

TAURON POLSKA ENERGIA S.A. CAPITAL GROUP

**CONSOLIDATED REPORT
ON PAYMENTS TO GOVERNMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

INTRODUCTION

1. Basis of 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 2016, item 1047, as amended), 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. The Parent has been assigned statistical number REGON 240524697.

The duration of the Parent and the companies in the Capital Group is unlimited. The operations are based on relevant concessions 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 2016.

This consolidated report on payments was approved for publication by the Management Board on 13 March 2017.

CONSOLIDATED REPORT ON PAYMENTS – 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, prospection, 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 undertaking active in the logging of primary forests means an undertaking which falls within the scope of the activities listed in Section A.02.2 of the Polish Classification of Activities – wood harvesting within primary forest areas.

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 Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

In the years ended 31 December 2016 and 31 December 2015, the subsidiaries TAURON Wydobycie 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 2016 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 2016 or Year ended 31 December 2016	As at 31 December 2015 or Year ended 31 December 2015
Item	Threshold*		
Total balance sheet			
TAURON Wydobywanie S.A.	85 000	2 201 007	1 808 714
Kopalnia Wapienia Czatkowice Sp. z o.o.		187 512	182 527
Net revenue from sales of products, goods and materials			
TAURON Wydobywanie S.A.	170 000	1 310 707	1 206 506
Kopalnia Wapienia Czatkowice Sp. z o.o.		91 095	90 786
Average annual headcount in FTEs			
TAURON Wydobywanie S.A.	250	6 791,51	5 822,50
Kopalnia Wapienia Czatkowice Sp. z o.o.		285,13	290,70

* 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 2016 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 2016, 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 2016.

The payments reported herein concern amounts paid in cash. In the year ended 31 December 2016, no amounts were paid in kind and settled by delivery of a commodity or services relating to extractive operations.

4.3. Reporting 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.

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, license 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 Company attributed its payments to public administration made in the year ended 31 December 2016 to two projects:

- Extraction of coal from deposits by TAURON Wydobywanie S.A. and
- Extraction of carboniferous limestone from the "Czatkowice" deposit.

These projects are related to the extractive operations of the subsidiaries subject to the reporting obligation, i.e. TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

If a payment may not assigned to a specific project, it is disclosed by the Company at the entity 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 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 2016, 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.

A Tax Capital Group agreement for the years 2015–2017 was concluded on 22 September 2014. The major companies constituting the Tax Capital Group as from 1 January 2015 are 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 Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. Information concerning the Tax Capital Group has been presented in more detail in Notes 17.4 and 29 to the separate financial statements of the Company for the year ended 31 December 2016 and in Notes 16 and 28 to the consolidated financial statements of the Group for the year ended 31 December 2016.

This consolidated report on payments presents payments relating to the Tax Capital Group's corporate income tax of the subsidiaries subject to the reporting obligation, i.e. TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. In the year ended 31 December 2016, the payment of PLN 3 263 thousand, made in relation to corporate income tax, concerns Kopalnia Wapienia Czatkowice Sp. z o.o. In the year ended 31 December 2016, no payment was made in relation to corporate income tax of TAURON Wydobycie 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 2016, no payments were made to governments in relation to royalties.

- Dividends

In the year ended 31 December 2016, no payments were made to governments in relation to dividends.

- Concession fees and discovery and production bonuses

In the year ended 31 December 2016, no payments were made to governments in relation to concession fees or discovery and production bonuses.

- License fees, rental fees, entry fees and other considerations for licenses 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 geological information and fees for perpetual usufruct of land.

- Payments for infrastructure improvements

In the year ended 31 December 2016, 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 2016.

CONSOLIDATED REPORT ON PAYMENTS TO GOVERNMENTS

The payments made to governments in the year ended 31 December 2016 have been presented in the tables below.

Total amount of payments by relevant levels of public administration and by basis

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
Governments			
Central government	–	8 062	8 062
Local agencies of central government	3 263	1 159	4 422
Total payments to central government	3 263	9 221	12 484
Local governments			
Local governments – regions	–	9 042	9 042
Local governments – municipalities/communes	–	9 172	9 172
Local governments – districts	–	585	585
Total payments to local governments	–	18 799	18 799
Total payments to governments	3 263	28 020	31 283

Total amount of payments by project and by basis

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
Payments at project level			
Extraction of coal from deposits by TAURON Wydobywanie S.A.	–	25 240	25 240
Extraction of carboniferous limestone from the "Czatkowice" deposit	–	2 780	2 780
Total payments at project level	–	28 020	28 020
Payments at entity level	3 263	–	3 263
Total payments	3 263	28 020	31 283

This consolidated report on payments has been prepared so as to ensure transparency of information concerning payments made to governments, in compliance with the requirements set out in the applicable legal regulations.

Management Board of the Company

Katowice, 13 March 2017

Filip Grzegorzczak – 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

Piotr Zawistowski – Vice-President of the Management Board