tauron Group is bound by undertakings 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. If that threshold is exceeded, it would constitute grounds for the declaration of the entire debt owed by the Group as immediately due and payable.

In light of the above, it is proposed to raise 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 Company's creditability by improving the ratio of equity to third-party debt. It also needs to be added 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 percentage of equity).

It should also be assumed that such action should be positively assessed by the rating agencies, as 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.

**OPINION OF THE MANAGEMENT BOARD  
OF TAURON Polska Energia S.A.**

**dated 13 October 2015**

*on the exclusion of all of the shareholder's pre-emptive rights in connection with the proposed increase of the Company's share capital through the issuance of the series C shares and the method of determination of the issue price for the series C shares*

Pursuant to Article 433 §2 of the Commercial Companies Code ("**CCC**"), the Management Board of **TAURON Polska Energia S.A.** with its registered office in Katowice made this opinion on 12 October 2015 in connection with the proposed adoption by the Extraordinary General Meeting of the Company of a resolution regarding the increase of the share capital of the Company by way of the issuance of non-voting preferred series C shares, the exclusion of all of the existing shareholder's pre-emptive rights to all of the series C shares, and the amendment of the Company's Articles of Association ("**Issue Resolution**"). Pursuant to the Issue Resolution, the share capital of the Company will be increased through the issuance of 80,000,000 (eighty million) registered, non-voting shares preferred in terms of dividend in the manner as provided in the Issue Resolution ("**Series C Shares**"). The Issue Resolution provides for the exclusion of all of the pre-emptive rights of the existing shareholders of the Company with respect to the Series C Shares.

**I. Exclusion of the pre-emptive right with respect to the Series C Shares**

In the opinion of the Management Board of the Company, in view of the above-mentioned reasons, the exclusion of all of the pre-emptive rights of the existing shareholders with respect to the Series C Shares is justified and in compliance with the Company's interest.

The increase of the share capital is to provide the Company with financing and allow it to implement its investment plans resulting from the strategic nature of the Company and the group of TAURON Polska Energia S.A. which are of key importance to the energy safety in Poland and which result from, *inter alia*, the adopted "TAURON Group's Corporate Strategy for the years 2014-2017 with estimates up to the year 2023". The increase of the share capital of the Company is necessary to maintain the financial reliability of the Company and its positive image of a reliable partner on financial markets. The raising of yet further financing for the implementation of the above-mentioned capital expenditure plan is limited not only by the resources of banks and other investors on the debt market, but also by the undertakings resulting from the existing financing agreements.

The financing is to be provided by way of a highly liquid non-cash contribution comprising shares publicly traded on the regulated market operated by the Warsaw Stock Exchange (*Giełda Papierów Wartościowych w Warszawie S.A.*) ("**WSE**"). The exclusion of the pre-emptive rights will allow to offer the Series C Shares by way of private placement. In consequence, the subscription for the Series C Shares and the non-cash contribution will be made by executing a share subscription agreement pursuant to Article 431 §2.1) of the CCC immediately after the adoption of the resolution regarding the increase of the share capital without the need to comply with the share offering procedure provided for in Article 433 of the CCC.



Taking the above into account, the Management Board of the Company declares that the exclusion of all of the pre-emptive rights of the existing shareholders with respect to the Series C Shares will allow for a quick subscription for the shares and it is in the interest of the Company. Since the Series C Shares will be non-voting shares, the exclusion of the pre-emptive rights will not prejudice the voting power of the shareholders until the shares are converted into ordinary shares. Therefore, the Company's Management Board supports the issuance of the Series C Shares with the exclusion of all of the pre-emptive rights of the existing shareholders of the Company.

## **II. Method of determination of the issue price for the Series C Shares**

The issue price of each Series C Share was determined as the amount equal to the nominal value of each Series C Share. The determination of the value of the non-cash contribution will be based on Article 3121 of the CCC which applies if the contribution comprises securities listed on a regulated market. A detailed report concerning the value of the non-cash contribution was prepared and such report will be presented to the shareholders together with this opinion. Since the current market value of the shares in the Company is lower than the nominal value thereof and, at the same time, pursuant to Article 309 §1 of the CCC, it is impossible to subscribe for shares below their nominal value, the proposed mechanism of preference of the Series C Shares will allow the shareholder subscribing for the Series C Shares to obtain financial benefits spread out in time which will cover the difference between the issue price of the Series C Shares and the market value of the ordinary bearer shares in the Company publicly traded on the regulated market operated by the WSE, including the cost of money over time. The receipt of the additional financial benefit depends on the Company's ability to pay dividend in the next financial years.

## **III. Conclusions**

In view of the reasons stated above, the Company's Management Board recommends to the Extraordinary General Meeting the adoption of a resolution on the increase of the share capital, subject to exclusion of the pre-emptive rights.