



***Additional information to
the extended consolidated
report of TAURON Polska Energia S.A. Capital Group
for the 1st quarter of 2016***

11 May 2016

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1. Organisation of TAURON Capital Group

1.1 Basic Information on TAURON Capital Group

As at 31 March 2016, 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 17 subsidiaries subject to consolidation. Moreover, the Capital Group consisted of 9 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) and Nowe Brzeszcze Grupa TAURON sp. z o.o. (NBGT) 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) and Marselwind sp. z o.o. (Marselwind) 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, HR 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, covered by consolidation, dealing, among others, with trading in electricity 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 established TAURON Group, comprising the companies listed below and TAURON Polska Energia, as the parent company, and adopted the TAURON Group Code as the underlying normative act of TAURON Group operations. The TAURON Group Code regulates functioning of the Group, ensuring implementation of the goals through dedicated solutions in the scope of managing TAURON Group entities.

As at 31 March 2016, 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 Ubezpieczenia sp. z o.o.	17.09.2013
11.	TAURON Ciepło sp. z o.o.	16.10.2013
12.	TAURON Dystrybucja Pomiarów sp. z o.o.	19.11.2013
13.	TAURON Ekoserwis sp. z o.o.	19.11.2013
14.	Spółka Usług Górniczych sp. z o.o.	04.12.2013

No.	Company enterprise	Date of accession to TAURON Group
15.	TAURON Dystrybucja Serwis S.A.	17.12.2013
16.	TAURON Wytwarzanie Serwis sp. z o.o.	26.02.2014
17.	SCE Jaworzno III sp. z o.o.	19.12.2014
18.	Biomasa Grupa TAURON sp. z o.o. (formerly: Energopower sp. z o.o.)	01.07.2015
19.	Nowe Brzeszcze Grupa TAURON Sp. z o.o. (NBGT)	17.02.2016

In the reporting period, within TAURON Group, Business Areas established by the Management Board of TAURON operated (Mining Area, Generation Area, Renewable Energy Sources Area, Distribution Area, Sales Area, Customer Service Area, Heat Area, Other Area, Support Area), comprising companies of TAURON Group, as well as the established Management Areas within which the relevant Cooperation Rules apply.

In addition, within TAURON Group the following Committees of TAURON Group operated:

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

The aforementioned committees were established in order to enable conducting of TAURON Group activity in accordance with the principles of operating coherence, in compliance with the law and interests of TAURON Group and its stakeholders. The committees, inter alia, play the opinion-making function for TAURON Management Board as well as the decision-making function. The basic task of the committees is to supervise the implementation of coherent actions by all participants of TAURON Group, in compliance with the TAURON Group Code and interests of TAURON Group. The specific functions of the Committees have been specifically defined in the by-laws of their operations adopted by TAURON Management Board.

1.2 Entities subject to consolidation

As at 31 March 2016, consolidation covered the parent company - TAURON Polska Energia S.A. - and the following subsidiaries:

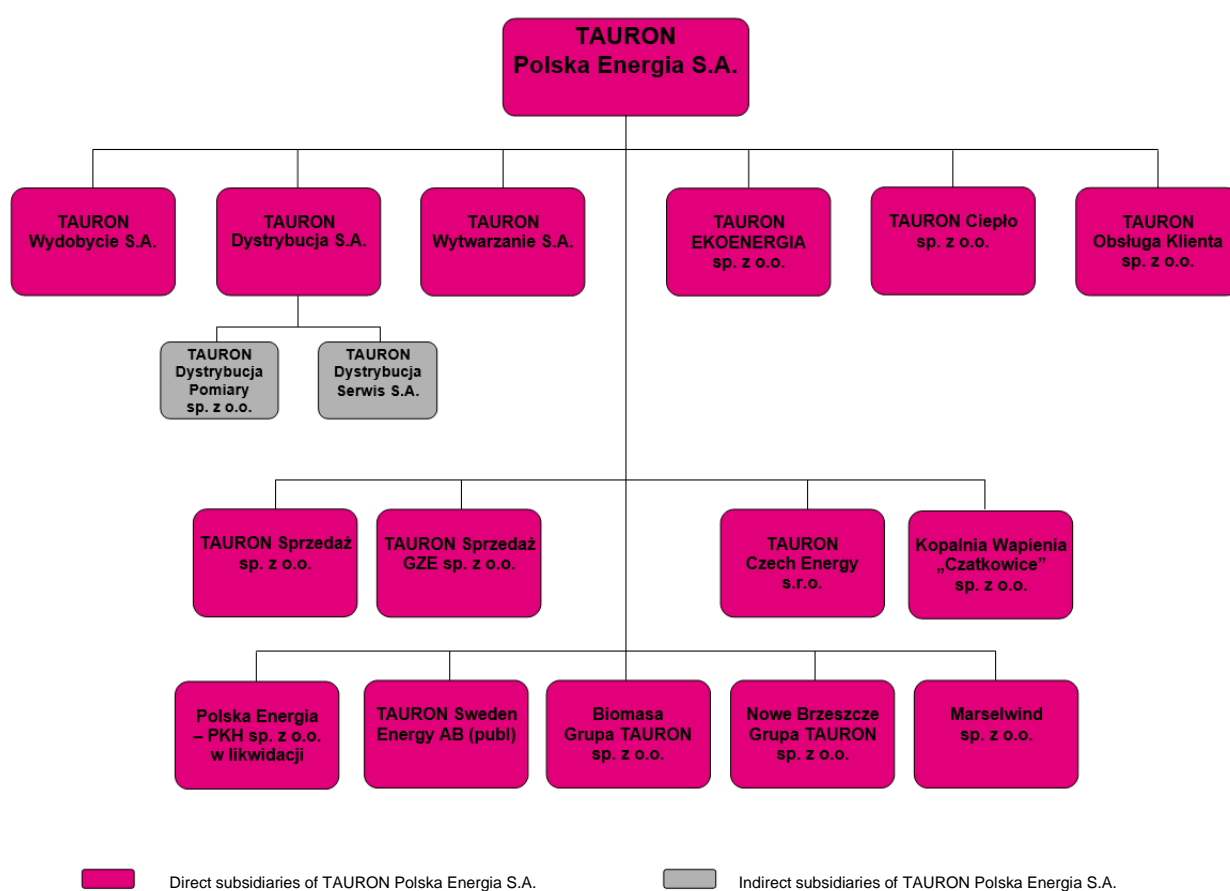
1. TAURON Wydobycie S.A.
2. TAURON Wytwarzanie S.A.
3. TAURON Ekoenergia sp. z o.o.
4. TAURON Ciepło sp. z o.o.
5. TAURON Dystrybucja S.A.
6. TAURON Dystrybucja Serwis S.A.
7. TAURON Dystrybucja Pomiary sp. z o.o.
8. TAURON Sprzedaż sp. z o.o.
9. TAURON Sprzedaż GZE sp. z o.o.
10. TAURON Czech Energy 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.
16. Nowe Brzeszcze Grupa TAURON Sp. z o.o.
17. Marselwind 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 TAMEH HOLDING Sp. z o.o. Capital Group (consisting of TAMEH HOLDING Sp. z o.o., holding 100% share in equity and the decision-making authority of the following subsidiaries: TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o.), which are measured 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 31 March 2016.

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 first quarter of 2016:

Acquisition of an organised part of the Mining Plant in Brzeszcze/ Increase of share capital of Nowe Brzeszcze Grupa TAURON Sp. z o.o.

On 31 December 2015, between the NBGT company and Spółka Restrukturyzacji Kopalń S.A. ("SRK") an agreement was concluded for sales of a designated part of the Brzeszcze Mining Plant, as an organised part of an enterprise ("ZCP Brzeszcze"). The sales agreement was concluded under the execution of the preliminary agreement of 19 October 2015 and pursuant to Article 8a item 4 of the Act of 7 September

2007 on the functioning of hard coal mining industry. In accordance with the signed sales agreement, the date of release of the subject of sales and handover of the acquired ZCP Brzeszcze for use by NBGT was scheduled on 1 January 2016; on that day benefits and risks associated with the acquired subject of sales were transferred to NBGT.

Due to the fact that the purchase transaction of ZCP Brzeszcze is performed under a common control of the State Treasury, the NBGT settled the merger by the share merger method, in accordance with the accounting method adopted by TAURON Group, with the assumption of the lack of possibility to present comparable data. The purchase transaction has been recognised in financial statements of NBGT and TAURON Group as of the day of release of the subject of sales, i.e. as of 1 January 2016.

In the sales agreement the parties agreed that the sales price of ZCP Brzeszcze payable to SRK would amount to PLN 1. Due to the fact that during its operations within SRK KWK Brzeszcze generated losses, under the agreement of 29 May 2015 concluded between the Minister of Economy and SRK, budgetary funds were granted to SRK to cover current production losses of the mining enterprise in 2015 ("Public aid"). At the same time, in accordance with the provisions of the agreement on return of the aid, NBGT undertook to return public aid, including interest accrued as of the date of transfer of individual public aid tranches by the entity granting public aid to SRK. Consequently, the purchase price comprises the price of payment of PLN 1 and the amount of returned public aid including interest accrued as at 31 December 2015, i.e. PLN 130,218 thousand. In the period of three months ended on 31 March 2016 NBGT returned the aforementioned amount of public aid including interest accrued as of the repayment day.

On 31 December 2015 the Extraordinary General Meeting of NBGT adopted the resolution on increasing of the share capital of the company by the amount of PLN 2.9 million by way of issuance of 29,000 shares with the nominal value of PLN 100 per share, subsequently taken up by the parent entity at a price of PLN 1000/share, for the total value of PLN 29 million. The funds for increasing of the capital were transferred by the Company on 8 January 2016. The registration of the increase in the capital took place on 29 January 2016.

On 22 March 2016 the Extraordinary General Meeting of NBGT Shareholders adopted the resolution on increasing of the share capital of the company by the amount of PLN 50 million by way of issuance of 500,000 shares with the nominal value of PLN 100 per share, subsequently taken up by the parent entity at a price of PLN 300/share, for the total value of PLN 150 million. The increase in the company capital has been registered in the National Court Register on 6 May 2016.

Removal of the company Ośrodek Szkoleniowo-Wypoczynkowy "JAGA" sp. z o. o. in liquidation bankruptcy from the National Court Register

On 17 February 2016, the company Ośrodek Szkoleniowo-Wypoczynkowy "JAGA" sp. z o. o. in liquidation bankruptcy - a subsidiary of TAURON Dystrybucja - was removed from the National Court Register. Removal of the company from the National Court Register became final on 1 March 2016. The aforementioned removal was a consequence of closure of the bankruptcy proceedings of the company, comprising liquidation of its asset, in 2015.

De-merger of TAURON Ekoenergia company / Increasing of the share capital of Marselwind

On 25 February 2016, the District Court Katowice – Wschód issued a decision on entry to the National Court Register of the increase in the share capital of Marselwind company by the amount of PLN 151,925,750.00 through creation of 3,038,515 new shares with the nominal value of PLN 50.00 per share and the total nominal value of PLN 151,925,750.00, which were allocated to the sole shareholder of the company - TAURON Polska Energia.

The aforementioned increase in the share capital resulted from the resolution of the Extraordinary Meeting of Shareholders of Marselwind company of 9 February 2015 concerning the de-merger of the TAURON EKOENERGIA company through the separation and transfer of separated components of assets forming an organised part of an enterprise to Marselwind company. As a result of the aforementioned decision, tangible and intangible components associated with electricity generation in renewable energy sources were transferred from the TAURON EKOENERGIA company to the Marselwind company.

The de-merger described above shall not affect the interim condensed financial statements of the Company for a period of three months ended on 31 March 2016.

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 01 January 2016:

1. Remigiusz Nowakowski - President of the Management Board,
2. Jarosław Broda - Vice-President of the Management Board for Strategy and Development,
3. Kamil Kamiński - Vice-President of the Management Board, Chief Officer for Corporate Matters,
4. Anna Strzyżyk - Vice-President of the Management Board for Economics and Finance,
5. Piotr Zawistowski - Vice-President of the Management Board, Chief Commercial Officer.

Changes in the personal composition of the Management Board in the first quarter of 2016 and until the day of submission of the report

On 8 January 2016 the Supervisory Board dismissed Anna Strzyżyk - Vice-President of the Management Board for Economics and Finance, from the Management Board.

On 29 January 2016, the Supervisory Board appointed Marek Wadowski as a member of the Management Board, entrusting him the position of Vice-President of the Management Board for Economics and Finance.

Composition of the Management Board as at the day of submission of the report:

1. Remigiusz Nowakowski - President of the Management Board,
2. Jarosław Broda - Vice-President of the Management Board for Asset Management and Development,
3. Kamil Kamiński - Vice-President of the Management Board for Corporate Management,
4. Marek Wadowski - Vice-President of the Management Board for Finance,
5. Piotr Zawistowski - Vice-President of the Management Board for Customers and Trading.

Composition of the Supervisory Board as at 1 January 2016 and as at the date of submission of this report:

1. Beata Chłodzińska - Chairwoman of the Supervisory Board
2. Anna Mańk - Deputy Chairwoman of the Supervisory Board,
3. Jacek Szyke - Secretary of the Supervisory Board,
4. Anna Biesialska - Member of the Supervisory Board,
5. Michał Czarnik - Member of the Supervisory Board,
6. Maciej Koński - Member of the Supervisory Board,
7. Leszek Koziorowski - Member of the Supervisory Board,
8. Wojciech Myślecki - Member of the Supervisory Board,

9. Renata Wiernik-Gizicka - Member of the Supervisory Board.

In the 1st quarter of 2016 and until the day of submission of this report, no changes in the composition of the Supervisory Board occurred.

2.2 Structure of share capital

As at 31 March 2016, the share capital of the TAURON Polska Energia amounted to PLN 8,762,746,970.00 and it was divided into 1,752,549,394 shares with the nominal value of PLN 5.00 per share, 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 percent in the total number of votes

In accordance with notifications received by the Company, as at the date of publication of this periodical report, i.e. 11 May 2016, the structure of shareholders holding at least 5% of the total number of votes at the General Meeting of the Issuer, either directly or indirectly, through subsidiaries, 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
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 (Open Pension Fund)	88,742,929***	5.06%	88,742,929	5.06%

*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 periodical report, i.e. 9 March 2016, until the date of publication of this report, no changes in proprietary structure of significant blocks of the Company shares have occurred.

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

Managing persons:

The status of shareholding of 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 2015, i.e. from 9 March 2016, until 11 May 2016 (the date of publication of this quarterly report) was as follows:

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

Name and surname	Number of shares as at 9 March 2016 (publication of the report for 2015)	Change in number of shares held	Number of shares as at 11 May 2016 (day of submission of the report for the 1 st quarter of 2016)
Remigiusz Nowakowski	935	-	935
Jarosław Broda	0	-	0
Kamil Kamiński	0	-	0
Marek Wadowski	0	-	0
Piotr Zawistowski	0	-	0

Supervising persons:

The table below presents the status of shareholding of the Company shares or authorisation to hold the shares, held by supervising persons as at the day of publication of the report.

Table no 4. Shareholding status of TAURON Polska Energia shares - supervising persons

Name and surname	Number of shares as at 9 March 2016 (publication of the report for 2015)	Change in number of shares held	Number of shares as at 11 May 2016 (day of submission of the report for the 1 st quarter of 2016)
Beata Chłodzińska	0	-	0
Anna Mańk	0	-	0
Jacek Szyke	0	-	0
Anna Biesialska	0	-	0
Maciej Koński	0	-	0
Leszek Kozirowski	0	-	0
Wojciech Myślecki	0	-	0
Michał Czarnik	0	-	0
Renata Wiernik-Gizicka	2,500	-	2,500

Since the day of submission of the previous periodical report, i.e. 9 March 2016, until the date of publication of this report, no changes in the shareholding structure of shares held by members of the Supervisory Board have occurred.

2.5 Scope of activities of TAURON Polska Energia

The core subject of activity of TAURON Polska Energia covers:

- 1) activity of central companies (head offices) and holdings, excluding financial holdings (PKD 70.10 Z),
- 2) electric energy 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, CO₂ 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 companies of TAURON Capital Group. Such centralisation is aimed at improvement of effectiveness in TAURON Capital Group.

The Company focuses 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 trading in electricity. Sales of electricity performed by the Company in the first quarter of 2016 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 electric energy 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 CO₂ emission allowances for the companies of 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 CO₂ 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 CO₂ 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.

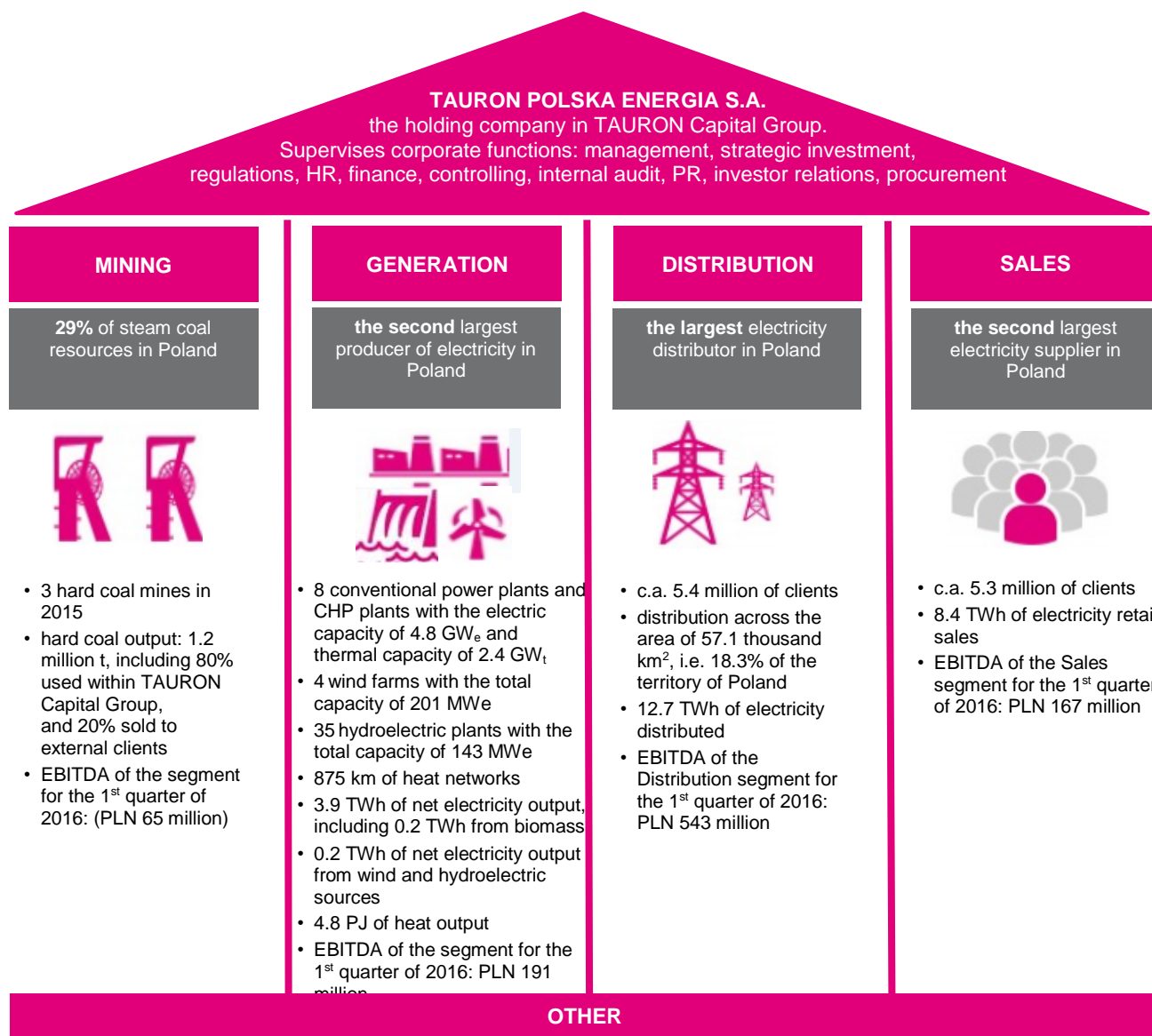
As of 6 February 2015 the Company has been trading in new products on the ICE Futures Europe platform in London. Since that date, besides trading in CO₂ emission allowances and Gasoil products, TAURON has been conducting trade in products of crude oil market - Brent Crude, WTI Crude, whose valuation is associated with oil prices, and Heating Oil, measured based on heating oil quotations.

3. Operations of TAURON Capital Group

3.1 Areas of activity of TAURON Capital Group

TAURON Polska Energia S.A. Capital Group (TAURON Capital Group) is a vertically integrated energy group located in the southern part 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



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



Mining Area, comprising mainly mining, preparation and sales of hard coal in Poland - the activity provided by TAURON Wydobycie S.A. (TAURON Wydobycie). As of 1 January 2016 the Segment also comprises the company Nowe Brzeszcze Grupa TAURON sp. z o.o. (NBGT), established as a result of acquisition of assets of a designated part of the Mining Plant in Brzeszcze, as an organised part of the enterprise.



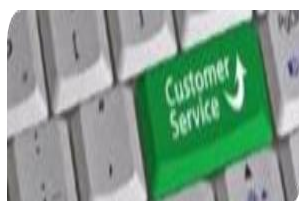
Generation Area, comprising mainly generation of electricity in conventional sources, including co-generation, as well as generation of electricity from renewable energy sources, including combustion and co-firing of biomass, and in hydroelectric power plants and wind farms. The Area also comprises generation, distribution and sales of heat. The basic fuels used by the Generation Area comprise hard coal, biomass and gas. Operations in this area are carried out by TAURON Wytwarzanie S.A. company. (TAURON Wytwarzanie), TAURON Ciepło sp. z o.o. (TAURON Ciepło) and TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA).



Distribution Area, covering the distribution of electric energy using distribution grids located in southern Poland. The activities are conducted by TAURON Dystrybucja S.A. (TAURON Dystrybucja). 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 electric energy to end-customers and wholesale trading of electric energy, as well as trading and management of CO₂ 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 or the Company), TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż), TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE) and TAURON Czech Energy s.r.o. (TAURON Czech Energy).



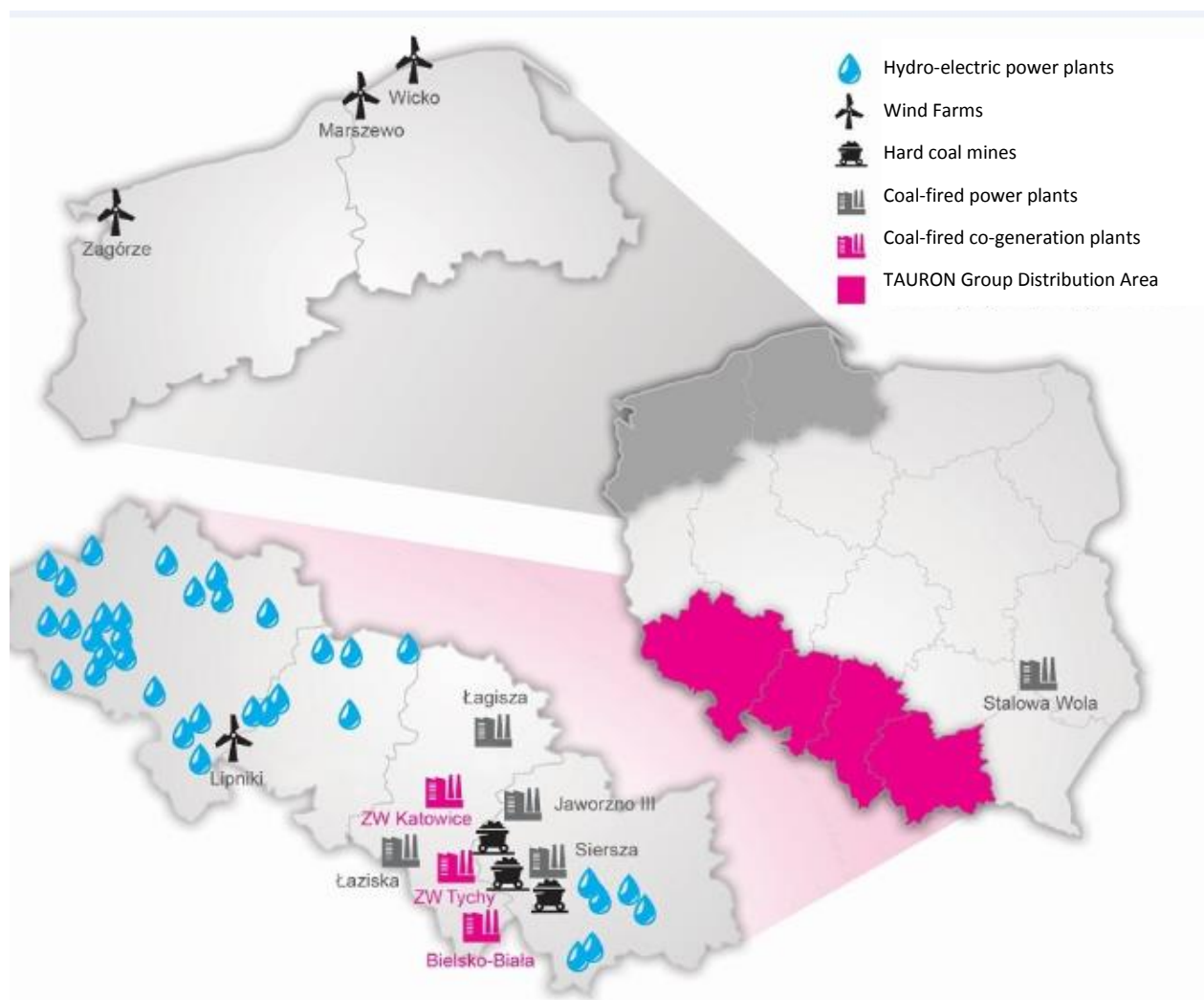
Other Area, comprising activity in the scope of customer service for clients of TAURON Capital Group and provision of support services for companies of TAURON Capital Group in the scope of accounting and ICT, provided by TAURON Obsługa Klienta sp. z o.o. company (TAURON Obsługa Klienta), as well as extraction of stone, including limestone, for the needs of energy industry, metallurgy, construction and road building as well as production of sorbing agents for installations of flue gas desulphurisation using the wet method and for application in fluidized bed boilers - the activity carried out by 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 acquisition, transport and processing and Polska Energia - Pierwsza Kompania Handlowa sp. z o. o. in liquidation (PEPKH in liquidation).



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 1st quarter of 2016, in connection with implementation of the key strategic investment projects.

Table no 5. Implementation status of the key strategic investment projects

No. Investment	Status of investment implementation
1. Construction of the CCGT unit of 449 MW _e capacity, including the heat generation component of 240 MW _t capacity at Stalowa Wola (investment implemented with participation of the strategic partner - Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG)) Contractor: Abener Energia S.A. (Abener Energia)	After withdrawal from the contract with the General Contractor, the site was taken over and secured. The level of progress of the comprehensive project inventory process is estimated at approximately 25%. The technical audit is almost completed. Works in the scope of maintenance of installed machines and equipment are in progress as well as discussions with subcontractors and suppliers. The recommendation concerning the

No. Investment	Status of investment implementation
<p>Scheduled date of investment project completion: 2018 (it will be possible to estimate the precise date after the inventory of the project is performed)</p> <p>Progress level: 85-90%</p>	<p>mode of completion of the investment and contracting of the contractors is under preparation. Negotiations in the scope of formula of further investment financing with participation of the partner - PGNiG and involved banks are ongoing.</p>
<p>2. Construction of new generation capacity in co-generation at a level of 50 MW_e and 86 MW_t at ZW Tychy (TAURON Ciepło).</p> <p>Contractor: Elektrobudowa S.A.</p> <p>Scheduled date of investment project completion: 2016.</p> <p>Progress level: 97%</p>	<p>In January this year the first synchronisation of the unit was performed. In March 2016, adjustment operation of the unit was completed, required tests and trial were performed. The process of final acceptance of individual unit elements is in progress. The subsequent stage of commissioning of the unit is the performance of the test run and completion of guarantee measurements.</p>
<p>3. Construction of a power unit of 910 MW_e capacity at supercritical parameters on the premises of Elektrownia Jaworzno III (TAURON Wytwarzanie)</p> <p>Contractor: The RAFAKO S.A. and Mostostal Warszawa S.A. consortium.</p> <p>Scheduled date of investment project completion: 2019.</p> <p>Progress level: 17%</p>	<p>Works in the scope of pylon reinforced concrete constructions, cooling tower, electrical aisle were continued. Executive designs were prepared and the process of production and picking of the boiler load-bearing construction and steel construction of main buildings of the unit was commenced. The contractor for the external ash disposal system and external carburisation system - part 1 and 2, has been selected. Public procurement procedures are ongoing in the scope of water treatment station and wastewater treatment plant, auxiliary fuel installation, compressed air system, water supply system, power evacuation and the track system.</p>
<p>4. Construction of the installation for flue gas de-nitrification in 6 units of Elektrownia Jaworzno III and 4 units of Elektrownia Łaziska belonging to TAURON Wytwarzanie</p> <p>Contractor: Jaworzno III Fortum Power and Heat Oy and ZRE K-ce, Łaziska - Strabag Sp. z o.o. and Strabag AG</p> <p>Scheduled date of investment project completion: 2016.</p> <p>Progress level - Jaworzno III: 92%</p> <p>Progress level - Łaziska: 100%</p>	<p>At Elektrownia Jaworzno III, modernisation of installation of six units with the capacity of 200 MW was completed, using the SNCR (selective non-catalytic reduction) technology. Currently measurements of guarantee parameters and processes of modernisation optimisation are ongoing. Completion of the project, in accordance with the schedule, will take place in the third quarter of 2016.</p>
<p>5. Construction of the CCGT unit with the capacity of 413 MW_e, including the heat generation component with the capacity of 266 MW_t, on the premises of Elektrownia Łagisza (TAURON Wytwarzanie)</p> <p>Contractor: selection process in progress</p> <p>Scheduled date of investment project completion: 2019.</p> <p>Progress level: 5%</p>	<p>Project implemented in cooperation with the PIR business partner. In July 2015 the investment agreement was signed with PIR and the special purpose vehicle - Łagisza GT was established.</p> <p>Under the procedure for selection of the General Contractor of the CCGT unit, negotiations with potential four bidders were carried out. Preparations of the final ToR for the selection of the CCGT Contractor are in progress. Demolition works are in progress for the needs of making the site available for the peak load/reserve boiler. The procedure concerning the release of land for unit construction is in progress. The decision on development conditions for the investment has been acquired.</p>
<p>6. Construction of the "Grzegorz" shaft (TAURON Wydobyćie), including the infrastructure (surface and underground) and the accompanying headings</p> <p>Contractor: call for tender announced in April 2016</p> <p>Scheduled date of investment project completion: 2023.</p> <p>Progress level: 20%</p>	<p>Detailed documentation for the shaft was accepted. The construction part of the GSZ 20/6 switchboard was completed, works associated with synchronisation of equipment are in progress. Earthworks associated with the construction of 2x20kV cable lines were completed. Terms of Reference documentation has been prepared for the selection of the General Contractor for the construction of the shaft including infrastructure and the public procurement procedure has been announced for "Construction works performed by the General Contractor of Stage I of the construction of Grzegorz Shaft, including the construction of surface infrastructure for TAURON Wydobyćie S.A.".</p>
<p>7. Construction of a 800 m level at ZG Janina in Libiąż (TAURON Wydobyćie)</p> <p>Contractor: Consortium of KOPEX S.A. and KOPEX</p>	<p>The deepening of the shaft and drilling of access workings is in progress. Annex no. 2 was signed, extending the effective term of the agreement with KOPEX PBSz company by 4 months due to significant change of mining and geological conditions. The</p>

No. Investment	Status of investment implementation
<p>Przedsiębiorstwo Budowy Szybów S.A. (main task - shaft drilling)</p> <p>Scheduled date of investment project completion: 2020.</p> <p>Progress level: 39%</p>	<p>extension of the term should not affect project completion date. Supplies of mining infrastructure equipment are under implementation. A significant task associated with the construction of belt stone haulage was completed.</p>

Nuclear power plant construction project

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 sp. z o.o. (PGE EJ1) - the special purpose vehicle which is responsible for preparation and execution of the investment comprising the construction and operation of the first Polish nuclear power plant with the capacity of approximately 3 thousand MW_e (the Project). Business Partners acquired 10% of shares each (30% of shares in total) in PGE EJ 1 company from PGE. 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 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). The Shareholders' Agreement provides that further decisions related to the project, including the decision concerning the declaration of continued participation of individual parties (including TAURON) in the subsequent stage of the Project, will be made after the completion of the preliminary stage, directly prior to the settlement of the integrated procedure.

Under the execution of the aforementioned Shareholders' Agreement, on 29 July 2015 the Extraordinary Meeting of Shareholders of PGE EJ 1 special purpose vehicle adopted the resolution on increasing of 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 the total nominal value of PLN 6,999,945, which were covered by the cash contribution in the amount of PLN 6,999,945.

On 16 October 2015 the increase in the share capital of the PGE EJ company was registered in the National Court Register.

Project on construction of CCGT unit at Elektrownia Blachownia

The portfolio of investment projects of TAURON Capital Group also comprises the project on the construction of the new CCGT unit with the capacity in the range of 850 on the premises of Elektrownia Blachownia. Pursuant to the memorandum of understanding concluded on 30 December 2013 between 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 Elektrownia Blachownia Nowa company (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 2016, the capital expenditures of TAURON Capital Group amounted to PLN 654 million and were higher by approximately 17% as compared to the expenditures incurred in the 1st quarter of 2015, which amounted to approx. PLN 792 million. It mainly results from lower expenditures in the Generation Area; simultaneously, growth of expenditures was recorded in the Distribution Area.

The table below presents the selected capital expenditure incurred in the 1st quarter of 2016, the highest in terms of value, within TAURON Capital Group Business Areas.

Table no 6. The highest capital expenditures incurred in the 1st quarter of 2016, in terms of value, within TAURON Capital Group Business Areas

Specification	Capital expenditures (PLN M)
Distribution	
Construction of new connections	133
Modernisation and reconstruction of existing grids	165
Generation	
Construction of new capacity at Elektrownia Jaworzno III (910 MW)	182
Construction of flue gas de-nitrification installation and modernisation of units at Elektrownia Jaworzno III	8
Construction of new capacity at Elektrownia Łagisza (413 MW)	3
Development and improvement of district heating networks	14
Adjustment of the source at ZW Katowice to the needs of the heat market after 2015	9
Modernisation of hydroelectric power plants	4
Mining	
Construction of Grzegorz shaft at ZG Sobieski	15
Construction of a 800 m level at ZG Janina	12

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 7. Selected financial data of TAURON Polska Energia and TAURON Capital Group

SELECTED FINANCIAL DATA	PLN thousand		in thousand EUR	
	2016 period from 01.01.2016 to 31.03.2016	2015 period from 1.01.2015 to 31.03.2015 (converted data)	2016 period from 01.01.2016 to 31.03.2016	2015 period from 1.01.2015 to 31.03.2015 (converted data)
Selected consolidated financial data of TAURON Polska Energia S.A. Capital Group				
Revenue on sales	4,647,035	4,789,786	1,066,837	1,154,471
Operating profit	455,982	585,571	104,681	141,139
Gross profit	411,595	574,373	94,491	138,440

TAURON Polska Energia S.A. Capital Group

Additional information to the extended consolidated report for the 1st quarter of 2016

Net profit	323,806	502,730	74,338	121,172
Net profit attributable to shareholders of the parent entity	323,245	502,043	74,209	121,006
Net profit attributable to non-controlling shares	561	687	129	166
Other total income	18,361	9,298	4,215	2,241
Total aggregate income	342,167	512,028	78,553	123,413
Total aggregate income attributable to shareholders of the parent entity	341,606	511,333	78,424	123,246
Total aggregate income attributable to non-controlling shares	561	695	129	167
Profit per share (in PLN/EUR) (basic and diluted)	0.18	0.29	0.04	0.07
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 activity	465,534	681,859	106,874	164,347
Net cash from investment activity	(995,523)	(887,783)	(228,546)	(213,980)
Net cash flows due to financial activity	424,789	(191,516)	97,521	(46,161)
Increase/(decrease) in net cash and equivalents	(105,200)	(397,440)	(24,151)	(95,794)
	Status as at 31.03.2016	Status as at 31.12.2015	Status as at 31.03.2016	Status as at 31.12.2015
Fixed assets	28,207,012	28,124,185	6,608,334	6,599,598
Current assets	4,043,539	3,947,248	947,320	926,258
Total Assets	32,250,551	32,071,433	7,555,654	7,525,856
Share capital	8,762,747	8,762,747	2,052,935	2,056,259
Equity attributable to shareholders of the parent entity	16,349,738	16,018,328	3,830,414	3,758,847
Equity attributable to non-controlling shares	30,344	29,829	7,109	7,000
Total equity	16,380,082	16,048,157	3,837,523	3,765,847
Long-term liabilities	11,516,274	8,583,950	2,698,031	2,014,302
Short-term liabilities	4,354,195	7,439,326	1,020,100	1,745,706
Total liabilities	15,870,469	16,023,276	3,718,131	3,760,008
Selected stand-alone financial data of TAURON Polska Energia S.A.				
	in PLN thous.		in thous. EUR	
	2016 period from 01.01.2016 to 31.03.2016	2015 period from 01.01.2015 to 31.03.2015	2016 period from 01.01.2016 to 31.03.2016	2015 period from 01.01.2015 to 31.03.2015
Revenue on sales	2,017,949	2,436,550	463,268	587,276
Operating profit (loss)	(2,962)	24,188	(680)	5,830
Gross profit	40,979	88,666	9,408	21,371
Net profit	60,454	85,812	13,879	20,683
Other total income	20,378	12,572	4,678	3,030
Total aggregate income	80,832	98,384	18,557	23,713

Profit per share (in PLN/EUR) (basic and diluted)	0.03	0.05	0.01	0.01
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 activity	(284,965)	109,134	(65,420)	26,304
Net cash from investment activity	(314,582)	(328,171)	(72,220)	(79,098)
Net cash flows due to financial activity	558,328	(187,457)	128,177	(45,182)
Increase/(decrease) in net cash and equivalents	(41,219)	(406,494)	(9,463)	(97,976)
	Status as at 31.03.2016	Status as at 31.12.2015	Status as at 31.03.2016	Status as at 31.12.2015
Fixed assets	24,017,407	24,866,370	5,626,794	5,835,121
Current assets	3,049,505	1,607,786	714,437	377,282
Total Assets	27,066,912	26,474,156	6,341,231	6,212,403
Share capital	8,762,747	8,762,747	2,052,935	2,056,259
Equity	16,673,329	16,592,497	3,906,224	3,893,581
Long-term liabilities	7,881,216	5,069,118	1,846,410	1,189,515
Short-term liabilities	2,512,367	4,812,541	588,597	1,129,307
Total liabilities	10,393,583	9,881,659	2,435,007	2,318,822

4.2 Key operating data of TAURON Capital Group

In the first quarter of 2016, TAURON Group reached the following key operating parameters.

Table no 8. Key operating parameters - the 1st quarter of 2016 as compared to the 1st quarter of 2015.

Key operating parameters	unit	Q 1 2016	Q 1 2015	Dynamics Q 1 2016/ Q1 2015
Commercial coal production	M Mg	1.21	0.97	125%
Electricity generation, including:	TWh	4.31	4.40	98%
generation of electricity from renewable sources	TWh	0.41	0.54	76%
Heat generation	PJ	4.84	5.17	94%
Distribution of electricity	TWh	12.73	12.50	102%
Retail sales of electricity (total, by Areas: Sales and Generation)	TWh	12.66	14.90	85%
- retail sales	TWh	8.37	9.05	92%
- wholesale	TWh	4.29	5.85	73%
Number of clients - Distribution	thous.	5,431	5,383	101%

4.3 Sales structure according to areas of operations

The table below shows the volumes and structure of sales of TAURON Capital Group, divided into individual Areas (Segments) for the 1st quarter of 2016, as compared to the 1st quarter of 2015.

Table no 9. Structure of sales, divided into Areas of operations for the 1st quarter of 2016 as compared to the 1st quarter of 2015.

Specification	unit	Q 1 2016	Q 1 2015	Dynamics 2016/2015
Sales of coal by the Mining Area	M Mg	1.22	1.14	107%
Sales of electricity and heat by the Generation Area	TWh	3.95	5.70	69%
	PJ	6.90	6.94	99%
Sales of electricity distribution services by the Distribution Area	TWh	12.73	12.50	102%
Retail sales of electricity by the Sales Area	TWh	8.36	9.05	92%

Mining Area

The basic activity conducted by TAURON Capital Group within the Mining Area comprises mining, enrichment and sales of hard coal as well as sales of methane as accompanying fossil from Brzeszcze deposit. Within TAURON Group three mines operate: Zakład Górniczy Sobieski and Zakład Górniczy Janina run by TAURON Wydobycie company and, as of 1 January 2016, Zakład Górniczy in Brzeszcze run by NBGT company. The Mining Plants are producers of coal offered for sale on the market in coarse, medium coal assortments and as power coal dust.

Companies of Mining Area carry out sales of coal in two directions:

- 1) sales of fine coal and coal mud to power plants and co-generation plants,
- 2) sales of thick, medium and limited amount of fine coal assortments through the organised sales network across the country.

Sales of coal is mainly provided in the region of southern and central Poland, in particular, in the following provinces: Śląskie, Małopolskie, Podkarpackie, Świętokrzyskie and Dolnośląskie.

The volume of coal sales in the 1st quarter of 2016 amounted to approximately 1.22 million t, which means an increase by about 7%, as compared to the corresponding period of 2015 and results from recognising the volume of NBGT company in 2016. Without recognising the new company, the volume of coal sales by TAURON Wydobycie reached a level similar to the 1st quarter of the previous year.

Generation Area

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

- coal-fired and biomass burning power plants and combined heat and power plants,
- hydroelectric power plants,
- wind farms.

The total capacity of the generation units of the Generation Area at the end of March 2016 amounted to 5.1 GW of electric capacity and 2.4 GW of heat capacity.

In the 1st quarter of 2016 Generation Area produced approximately 4.31 TWh of electricity and it was the level close to that recorded in the previous year. Production from RES reached 0.41 TWh, i.e. by approximately 24% less as compared to the corresponding period of 2015 (0.54 TWh), which resulted from the lack of biomass co-burning in the 1st quarter of 2016 and lower production from hydroelectric plants. Sales of electricity from own production, including energy purchased for trading purposes in the 1st quarter of 2016 reached approximately 4.0 TWh, which means the decrease by about 31%, in relation to the

corresponding period of the previous year. It is mainly the consequence of the lower resale of energy purchased in relation to the corresponding period of the previous year (0.1 TWh in the 1st quarter of 2016; 1.8 TWh in the 1st quarter of 2015). Sales of heat by Generation Area in the 1st quarter of 2016 reached 6.9 PJ, analogically to the 1st quarter of 2015.

Distribution Area

TAURON Capital Group is the largest electric energy distributor in Poland, both in terms of the volume of the electric energy 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 1st quarter of 2016, the Distribution Area supplied the total of 12.7 TWh of electric energy, including almost 12.3 TWh to the end consumers. During this period, the Distribution Area provided distribution services in favour of 5.43 million of consumers. In the corresponding period of the previous year, the Distribution Area supplied, in total, approximately 12.5 TWh of electricity to about 5.38 million consumers, including 11.9 TWh to end consumers. The increase in the volume of supplies results from the growth in demand for energy among industrial consumers, in particular, in the tariff group B, which is the effect of GDP and production growth. The volume of supplies to individual consumers has also increased, in case of which a permanent growth trend with low dynamics is observed.

Sales Area

Sales Area comprises activities in the scope of electric energy sales and wholesale trading of electric energy and other products of the energy market. Operations in the area of sales cover sales of electric energy to end customers, including key accounts. On the other hand, operations within wholesale trading comprise mainly wholesale trading in electricity, trade and management of CO₂ emission allowances, property rights arising from the certificates of electricity origin and fuel.

In the 1st quarter of 2016 retail sales of electricity by the Sales Area to approximately 5.3 million clients, amounted to approximately 8.4 TWh, i.e. 92% of the level reached in the corresponding period of 2015. The decline in the volume of sales is mainly the result of the lower volume of sales to the segment of business clients as well as small and medium-sized enterprises, caused by aggressive pricing policy of competitive companies.

For companies of the Sales Area of TAURON Group, the first quarter of 2016 showed similar diversification of the competitiveness level in individual market segments as in 2015. In the 1st quarter of 2016, the market of households (individual client) was still covered by the obligation of sales price approval by the President of the Energy Regulatory Office (ERO).

In the first two months of 2016 the number of households which changed the energy supplier slightly exceeded 15 thousand, which makes 15% of changes performed in 2015. However, taking into account the potential of this segment, i.e. the overall number of households in Poland, it is only the beginning of the liberalisation process of this part of the market.

In the segment of institutions and economic operators (business client), where the competition is high and companies have already used the liberalisation of electric energy prices for several years, the progress of the liberalisation has caused that made more and more aware clients expect competitive solutions. The intensified sales activity of energy companies exerts increasing price pressure; new entities competing for a client appeared and the transparency of the mechanisms of the energy market is a must in any activities in this segment. In January and February 2016 over 9.1 thousand business clients decided to change their supplier, which makes 25% of changes performed in this segment in 2015.

In connection with the partial liberalisation of the energy market, offers tailored to individual clients' needs appeared. TAURON Capital Group creates products, sales channels and marketing communication taking into account the activities of the competition. Moreover, the Group initiates innovative solutions adapted to the level of market development and expectations of a given segment of clients.

4.4 Financial situation of TAURON Capital Group following the first quarter of 2016.

4.4.1 Consolidated statement of comprehensive income

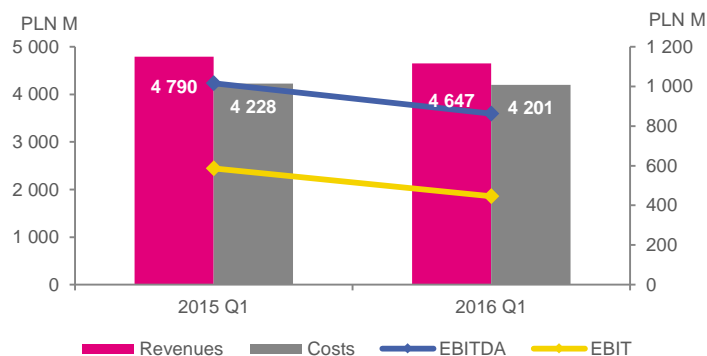
The table below presents the selected items of the consolidated statement of comprehensive income of TAURON Capital Group for the period of 3 months, ended on 31 March 2016, as well as the comparative data for the period of 3 months ended on 31 March 2015. These items are quoted in accordance with the interim condensed consolidated financial statement compliant with the IFRS (International Financial Reporting Standards) for the period of 3 months ended on 31 March 2016, where statements for the first quarter of 2016 are included, as compared to the first quarter of 2015.

Table no 10 Consolidated statement of comprehensive income

Specification (PLN thous.)	Q 1 2016 (not audited)	Q 1 2015 (not audited)	Dynamics (2016/2015)
Revenue on sales	4,647,035	4,789,786	97%
Own cost of sales	(4,200,759)	(4,227,795)	99%
Other operating revenues	32,775	42,808	77%
Other operating costs	(23,069)	(19,228)	120%
Operating profit (loss)	455,982	585,571	78%
<i>Operating profit margin (%)</i>	9.8%	12.2%	80%
Financial revenues	29,193	58,510	50%
Financial expenses	(96,615)	(90,108)	107%
Share in profit of the affiliate	23,035	20,400	113%
Gross profit (loss)	411,595	574,373	72%
<i>Gross profit margin (%)</i>	8.9%	12.0%	74%
Income Tax	(87,789)	(71,643)	123%
Net profit (loss) for the period	323,806	502,730	64%
<i>Net profit margin (%)</i>	7.0%	10.5%	66%
Other comprehensive income for financial year including tax	18,361	9,298	197%
Total revenue for the period	342,167	512,028	67%
Profit attributable to:			
Shareholders of the parent entity	323,245	502,043	64%
Non-controlling shares	561	687	82%
EBIT and EBITDA			
EBIT	455,982	585,571	78%
EBITDA	872,913	1,014,935	86%

The figure below shows the financial results of TAURON Capital Group for the 1st quarter of 2016 as compared to the 1st quarter of 2015.

Figure no. 4. Financial results of TAURON Capital Group for the 1st quarter of 2015 and 2016.

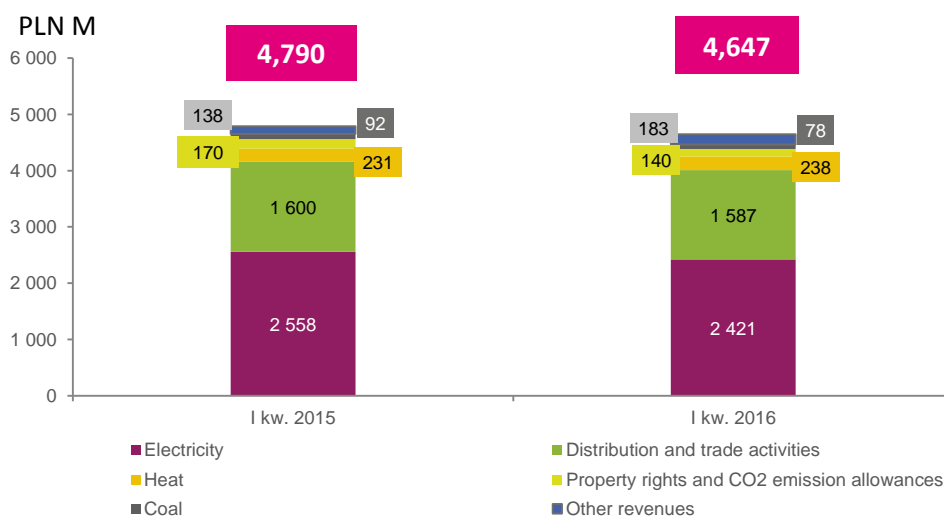


In the 1st quarter of 2016 TAURON Group recognised revenue on sales at the level of about PLN 4.6 billion as compared to about PLN 4.8 billion reached in the 1st quarter of 2015, which means the decrease by 3%. The main factors affecting the decrease in revenues are lower revenues on sales of: electricity - due to the aggressive price policy of competitive companies and change in the security strategy (mainly sales of a lower volume of retail electricity by 0.7 TWh, at a price lower by PLN 5.72 /MWh), coal - due to oversupply in the market and the pricing policy of the largest domestic producer (sales of a lower volume of coal outside the Group by 22.6%), distribution service (a lower rate for distribution services to end consumers by 3.6%) and connecting fees. The aforementioned declines were partly mitigated through gaining higher revenues on gas sales (due to the increase in the volume as a result of acquisition of new clients), heat energy (higher prices) and the Operating Power Reserve. Moreover, as of 1 January 2016 TAURON Capital Group has gained revenues from the Intervention Cold Power Reserve.

In relation to revenues outside TAURON Capital Group, the highest dynamics of growth, as compared to the corresponding period of the previous year (by 11.2%), was achieved by the Generation Segment as a result of sales of a higher volume of electricity. On the other hand, the highest decline in terms of value was recorded by the Sales Segment (by 7.2%), which results from sales of a lower volume of electricity at a lower average price.

The figure below shows the structure of revenues of TAURON Capital Group for the 1st quarter of 2016 as compared to the 1st quarter of 2015.

Figure no 5. Structure of revenues of TAURON Capital Group for the 1st quarter of 2015 and 2016.



The decline in operating activity costs in the 1st quarter of 2016, as compared to the corresponding period of the previous year, was affected by the following factors:

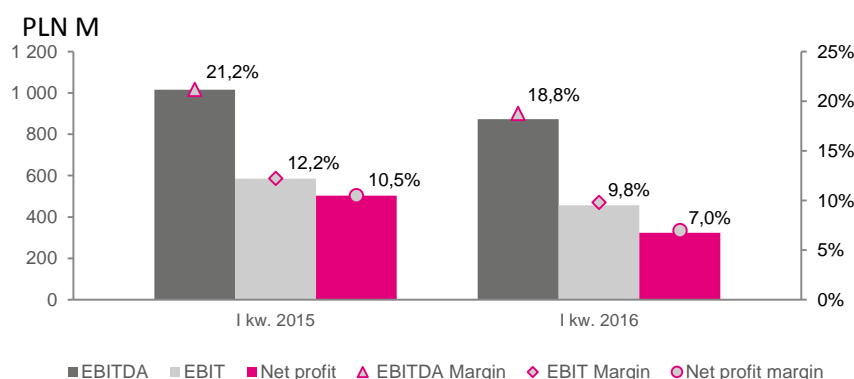
- a lower volume of purchased electricity,
- activation, in the 1st quarter of 2016, of costs of preparatory works in assets of the Mining Segment - to be settled over time, with the value higher than in the corresponding previous year, and sales of commercial coal from coal dumps in the 1st quarter of 2015, due to lower production, which did not occur in the reporting period.

The decline in costs of conducted activity was mitigated as a result of:

- commencement of operations of the NBGT company in the structures of TAURON Group as of 1 January 2016,
- Higher costs of CO₂ reserve, in connection with the deficit of CO₂ emission allowances in companies of the Generation Segment in the 1st quarter of 2016, which did not occur in the analogical period of 2015 due to the allocated free allowances.

The figure below shows the financial results of TAURON Capital Group and the level of accomplished margins.

Figure no. 6. Financial results of TAURON Capital Group and the level of accomplished margins



4.4.2 Financial results according to areas of operations

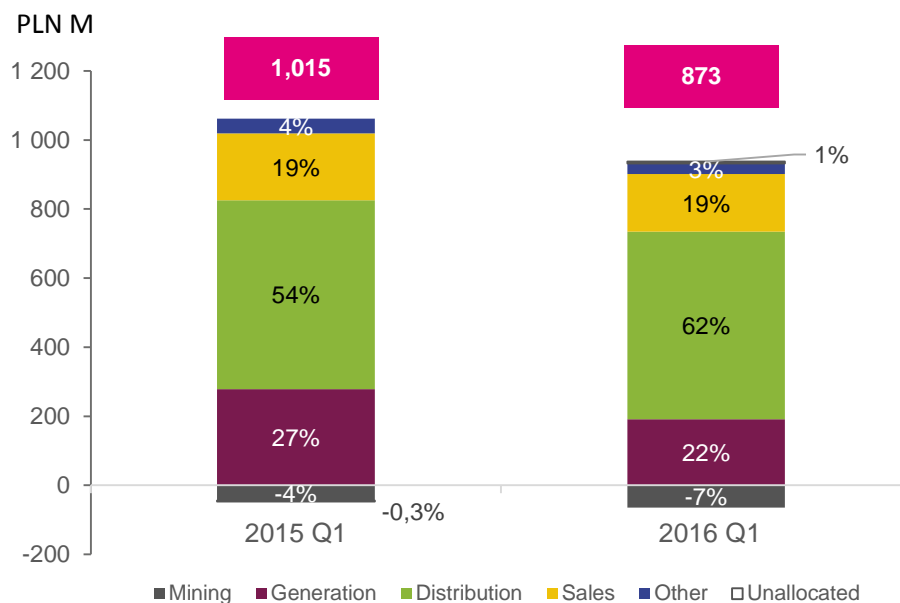
The table below shows EBITDA results of TAURON Capital Group, divided into individual areas of operations for the period of the 1st quarter of 2016, as compared to the 1st quarter of 2015. The data for individual areas do not include consolidation exclusions.

Table no 11. EBITDA results of TAURON Capital Group, divided into areas of activity

EBITDA (thousand PLN)	Q 1 2016	Q 1 2015	Dynamics 2016/2015
Mining	(64,758)	(44,091)	-
Generation	191,149	278,371	69%
Distribution	543,259	546,660	99%
Sales	166,762	193,771	86%
Other	30,486	43,373	70%
Non-attributable items and exemptions	6,015	(3,149)	-
Total EBITDA	872,913	1,014,935	86.0%

The figure below shows EBITDA structure of TAURON Capital Group.

Figure no. 7. EBITDA structure of TAURON Capital Group



The Distribution Area and the Generation Area have the highest share in EBITDA of TAURON Capital Group. As compared to the corresponding period of 2015, in the Distribution Area growth of share in EBITDA structure occurred, due to the relatively insignificant decline in its results (by 0.6%) as compared to the declines recorded by other segments.

Mining Area

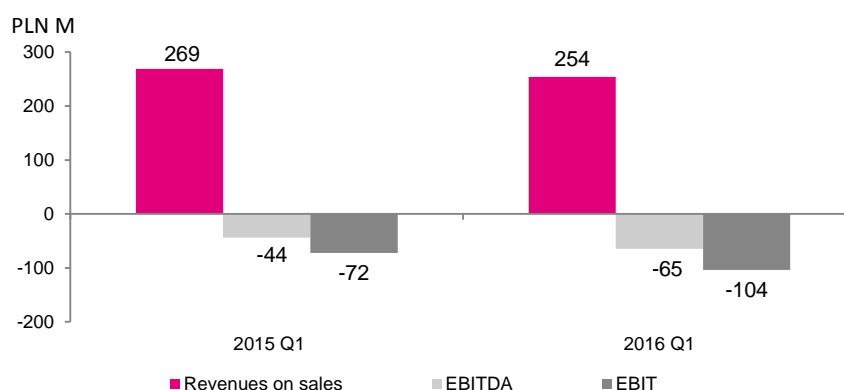
The table below shows results of the Mining Area for the period of the 1st quarter of 2016 as compared to the 1st quarter of 2015.

Table no 12. Results of Mining Area

Wyszczególnienie (tys. zł)	I kwartał 2016 r.	I kwartał 2015 r.	Dynamika 2016/2015	Zmiana (2016 - 2015)
Wydobycie				
Przychody ze sprzedaży	254 154	268 759	95%	(14 605)
węgiel - sortymenty grube i średnie	64 384	65 889	98%	(1 505)
węgiel energetyczny	177 738	197 487	90%	(19 749)
pozostałe produkty, materiały i usługi	12 032	5 383	224%	6 649
Zysk operacyjny	(103 507)	(72 045)	-	(31 462)
Amortyzacja i odpisy	38 749	27 954	139%	10 795
EBITDA	(64 758)	(44 091)	-	(20 667)

The figure below shows the financial data of Mining Area for the period of the 1st quarter of 2016 and 2015.

Figure no. 8. Financial data of the Mining Area for the 1st quarter of 2015 and 2016.



EBITDA and EBIT results of the Mining Segment in the 1st quarter of 2016 reached a lower level than in the analogical period of 2015, which arises from the following factors:

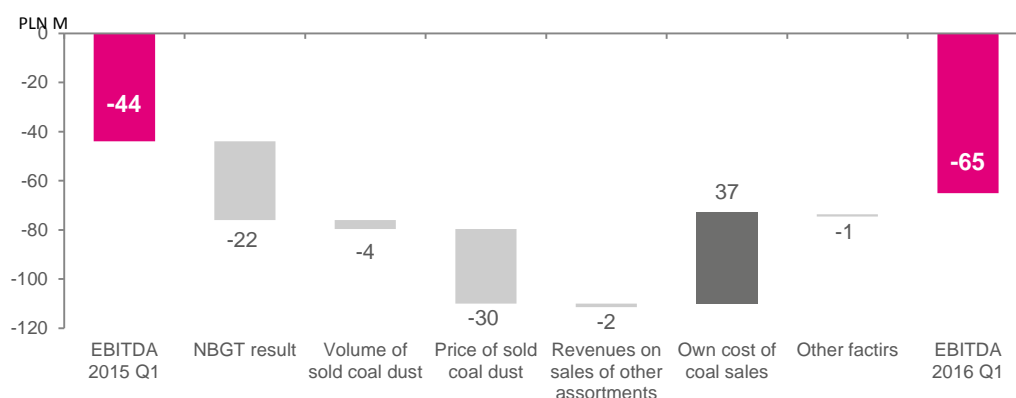
- recognising of the result of NBGT company in the 1st quarter of 2016,
- sales of the volume of fine coal lower by 2.1%,
- a price of fine coal sold lower by 16.3%,
- Gaining lower revenues from other assortments, mainly as a result of sales of a volume of medium-sized assortments lower by 11.7%, while obtaining a price lower by 1.7%. The above mentioned decline was to a certain degree compensated by sales of the volume of coarse assortments higher by 1.4% at the price growth by 1.0%,

Gaining of lower revenue on sales of coal results from oversupply of coal in the domestic market and, accordingly, from the associated high price competition among market participants.

- a lower own cost of coal sold, as a result of:
 - labour costs lower by 8.2% as a consequence of a lower average employment (by 755 FTEs),
 - costs of materials and energy lower by 4.4% due to decreased electricity consumption, which is the effect of reduced extraction of coal,
 - sales of part of coal from dumps in 2015, which resulted in recognising of a higher value of coal reserves in own cost in this period,
 - allocation of a higher value of preparatory works in the balance sheet of the 1st quarter 2016.

The figure below shows the EBITDA result of the Mining Area, including the significant factors influencing the change in relation to the 1st quarter of the previous year.

Figure no. 9. EBIT result of Mining Area



Generation Area

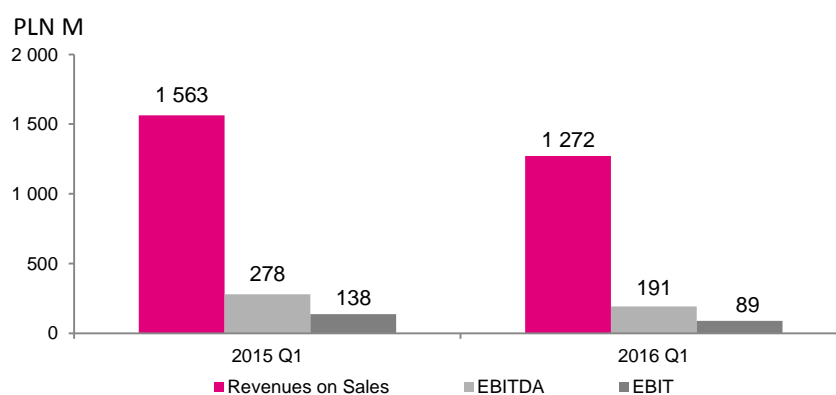
The table below shows the results of Generation Area for the period of the 1st quarter of 2016 as compared to the 1st quarter of 2015.

Table no 13. Results of the Generation Area

Specification (PLN thous.)	Q 1 2016	Q 1 2015	Dynamics 2016/2015	Change (2016-2015)
Generation				
Revenue on sales	1,271,824	1,563,071	81%	(291,247)
<i>electricity</i>	779,090	1,052,587	74%	(273,497)
<i>heat (including heat transmission)</i>	308,138	300,673	103%	7,465
<i>property rights arising from certificates of electricity origin</i>	171,907	198,113	87%	(26,206)
<i>other</i>	12,689	11,698	109%	991
Operating profit	89,222	137,560	65%	(48,338)
Depreciation and write-offs	101,927	140,811	72%	(38,884)
EBITDA	191,149	278,371	69%	(87,222)

The figure below shows the financial data of the Generation Area for the period of the 1st quarter of 2016 and 2015.

Figure no. 10. Financial data of the Generation Area for the 1st quarter of 2015 and 2016.



In the 1st quarter of 2016, the revenues on sales in the Generation Segment were lower by approximately 19% as compared to the corresponding period of the previous year, due to lower revenue on electricity

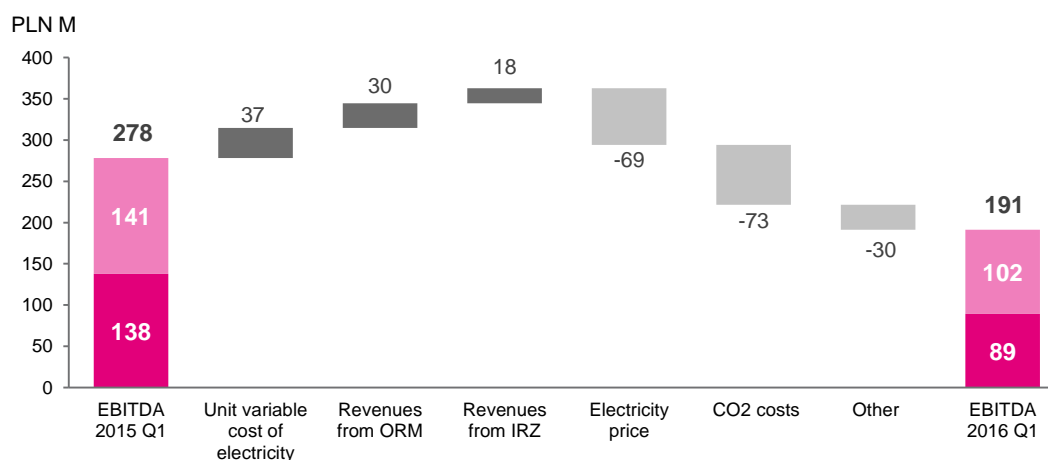
sales (mainly due to a lower volume of sales of energy purchased) and higher revenue on sales of property rights of electricity certificates of origin (lower volume of production from RES, lower price of PM OZE, lack of support for hydroelectric power plants with the electrical capacity above 5 MW_e).

EBITDA and EBIT results of the Generation Segment in the 1st quarter of 2016 reached a lower level than in the analogical period of 2015, which arises from the following factors:

- lower sales price of electricity,
- higher costs of CO₂ reserve - in the 1st quarter of 2015 TAURON Wytwarzanie recorded a surplus of free CO₂ allowances in relation to emission, accordingly, no costs of reserve occurred in this company. In the 1st quarter of 2016 both in TAURON Wytwarzanie and in TAURON Ciepło deficit of free allowances occurred in relation to emission, resulting in higher costs,
- higher revenues from the Operating Power Reserve (OPR) - the effect of lower contracting of electricity sales and a higher unit rate of the OPR YoY,
- revenues from the Intervention Cold Power Reserve (gained since 1 January 2016),
- lower unit variable generation costs, mainly due to the decline in unit costs of coal consumption,
- other factors – lack of PM OZE support for hydroelectric power plants with installed electric capacity over 5 MW_e, lower revenues from regulatory system services.

The figure below shows the EBITDA result of the Generation Area, including the significant factors influencing the change in relation to the 1st quarter of the previous year.

Figure no. 11. EBIT result of the Generation Area



Distribution Area

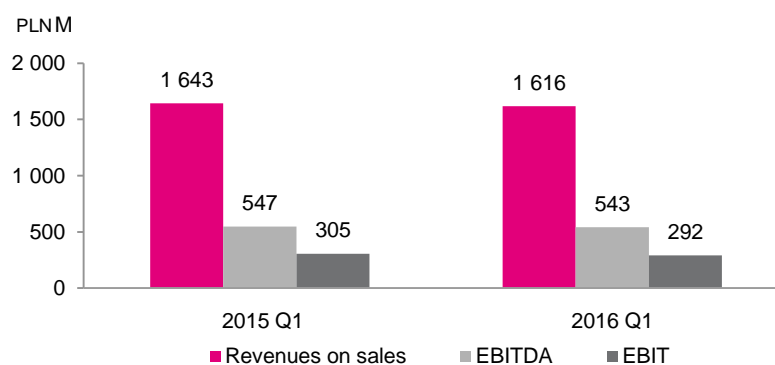
The table below shows results of the Distribution Area for the period of the 1st quarter of 2016 as compared to the 1st quarter of 2015.

Table no 14. Results of the Distribution Area

Specification (PLN thous.)	Q 1 2016	Q 1 2015	Dynamics 2016/2015	Change (2016-2015)
Distribution				
Revenue on sales	1,616,387	1,642,972	98%	-26,585
<i>distribution services</i>	1,527,295	1,539,612	99%	-12,317
<i>connection fees</i>	21,743	32,362	67%	-10,619
<i>maintenance of street lightning</i>	28,150	28,300	99%	-150
<i>other services</i>	39,199	42,698	92%	-3,499
Operating profit	291,592	305,053	96%	-13,461
Depreciation and write-offs	251,665	241,607	104%	10,058
EBITDA	543,257	546,660	99%	-3,403

The figure below shows the financial data of the Distribution Area for the period of the 1st quarter of 2016 and 2015.

Figure no. 12. Financial data of the Distribution Area for the 1st quarter of 2015 and 2016.



In the 1st quarter of 2016, as compared to the 1st quarter of 2015, the Distribution Segment recorded growth in revenues by about 1.6%, whereas the decline of results at the EBIT and EBITDA level reached 4.4% and 0.6%, respectively.

The most important factors influencing the change in revenues included:

- decline in the average rate of distribution service sales to end consumers (by 3.6%) in each tariff group, excluding A group,
- growth of supplies to industrial consumers as a result of GDP and production growth, in particular, among consumers in B group,
- growth of energy uptake by households where multiannual upward trend with low dynamics has been observed,
- decline in revenues from connection fees from entities connected to HV and MV grids.

The most significant factors affecting the change of variable costs include:

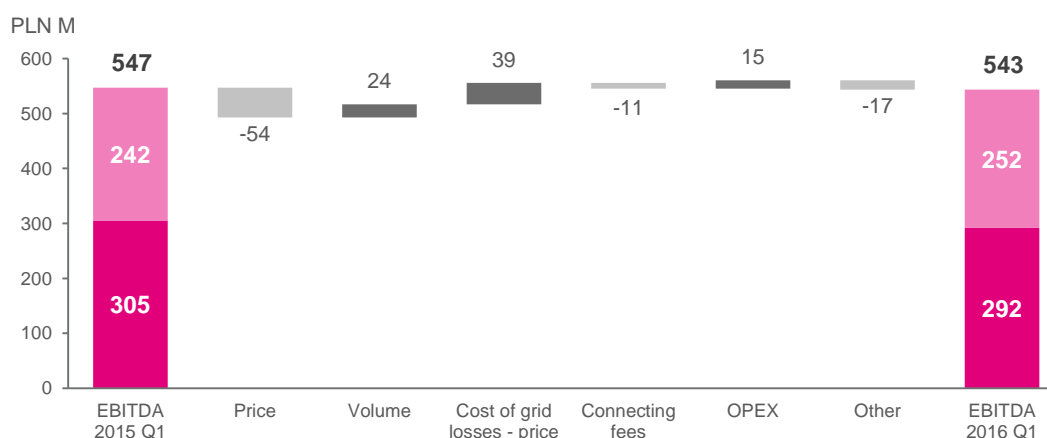
- significantly lower price of balancing of energy losses, as the resultant of prices of energy purchase and resale in the Group,
- lower level of the balancing difference in relation to the volume of supplies (drop in grid losses indicator),
- higher rate of the TSO qualitative fee,
- higher volume of purchase of transmission services in relation to the volume of supplies - decline in the local generation.

Other factors influencing the achieved results:

- growth of depreciation costs and tax on grid assets as a result of investment projects under implementation,
- growth in the rate of taxes on real property of municipalities,
- higher result on other operating activity.

The figure below shows the EBITDA result of the Distribution Area, including the significant factors influencing the change in relation to the 1st quarter of the previous year.

Figure no. 13. EBIT result of the Distribution Area



Sales Area

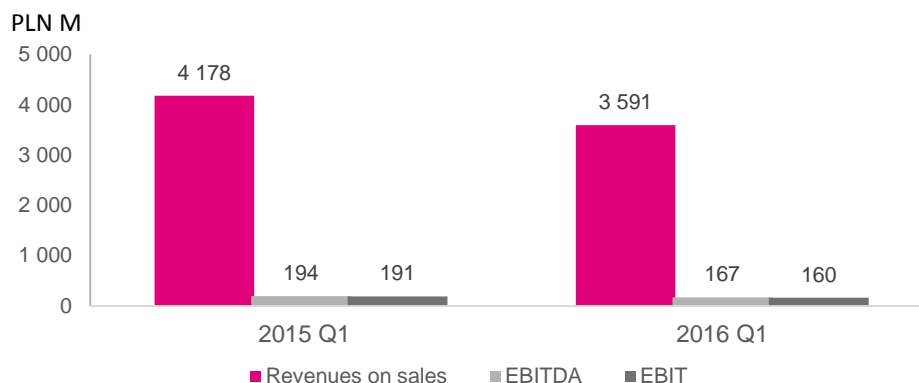
The table below shows the results of the Sales Area for the period of the 1st quarter of 2016 as compared to the 1st quarter of 2015.

Table no 15. Results of the Sales Area

Specification (PLN thous.)	Q 1 2016	Q 1 2015	Dynamics 2016/2015	Change (2016-2015)
Sales				
Revenues on sales	3,591,188	4,178,282	86%	(587,094)
<i>electricity, including:</i>	<i>2,272,466</i>	<i>2,776,189</i>	<i>82%</i>	<i>(503,723)</i>
<i>revenues on retail sales of electricity</i>	<i>1,862,991</i>	<i>2,066,871</i>	<i>90%</i>	<i>(203,880)</i>
<i>greenhouse gas emission allowances</i>	<i>93,288</i>	<i>46,259</i>	<i>202%</i>	<i>47,029</i>
<i>fuel</i>	<i>394,118</i>	<i>464,702</i>	<i>85%</i>	<i>(70,584)</i>
<i>distribution service (transferred)</i>	<i>820,970</i>	<i>870,154</i>	<i>94%</i>	<i>(49,184)</i>
<i>other services, including commercial services</i>	<i>10,346</i>	<i>20,978</i>	<i>49%</i>	<i>(10,632)</i>
Operating profit	160,221	191,045	84%	(30,824)
Depreciation and write-offs	6,541	2,726	240%	3,815
EBITDA	166,762	193,771	86%	(27,009)

The figure below shows the financial data of the Sales Area for the period of the 1st quarter of 2016 and 2015.

Figure no. 14. Financial data of the Sales Area for the 1st quarter of 2015 and 2016.



In the 1st quarter of 2016 the revenue on sales in the Sales Segment was lower by approximately 14% as compared to the corresponding period of the previous year, mainly due to lower revenues on electricity sales (lower volume and sales price), lower revenues on distribution service sales and lower revenues on fuel sales (lower volume of coal sales).

EBITDA and EBIT results of the Sales Segment in the 1st quarter of 2016 reached a lower level than in the corresponding period of 2015, which was affected by the following factors:

- lower volume of electricity retail sales, mainly in the business segment and SMEs, due to aggressive pricing policy of competitive companies,
- lower electricity sales prices, resulting from loyalty actions addressed to clients from business segment, clients from household segment – transfer from the tariff to the product and product renewals at prices arising from the tariff for individual clients, as well as price reduction in the group of individual clients, in connection with the approval of the Tariff by the ERO President at a level lower by 0.88% than in the previous year,
- lower costs of redemption of property rights - as a result of lower purchase prices of “green” certificates, prices of “red” certificates remained at a similar level, whereas prices of “green”, “violet” and “white” certificates increased,
- percentage growth of the redemption obligation of property rights – for “green” certificates - from 14% to 15%, for “yellow” certificates - from 4.9% to 6.0% and for “violet” certificates - from 1.3% to 1.5%.

The figure below shows the EBITDA result of the Sales Area, including the significant factors influencing the change in relation to the 1st quarter of the previous year.

Figure no. 15. EBITDA result of the Sales Area



Other Area

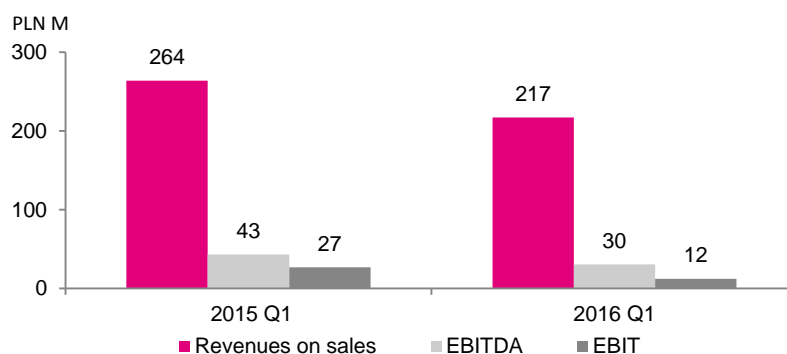
The table below shows results of the Other Area for the period of the 1st quarter of 2016 as compared to the 1st quarter of 2015.

Table no 16. Results of Other Area

Specification (PLN thous.)	Q 1 2016	Q 1 2015	Dynamics 2016/2015	Change (2016-2015)
Other				
Revenue on sales	217,442	264,140	82%	(46,698)
<i>customer service, accounting and IT services</i>	140,795	154,517	91%	(13,722)
<i>electricity and property rights arising from certificates of electricity origin</i>	3,586	46,441	8%	(42,855)
<i>biomass</i>	46,810	40,160	117%	6,650
<i>aggregates</i>	20,360	21,183	96%	(823)
<i>other revenues</i>	5,891	1,839	320%	4,052
Operating profit	12,439	27,107	46%	(14,668)
Depreciation and write-offs	18,047	16,266	111%	1,781
EBITDA	30,486	43,373	70%	12,887

The figure below shows the financial data of the Other Area for the period of the 1st quarter of 2016 and 2015.

Figure no. 16. Financial data of the Other Area for the 1st quarter of 2015 and 2016.



Revenues on sales of the Other Area were lower by approximately 18% as compared to the corresponding period of the previous year, which mainly resulted from the decline in revenues from sales of property rights and energy due to suspension of trading in property rights and the decline in electricity trading by companies of this Area. The decline in the level of revenues from services provided by TAURON Obsługa Klienta arises from better adjustment of their structure to the needs of consumers.

In the 1st quarter of 2016 the Other Segment recorded the decline of results at EBIT level (by 54.1%) and EBITDA level (by 2%) as compared to the corresponding period of the previous year, as a consequence of the change in settlement of activities carried out by companies of the Segment to the “cost plus” formula, with a low margin.

4.4.3 Status of assets

Consolidated statement of financial situation

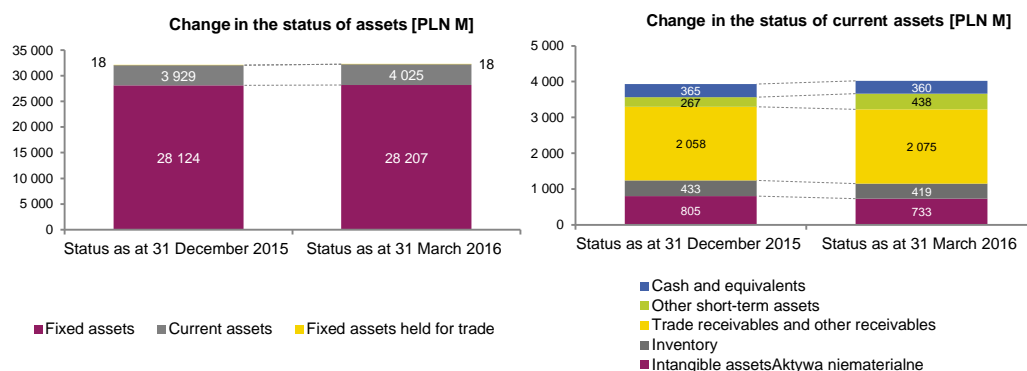
The table below presents the selected items of the consolidated statement of comprehensive income of TAURON Capital Group according to the status as at 31 March 2016, as well as the comparable data as at 31 December 2015. These items are quoted in accordance with the interim condensed consolidated financial report compliant with the IFRS (International Financial Reporting Standards) for the period of 3 months ended on 31 March 2016.

Table no 17. Consolidated statement of financial standing - assets (significant items)

Consolidated statement of financial situation (in PLN thous.)	Status as at 31 March 2016 (not audited)	Status as at 31 December 2015	Dynamics (2016/2015)
ASSETS			
Fixed assets	28,207,013	28,124,185	100%
Tangible fixed assets	25,330,290	24,882,817	102%
Current assets	4,043,539	3,947,248	102%
Cash and equivalents	360,118	364,912	99%
Fixed assets and assets of the Group for disposal, classified as held for trade	18,258	17,898	102%
TOTAL ASSETS	32,250,551	32,071,433	101%

As at 31 March 2016 the statement of financial situation of TAURON Group indicates a balance sheet total lower by almost 1%.

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



Tangible fixed assets represent the biggest item of assets of TAURON Capital Group, the value of which increased in the reporting period, mainly as a result of investment under implementation in the Generation and Distribution Segments.

The total fixed assets did not change significantly in the 1st quarter of 2016 (growth by 0.3%). Changes in analytical items resulted from the following factors:

- 1) tangible fixed assets – growth by 2% as a result of investments under implementation companies of the Group,
- 2) intangible assets – decline by approximately 86% arising from reclassification of electricity certificates of origin and CO₂ emission allowances to current assets in order to fulfil the obligation related to redemption of the aforementioned assets for 2016,
- 3) value of stocks and shares in joint ventures – growth by 6% arising from the share of TAURON Capital Group in the profit generated by TAMEH Holding sp. z o.o. in the 1st quarter of 2016,
- 4) other long-term financial assets - growth by approximately 13% due to the growth in the value of the margin deposit,
- 5) other long-term non-financial assets - growth by approximately 3% arising from the transferred consecutive instalments of advance payments for investment in tangible fixed assets under implementation.

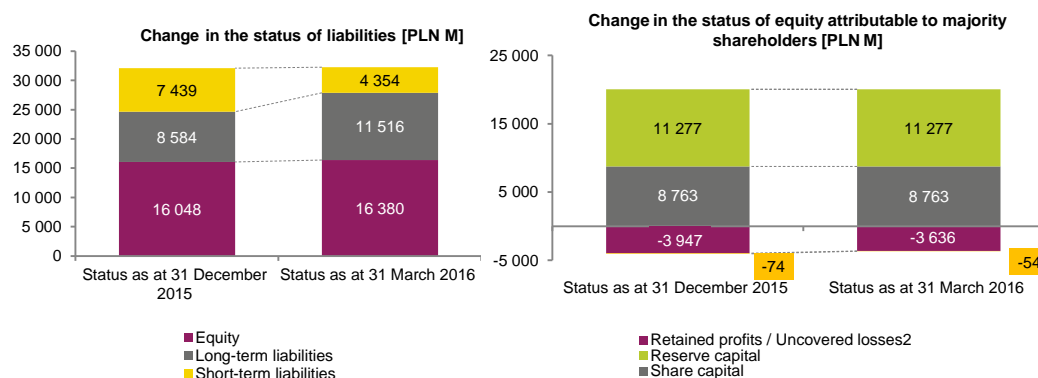
The following factor had an impact on the growth in the value of current assets by 2%:

- 1) growth in the value of other financial assets by approximately 411% due to the growth in the value of the margin deposit,
- 2) growth of receivables due to taxes and fees by approximately 16%, as a result of growth in income tax receivables as a consequence of the advance payment contributed by Tax Capital Group for a period of two first months of 2016 and lower receivable due to VAT,
- 3) growth of other non-financial assets by approximately 13% due to the created write-offs to ZFŚS (Company Social Benefit Fund),
- 4) decline in the value of intangible assets by 9%, which results from the settlement of redemption obligation of electricity certificates of origin for 2015 and recognising of electricity certificates of origin and CO₂ emission allowances constituting the security of the redemption obligation for the current year, in the balance sheet,
- 5) decline in inventory by approximately 3% as a result of consumption of coal stocks collected as at the end of December 2015 by companies of the Generation Segment,
- 6) decline in cash and equivalents by approximately 1% – the reasons of the change are described in section 4.4.4 dealing with the cash flow account.

Table no 18. Consolidated statement of financial standing - liabilities (significant items)

Consolidated statement of financial situation (in PLN thous.)	Status as at 31 March 2016 (not audited)	Status as at 31 December 2015	Dynamics (2016/2015)
LIABILITIES			
Equity attributable to shareholders of the parent entity	16,349,738	16,018,328	102%
Non-controlling shares	30,344	29,829	102%
Total equity	16,380,082	16,048,157	102%
Long-term liabilities	11,516,274	8,583,950	134%
Liabilities due to debt	7,751,518	4,924,127	157%
Short-term liabilities	4,354,195	7,439,326	59%
Liabilities due to debt	1,105,494	3,214,520	34%
Total liabilities	15,870,469	16,023,276	99%
TOTAL LIABILITIES	32,250,551	32,071,433	101%

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



The dominating source of assets financing in the 1st quarter of 2016, as in the previous years, was the equity, and its share in the balance sheet total increased to the level of 50.8%.

The value of long-term liabilities of TAURON Capital Group in the 1st quarter of 2016 increased by 34%, which is associated with the issue of bonds with the nominal value of PLN 2,860 million in the reporting period.

The value of short-term liabilities of TAURON Capital Group decreased by approximately 42%, which resulted from the following factors:

- 1) decline by approximately 66% of liabilities due to debt as a result of redemption of bonds with the nominal value of PLN 2,250 million on 29 February 2016 with the purpose of their redemption,
- 2) decline in other provisions by 48% due to the use of the provision established in 2015 for the fulfilment of the obligation to submit electricity certificates of origin for redemption, arising from the provisions of the Energy Law,
- 3) decline of investment liabilities by 57% and liabilities to suppliers by 12%,
- 4) growth of other non-financial liabilities by 25%, which results from application of monthly write-offs by companies of TAURON Group, in accordance with the provisions of the Act on the Company Social Benefits Fund,
- 5) growth in the value of financial derivative instruments by 59%, which results from the valuation of commodity contracts (forward, futures, swap) for forward purchase and sales transactions, mainly for CO₂ emission allowances and electricity.

4.4.4 Cash Flows

Consolidated statement of Cash Flow

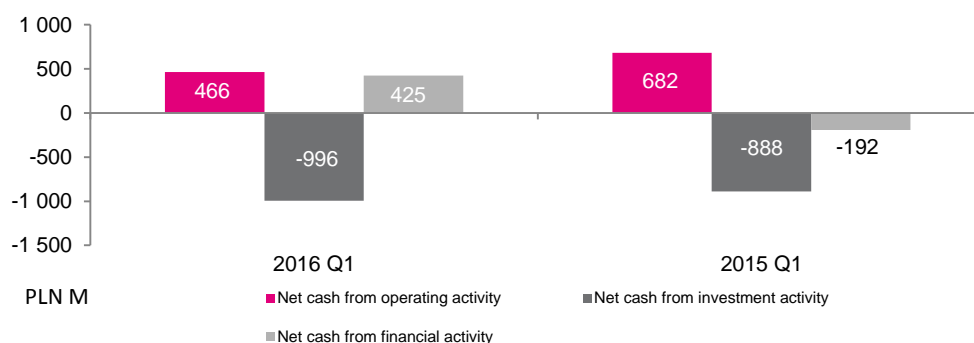
The table below presents cash flows of TAURON Capital Group for the period of three months ended on 31 March of 2016 and 2015, respectively.

Table no 19. Statement of cash flows (data in thousand PLN)

Statement of cash flows (data in PLN thousand)	Q 1 2016 (not audited)	Q 1 2015 (not audited)	Dynamics (2016/2015)
Cash flows from operating activity			
Gross profit / (loss)	411,595	574,373	72%
Adjustments	53,939	107,486	50%
Net cash from operating activity	465,534	681,859	68%
Cash flows from investment activity			
Sales of tangible fixed assets and intangible assets	5,442	7,465	73%
Purchase of tangible fixed assets and intangible assets	(993,936)	(900,356)	110%
Net cash from investment activity	(995,523)	(887,783)	112%
Cash flows from financial activities			
Issue of debt securities	2,860,000	-	-
Redemption of debt securities	(2,250,000)	(150,000)	1,500%
Repayment of loans/credits	(22,323)	(22,353)	100%
Return of public aid	(131,077)	-	-
Interest paid	(25,165)	(11,710)	215%
Net cash from financial activity	424,789	(191,516)	-
Increase/(decrease) in net cash and equivalents	(105,200)	(397,440)	26%
Cash opening balance	327,715	1,408,071	23%
Cash closing balance	222,515	1,010,631	22%

TAURON Capital Group recorded negative result on the total value of net cash flows on operating, investment and financial activities. The total of all cash flow streams amounted to approximately PLN (105.2) million.

Figure no. 19. Cash Flows



The value of cash flows on operating activities achieved in the reporting period was lower by approximately 32% 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 item of cash flow account:

- 1) gross financial result lower by approximately PLN 163 million,
- 2) income tax expenses higher by approximately PLN 216 million, which resulted from the advance payment on account of income tax, contributed by the Tax Capital Group in the amount of PLN 127 million and payment of income tax for 2015 in the amount of PLN 85 million,
- 3) change in the working capital by the amount of +158 million.

Expenditures due to the purchase of tangible fixed assets had the most significant impact on the developments of investment cash stream, which were higher by over 10% in the reporting period than the expenditures incurred in the 1st quarter of 2015. In the current period, the highest expenditures were incurred by the Distribution, Mining and Generation Segments, and the highest growth of expenditures was recorded in the Generation Segment (increase by 38% YoY).

The positive value of cash of financial nature results from the issue of bonds conducted in the 1st quarter of 2016, with the nominal value of PLN 2,860 million and from the redemption of bonds issued in previous years, with the nominal value of PLN 2,250 million. Moreover, in the 1st quarter of 2016, the NBGT returned public aid, in accordance with the provisions of the concluded agreement for return of the aid, in the amount of PLN 131 million.

Irrespective of the negative value of cash flows it can be stated that TAURON Group has been continuing the development process and strengthening of its market position. It should be noted that the value of operating cash flows has a positive balance, therefore, it enables TAURON Capital Group to finance its current activity independently whereas investments carried out in the Group are financed by the acquired external funds. The ratio of current liquidity and the net debt to EBITDA ratio remain at a safe level.

TAURON Capital Group effectively manages its cash flows, using the implemented central 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 loss of liquidity, the cash pooling mechanism was used. TAURON Capital Group uses various sources of funding, such as, e.g., overdraft, bank facilities, loans from environmental funds, issue of bonds, financial leasing agreements and lease agreements with the purchase option.

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

During the period under analysis, no factors and events of unusual character occurred, which would significantly affect the financial results achieved.

4.6 Factors which, according to the opinion of the Issuer, may have an 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 factors:

External:

- 1) the macroeconomic situation, especially in Poland, and the economic situation of the area where TAURON Capital Group operates, as well as at the EU and global economy level, including volatility of interest rates and currency exchange rates, etc., influencing the valuation of assets and liabilities recognised by the Company in the statement of financial situation,

- 2) 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 EC,
- 3) changes in regulations concerning 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 electric energy 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,
- 4) 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,
- 5) situation in electricity sector, including the activity and measures undertaken by competition in the energy market,
- 6) the number of CO₂ emission allowances allocated free of charge, as well as the price of the allowances purchased - under the circumstances of the deficit in free allowances,
- 7) electricity prices on the wholesale market;
- 8) sales prices of electricity and coal as well as distribution tariffs, as factors influencing the level of revenues,
- 9) prices of certificates of origin of energy from renewable sources and co-generation,
- 10) prices of energy resources,
- 11) environmental protection requirements,
- 12) research and technical progress,
- 13) demand for electricity and other products of the energy market, considering the changes arising from seasonality and weather conditions.

Internal:

- 1) activities in the area of optimisation of processes in all companies of TAURON Capital Group,
- 2) assumed effects of the effectiveness improvement programme covering years 2016-2018,
- 3) decisions in the scope of implementation of key investment projects,
- 4) marketing activities in the scope of acquisition of new clients and loyalty activities in terms of maintaining existing clients,
- 5) 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,
- 6) activity of the Tax Capital Group, mainly aimed at optimising the implementation of the obligations associated with the settlement of corporate income tax by key companies of TAURON Capital Group,
- 7) management of purchases by the TAURON Polska Energia S.A. Company, in particular, fuel purchases for the needs of generation entities included in TAURON Capital Group,
- 8) geological and mining conditions of extraction,
- 9) potential failures of equipment, installations and grids belonging to TAURON Capital Group.

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 the air temperature, and it is higher in the autumn and winter season. The level of electric energy sales to individual consumers depends on the length of a day, which usually makes electric energy

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.

Impact of the aforementioned factors on the financial result achieved in the 1st quarter of 2016 is described in item 4 of this information. 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 accomplish forecasts of results for a given year, published earlier

TAURON Capital Group has not published forecasts of financial results for 2016. The financial situation of TAURON Capital Group is stable and no negative events occurred which would pose any threat to its business continuity or significant deterioration of its financial standing. The detailed description of the financial standing understood as the provision of financial resources for both operating and investment activity is included in section 4 of this document.

5. Other information and events which occurred in the 1st quarter of 2016

5.1 Significant events which occurred in the first quarter of 2016

Settlement of agreement with Kompania Węglowa

On 19 January 2016 the settlement of the agreement with Kompania Węglowa S.A. was carried out, whose signing was reported by the Company in the current report no 7/2013 and whose subject was the purchase of hard coal by the Company. The Agreement was concluded for a period of three years from 1 January 2013 until 31 December 2015 and its estimated net value determined as at the day of concluding of the agreement amounted to PLN 2.4 billion net. In accordance with the performed settlement, the value of the turnover accomplished under the Agreement amounted to PLN 2.014 billion net, i.e. approximately 84 percent of the net value of the Agreement estimated initially and approximately 7 percent below the equivalent of 10 percent of Company equity used as the benchmark criterion for material agreements as at the day of submission of the report.

The Company informed of the aforementioned settlement in the current report no. 4/2016 of 19 January 2016.

Convening Bondholders' Meeting – bonds series TPEA1119 and agreements signed with some Bondholders

The Management Board of TAURON Polska Energia S.A., acting pursuant to item 1 letters (a), (c) and (g) of the Bylaws of Bondholders' Meeting which constitutes attachment to the Terms and Conditions of the issue of bonds of TPEA1119 series ("Bonds") assigned the code PLTAURN00037 by the Central Securities Depository of Poland and listed in the Alternative Trading System on Catalyst market organized by BondSpot S.A., with maturity falling on 4 November 2019, convened a Meeting of Bondholders on 3 March 2016 at ul. Złota 59 in Warsaw.

The subject of the Bondholders' Meeting was the adoption of the resolution on amendments to the terms and conditions of the Bonds' issue ("Terms and Conditions") which consist in amending the definition of

“Financial Debt” contained in item 1.1 (Definitions) of the Terms and Conditions and the amendment to the provisions of Grounds for Early Redemption contained in item 9.1(e) of the Terms and Conditions.

Bondholders representing 91.44 percent of votes took part in the Bondholders’ Meeting. Thus, the Bondholders’ Meeting was unable to adopt the resolution concerning amendments to Terms and Conditions of the Bonds’ Issue.

Considering the foregoing, TAURON, as the Issuer, proposed Bondholders who attended the Bondholders’ Meeting to sign, against agreed remuneration, bilateral agreements under which Bondholders who sign these agreements commit irrevocably with respect to the Issuer, to take part in every bondholders’ meeting concerning the bonds during the effective term of a given agreement and vote at every bondholders meeting, with all bonds, against the resolution allowing bondholders to submit to the Issuer a request for early redemption in the event of a potential breach, i.e. if the debt ratio defined in the terms and conditions of the bond issue exceeds 3.0x but does not exceed 3.5x, taking into consideration the new definition of financial debt and the principles for calculation of the financial ratio included in the agreement. In addition, Bondholders will undertake to refrain from disposing of the bonds until their maturity date.

The deadline for submitting signed agreements by Bondholders has been set by the Issuer on 21 March 2016. Until that date the Issuer signed agreements with Bondholders representing 6,937 Bonds of TPEA1119 series which constitute 39.64 percent of total nominal value of all series TPEA1119 Bonds and entitles to exercising of 39.64 percent of votes resulting from all Bonds.

Under the concluded agreements, the Issuer will pay each Bondholder who is a party to the agreement a remuneration in the amount of 0.20 percent per year of total nominal value of the Bonds held by the given Bondholder that are the subject of the agreement.

TPEA1119 series bonds were issued on 4 November 2014 in the amount of 17,500 pieces, as bearer, uncollateralized, coupon bonds with floating interest rate and nominal value of PLN 100,000 each. The Bonds are dematerialized at the securities depository run by KDPW S.A., assigned ISIN code PLTAURN00037 by KDPW S.A. and traded in Alternative Trading System on the Catalyst market organised by BondSpot S.A. The maturity date of the Bonds falls on 4 November 2019.

The Company informed of the aforementioned events in current reports: no. 8/2016 of 10 February 2016, no. 12/2016 of 3 March 2016 and no. 16/2016 of 22 March 2016.

Information about planned write-off of impaired generation assets of the Generation Segment in financial statements for 2015

On 15 February 2016, following the completion of main works related to impairment tests on assets, in line with the requirements of the International Accounting Standard 36, the Management Board of TAURON Polska Energia S.A. publicly announced information on the expected impact of non-cash one-off event in the form of a write-off of unprofitable generation units in the Generation Segment.

For testing purposes, the recoverable amount has been determined based on analysis of discounted cash flow generated by individual cash-generating centres. Key business assumptions affecting the evaluation of the recoverable amount included the adopted curves of electricity and fuel prices, CO₂ emission limits for electricity generation, tariff revenue of heat companies and maintenance of generation capacity of existing fixed assets as a result of executing capacity replacement investments.

The reason behind the write-offs lies primarily in market conditions that have been unfavourable for electricity generators and the resulting application of more conservative forecasts of electricity prices and reduced generation volumes in future.

To partially set off the impact of negative market conditions and improve the situation of the Group over a longer perspective, the Company Management Board has launched works on corporate strategy update. Within that process a review of the investment portfolio has been initiated to verify investment projects. The

Company is also finalising works on the new Effectiveness Improvement Programme for 2016-2018 which should generate further savings. In addition, synergies are expected to be achieved inside the Group thanks to simplification of the management model. The Company indicates that market trends are essential in terms of development of long-term perspective for planning electricity generation profitability, which may lead to further write-offs if the unfavourable trends persist.

In relation to consolidated financial statements of TAURON Capital Group for the financial year ended on 31 December 2015, the conducted tests have shown the legitimacy of recognising write-offs due to partial or full impairment of the carrying amount of assets comprising a significant part of the Group's generation assets in the electricity and heat generation area – power units of various capacities (in particular, 200 MW and 150 MW), biomass-fired units and co-generation units. The total value of estimated write-offs resulting from impairment of tangible and intangible assets and goodwill in the Generation segment, charging prime costs, amounts to PLN 3,564 million and their impact on net result amounts to PLN 2,916 million. The value of those write-offs will have no impact on EBITDA result, understood by the Group as EBIT increased by depreciation and write-offs for non-financial assets.

In relation to separate financial statements of TAURON for the financial year ended on 31 December 2015 the conducted test indicated that it was necessary to write-off the impairment of shares in TAURON Wytwarzanie and TAURON Ciepło in the total amount of PLN 4,931 million. The expected impact of these write-offs on the net result in separate statements amounts to PLN 4,931 million.

The Company informed of the aforementioned event in the current report no. 9/2016 of 15 February 2016.

Exceeding of the 10% equity threshold in the scope of trading turnover between TAURON Capital Group companies and PSE S.A. Group companies

In reference to current reports no. 1/2012, no. 37/2012, no. 42/2013, no. 30/2014 and no. 11/2015 regarding turnover between companies of TAURON Group and Polskie Sieci Elektroenergetyczne S.A. (PSE), the Management Board of TAURON informed that on 29 February 2016, following receipt of documents concerning mutual provision of services to companies of TAURON Group, allowing for the settlement with companies of PSE Group, the net turnover generated between companies of TAURON Group and companies of PSE Group, from the date of publication of the above mentioned current report no. 11/2015, i.e. from 10 April 2015, reached approx. PLN 2,180 million (out of which approx. PLN 1,500 million are the costs items for companies of TAURON Group and approx. PLN 680 million are the income items); accordingly, the value of turnover exceeded 10% of the Issuer's equity.

The turnover of the highest value, i.e. about PLN 1,400 million net, was generated under the agreement no. UPE/OSD/TAUD/2014 of 16 December 2013, concluded between TAURON Dystrybucja S.A. and PSE (the Agreement). The subject of the Agreement is the provision of transmission services by PSE Operator, understood as transport of electric energy via the transmission grid. The agreement has been concluded for indefinite period of time. The estimated value of this Agreement during the period of 5 years following its conclusion, is approximately PLN 7,478 million. The services are cleared in accordance with the terms and conditions and charges approved by the President of the Energy Regulatory Office, defined in the tariff, and considering the provisions of the Instruction for Transmission System Operation and Maintenance (IRIESP). The Agreement does not stipulate any liquidated damages. The Agreement does not include conditions precedent or subsequent.

The Company informed of the aforementioned event in the current report No 10/2016 of 29 February 2016.

Purchasing of own bonds by TAURON and issue of bonds under the bond issue programme

On 29 February 2016 TAURON purchased, with the intention to redeem, 22,500 bonds ("Bought Back Bonds") out of 30,000 tranche C bonds ("Tranche C Bonds") issued on 12 December 2011 under the bond issue programme of 16 December 2010. TAURON informed of the issue of the said bonds in the current report no. 60/2011.

Early buyback does not cover the remaining 7,500 Tranche C Bonds which, according to the terms and conditions of the bond issue, will be redeemed on 12 December 2016. The Bought Back Bonds were purchased at the issue price of PLN 100,000 thus the total nominal value of bought back and redeemed bonds amounts to PLN 2,250,000,000. The amount of buy-back was increased by interest due from the first day of the last interest period preceding the buy-back until the day of that buy-back (excluding that day).

The purchase with the intention to redeem was executed based on bilateral agreements concluded between TAURON and bondholders of Tranche C Bonds and the main purpose of the transaction is to extend the maturity of debt incurred by the Company in the form of bonds. Funds to refinance the Bought Back Bonds were obtained by TAURON under a new bond issue programme. The Issuer informed about signing of the agreement for the new bond issue programme in the current report no. 49/2015.

Within the framework of the new programme, on 29 February 2016 the Company issued 22,500 bonds with the total nominal value of PLN 2,250,000,000 ("Bonds") with maturity date falling on 29 December 2020. The Bonds were issued in PLN as uncollateralized, dematerialized and coupon securities. The Bonds were taken up at the issue price equal to the nominal value amounting to PLN 100,000. The interest rate on bonds was determined based on WIBOR 6M rate increased by a fixed margin. The Bonds will be redeemed at the issue price on the maturity date and interest will be paid in arrears at the end of each interest period to bondholders who hold the Bonds on the record date. Interest payable under the Bonds will be paid in semi-annual periods (subject to the first, four-month period). On account of Bond holding, the Bondholders will be entitled to cash payments only.

The Bonds have been taken up by financial institutions that are parties to the bond issue programme, i.e. Bank BGŻ BNP Paribas S.A., Bank Handlowy w Warszawie S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) BV, Bank of Tokyo-Mitsubishi UFJ (Polska) S.A., Bank Zachodni WBK S.A., CaixaBank S.A. (Spółka Akcyjna) Oddział w Polsce, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, ING Bank Śląski S.A., mBank S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. As a result of the transaction TAURON improved its debt structure by moving the maturity date of the bonds in the amount referred to above by five years, which has a positive impact on the Issuer's financial and economic standing in view of investment expenditures planned for the coming years. As of the day of bond issue, the Management Board of the Company does not recognise any threats in relation to complying with the commitments resulting from the Bonds.

The Company informed that as of 31 December 2015 the value of its liabilities amounted to PLN 9.7 billion. At the same time due to, inter alia, the execution of its investment program, the Issuer anticipates that the debt level may increase during the period until the maturity date of the Bonds.

The Company informed of the aforementioned event in the current report no. 11/2016 of 29 February 2016.

Adoption of efficiency improvement programme in TAURON Group for 2016-2018

On 9 March 2016 the Management Board of TAURON passed the resolution on adoption of the Efficiency improvement programme in TAURON Group for 2016-2018. The Programme was drafted with account being taken of current market conditions and the need to keep the financial standing of the Group stable.

Projects of initiatives were developed whose implementation will bring efficiency improvement at a level of approximately PLN 1.3 billion in the years 2016-2018 (cumulative effect of the Programme over three years). Approximately 75 percent of savings will translate directly into the operational result of the Group. Other savings are associated with the reduction of investment expenditures in the scope of use of the assets held and improvement of procurement policy effectiveness. Execution of the Program will allow for increase of the Group's EBITDA by approximately PLN 400 million in 2018 (sustainable, recurring effect at this level in subsequent years). The Group expects to improve its operational efficiency in most areas – the largest share falling in Distribution and Generation Areas.

Figure no. 20. Planned distribution of savings in the years 2016-2018

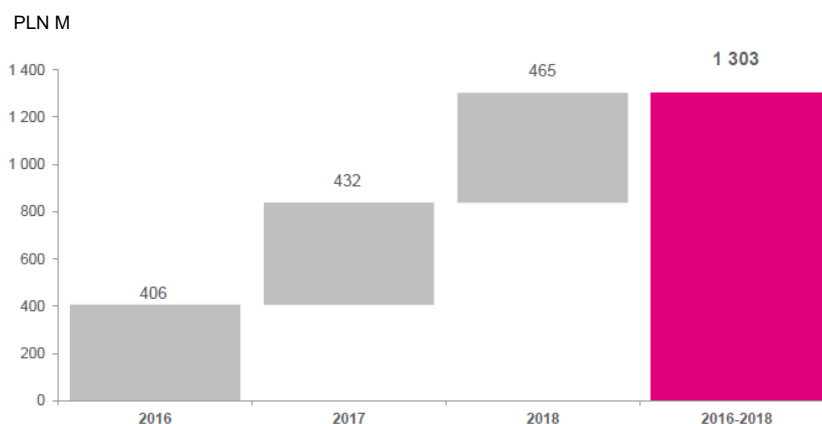
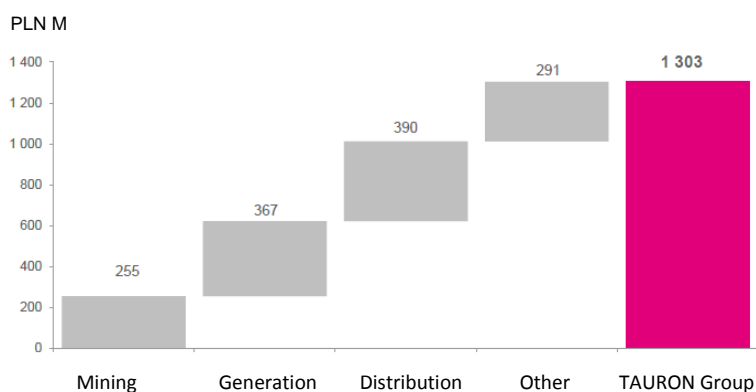


Figure no. 21. Planned distribution of savings to individual Business Areas



The Company informed of the aforementioned event in the current report no. 13/2016 of 9 March 2016.

Recommendation of the Management Board concerning dividend payout

On 10 March 2016 the Management Board of the Company adopted the resolution to recommend to the Ordinary General Meeting allocation of a part of the Company reserve capital in the amount covering sums carried forward from previous years' profits to pay PLN 175,254,939.40 as a dividend to the Company shareholders, which means that the dividend per share will amount to PLN 0.10. At the same time, the Management Board indicated that the above recommendation shall be subject to assessment by the Company Supervisory Board. Simultaneously, the Management Board decided to submit a recommendation to the Company Ordinary General Meeting determining:

- 1) dividend record day on the 90th (ninetieth) day counting from the day of adoption of the General Meeting resolution concerning the use of the Company reserve capital,
- 2) dividend payment day on the 14th (fourteenth) business day counting from the dividend record day.

The recommendation of the Management Board concerning the amount of dividend to be paid to Company shareholders shows the intention to continue the existing adopted practice of dividend payment by the

Company and takes into account in particular the financial result for the year 2015 as well as the level of reserve capital established from profits for previous years, the investment programme of the TAURON Group under implementation and the covenants defined in financing agreements.

The proposed amount of dividend will allow the Company to maintain the debt ratio at a safe level.

On 17 March 2016 the Supervisory Board approved the aforementioned recommendation of the Management Board related to the dividend.

The Company informed of the aforementioned events in the current reports no. 14/2016 of 10 March 2016 and no. 15/2016 of 17 March 2016.

Shareholder's request to convene the General Meeting of the Company and include particular items on the agenda

On 30 March 2016 KGHM Polska Miedź S.A. - a shareholder representing 10.39% of the Company's equity, submitted a request to convene the General Meeting of the Company and to include adoption of a resolution to change the composition of the Company Supervisory Board in the agenda. In the rationale KGHM stressed that convening the General Meeting will enable KGHM, as the Company shareholder, to present a motion to introduce a change in the composition of the Company Supervisory Board. The General Meeting was convened on 8 June 2016.

The Company informed of the aforementioned event in the current report no. 17/2016 of 30 March 2016.

5.2 Other significant events which occurred in the first quarter of 2016

Rescinding of the agreement for the construction of the CCGT unit in Stalowa Wola

On 29 January 2016 Elektrociepłownia Stalowa Wola S.A. (a special purpose vehicle of TAURON Wytwarzanie and PGNiG Termika) rescinded a contract with the general contractor of the CCGT unit with the capacity of 450 MW - the Abener Energia company. The reason underlying rescinding of the agreement was the violation of the schedule and significant technical conditions of the contract by Abener Energia and the failure to remedy the defaults indicated by the awarding entity within the determined time limit.

Analyses concerning further procedure and selection of the scenario for investment implementation are in progress. Elektrociepłownia Stalowa Wola S.A., jointly with partners and banks financing the project will determine the formula for completion of the investment. All parties agreed on the intention to continue the project. Activities aimed at resumption of financing are continued in cooperation with banks. The process of the site takeover from the general contractor as well as works in the scope of safeguarding and maintenance of equipment are ongoing. The Company is in the process of conducting negotiations with PGNiG S.A. in the scope of amendments to the gas and electricity agreements.

Return of public aid granted for covering of KWK Brzeszcze losses

In the first quarter of 2016, Nowe Brzeszcze Grupa TAURON, in accordance with earlier announcements, returned public aid, including interest, in the total amount of PLN 131,076,718.99. The first instalment of the returned public aid in the amount of PLN 5,083,644.50 was transferred on 15 January 2016 whereas the second instalment in the amount of 125,993,074.49 - on 31 March 2016.

The return of public aid resulted from the provisions of the agreement on the purchase of a part of KWK Brzeszcze assets to SRK of 31 December 2015 (current report no. 63/2015), containing, in particular, the obligation of the buyer (i.e. Nowe Brzeszcze Grupa TAURON) to return public aid which was granted to SRK in order to cover current production losses of KWK Brzeszcze Branch.

Work on the new strategy of TAURON Group

Intensive work on the new strategy of TAURON Group is in progress, which the Management Board of TAURON plans to complete by the end of the second quarter of 2016. The need for updating of the strategy is associated with significant changes of the market, legal and regulatory environment of the energy sector. The new strategy will respond to challenges arising from the current and forecast market situation. It will define the directions of development of the Group, strategic objectives and the investment programme. In particular, the capacity of the Group is analysed to finance the current and planned investment projects to the extent enabling their implementation from funds generated from operating activity and by acquisition of debt financing. The purpose of the work is to develop the optimum development path which will reflect the energy policy of Poland, generate benefits to the company and its shareholders.

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 February 2016 the accounts of the installations were supplied with free allowances for heat production in 2016. In order to obtain free allowances under the derogation due to electricity generation for 2015, on 29 September 2015 TAURON Capital Group submitted the substantive and financial reports on implementation of investment tasks contained in the National Investment Plan (KPI) for the reporting period from 1 July 2014 to 30 June 2015, to KOBiZE (National Centre of Balancing and Emission Management). The settlement of investment expenditures incurred for individual investment tasks contained in the KPI provides grounds for applying for free CO₂ 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 TAURON Capital Group, as entities implementing investment tasks contained in the KPI and applying for free CO₂ emission allowances, were committed to submit applications for the approval of the compliance indicators, i.e. 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 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 submission of the applications for the approval of compliance indicators is a part of the process of acquisition of free emission allowances - the so-called derogations for energy sector. The applications submitted received a positive opinion of KOBiZE and, as a consequence, in February and March 2016 decisions were received from the Ministry of Environment concerning the approval of the requested compliance indicators.

Draft Act on energy efficiency

On 23 February 2016 the Council of Ministers adopted the draft Act on energy efficiency, submitted by the Ministry of Energy. The new act will replace earlier legal regulations in the scope of energy efficiency applicable in Poland since 2011 as well as provide for the full implementation of Directive 2012/27/EU binding member states to achieve the defined level of energy savings by the end of 2020. These assumptions should be fulfilled through economic and effective energy use, reduction of its consumption as well as mitigating losses during its transmission. The new act offers entrepreneurs much broader opportunities to acquire energy efficiency certificates through supplementing the catalogue of projects by investments in assets designed for heat and electricity generation and admission of installations covered by the emission allowances trading system - EU ETS. The provisions of the draft act simplify the procedure of acquisition of certificates of energy efficiency origin through the replacement of the auction system by a system similar to other support systems - the certificates of origin will be issued by the ERO President on the basis of applications submitted by enterprises. The new regulations also modify issues associated with the fulfilment of the redemption obligation of energy efficiency certificates through introduction of a gradual waiver of a possibility to fulfil the obligation through payment of the substitution fee and the requirement to fulfil the obligation mainly through redemption of energy efficiency certificates or participation in efficiency projects carried out by the end consumer. On 14 April 2016 the draft act was submitted to the Sejm (Lower Chamber of the Polish Parliament) where further proceedings are pending.

Draft Act on investments in the scope of wind farms

On 19 February 2016, the draft Act on investments in the scope of wind farms was submitted to the Sejm. The draft defines the terms and conditions, rules and procedures of location and operation of wind farms as well as the conditions determining the location of residential development in the vicinity of wind farms. It assumes a minimum distance of wind farm location from residential buildings, areas of national parks, natural reserves, landscape parks, Natura 2000 areas or promotion forest complexes, as ten heights of a wind turbine. This provision is linked with a risk of serious limitation of the development dynamics of the wind sector. The draft also stipulates additional financial burdens for wind farm owners, arising from the requirement of cyclical acquisition of decisions permitting wind farm operation, issued by the Office of Technical Inspection. According to the opinion of the draft provider, the act to be implemented will contribute to the increase of investment safety and ensure participation of local communities in making decisions concerning land use management. At the moment, works related to the draft of this Act are carried out by the parliamentary commissions.

Draft Act on Water Law

Work related to updating of the Act on Water Law are ongoing. In the scope associated with electricity production issues, inter alia, the following measures are planned: introduction of fees for return water uptake, where the unit fee depends on electricity production and fees for consumption of technological water which is not directly intended for electricity production. The fees will result in significant growth of energy production costs in hydroelectric power plants.

5.3 Market situation

Situation in the energy market

According to the preliminary data, in the first quarter of 2016 energy consumption in the National Power System (KSE) amounted to 42,655 GWh and it was higher by 2.15% as compared to the corresponding period of the previous year. The growth in consumption is the effect of a slightly colder weather as well as the continued high level of economic growth. The average temperature in Poland in the analysed period was lower by 0.75°C than a year before and amounted to 1.84°C. In this period, over 3.4 TWh of energy were generated from wind sources in Poland, which made almost 8% of the KSE demand. Such a high generation also results from the significant growth of the number of wind turbines since, as at the end of March this year, the Polish system reached the installed wind capacity at a level of 5,433 MW (growth in the 1st quarter by 611 MW). On the other hand, calculating on a year on year basis, this growth amounted to almost 40%.

In the 1st quarter of 2016 interconnection between Poland and Lithuania - LitPol Link with the capacity of 500 MW was made available on commercial basis. In February, the next connection between Sweden and Lithuania - NordBalt with the capacity of 700 MW was commissioned. As a result, cross-border flows between Poland and Lithuania changed their nature from exports to imports-oriented. In total, during the 1st quarter over 133 GWh of energy were physically exported to Lithuania and 242 GWh were imported. Considering the import balance of energy flows in cross-sections with Sweden and Ukraine and circular flows executed in parallel cross-sections, the net balance of Poland reached almost 400 GWh in the direction of imports. Imports set off almost a half of electricity consumption growth in the KSE. The remaining growth was achieved through production growth in domestic power plants, mainly in wind farms. Accordingly, demand for energy from conventional power plants dropped in relation to the corresponding period of the previous year. The total production of electricity in Poland in the 1st quarter of 2016 reached 42,414 GWh (according to preliminary data). In the analysed period, large systemic sources available to the transmission system operator, so-called JWCD sources, produced 26,489 GWh, i.e. By 2.8% less than in the 1st quarter of 2015. Visible growth of production was demonstrated by smaller sources in the KSE, so-called nJWCD, which recorded growth in production by 4.5% YoY, i.e. to 15,750 GWh. High availability of capacity linked with generation of systemic heat fostered maintaining of relatively stable energy prices.

Electricity prices in the wholesale market

The average price on the Day-Ahead Market (RDN) of TGE S.A. (Polish Power Exchange) in the Towarowa Giełda Energii S.A. (TGE) 1st quarter of 2016 amounted to PLN 152.25/MWh and it was higher by PLN 6.70/MWh as compared to the corresponding period of 2015. In peak demand hours, the average prices reached approximately PLN 187.20/MWh and were higher by PLN 13.50/MWh YoY. The growth in prices was mainly affected by very high prices in January, obtained owing to higher fees for the Operating Power Reserve (OPR) and introduction of the Intervention Cold Power Reserve Mechanism (IRZ). In January, the average price on the RDN amounted to PLN 169.50/MWh for Base and PLN 222.20/MWh for Peak. The consecutive months, due to very high energy generation from wind and weather conditions, demonstrated much lower energy prices. The average RDN prices for February and March reached PLN 139.97/MWh and PLN 146.48/MWh, respectively.

Prices in the balancing market followed trends dominating on the TGE. January was the most expensive month, with the average price at a level of PLN 165.13/MWh, whereas prices in February and March were much lower, reaching PLN 140.16/MWh and PLN 143.89/MWh, respectively. On average, CRO clearing prices on the balancing market in the 1st quarter of the current year were lower than TGE prices, amounting to PLN 149.94/MWh.

In markets neighbouring with Poland spot energy prices were lower than in the 1st quarter of 2015. The average price in the German EPEX spot reached EUR 25.18/MWh and it was lower by EUR 6.39/MWh YoY. Similar trends occurred on the Czech OTE market, where the decline amounted to EUR 5.56/MWh and the average price reached EUR 26.39/MWh. Such a low level of prices is mainly affected by the growing generation from renewable sources, very low commodity prices (steam coal and CO₂) as well as atmospheric conditions resulting in the decline of energy consumption. Those elements resulted in steady profitability of energy imports to Poland in the 1st quarter of 2016. In addition, the connection commissioned in February between Sweden and Lithuania caused a reduction of energy prices in Lithuania and a change in flows on the LitPol connection towards Poland. The average spot price in Lithuania in January was higher by EUR 11.70/MWh than in Poland, whereas in February and March the direction changed - prices in Lithuania were by EUR 2.19/MWh and EUR 3.27/MWh lower than in Poland.

In the analysed quarter, the market of forward contracts was very volatile. High spot prices and the pro-growth attitude of participants made prices of annual Base Y-17 contracts reach almost PLN 170/MWh. At the end of January market perception by participants changed and prices dropped to approximately PLN 158/MWh. In the consecutive months, Base Y-17 prices ranged from PLN 151 to 155/MWh, whereas prices of Peak contracts - from PLN 202 to 206/MWh. During the analysed period, forward contracts for the successive quarters of 2016 were also getting cheaper and at the end of March, cost of Base Q2-16, Q3-16 and Q4-16 amounted to PLN 158, 169 and 155/MWh, respectively.

Prices of CO₂ emission allowances and property rights

The average price of CO₂ emission allowances in the SPOT market in the 1st quarter of 2016 reached the level of EUR 5.61/MgCO₂. In the corresponding period of 2015 this price reached EUR 7.00 /MgCO₂ (approximately 20% decline in prices YoY). The relatively high levels of prices of allowances in 2015 resulted from measures undertaken by the European Commission, aiming at elimination of the oversupply of allowances occurring in the market, through so-called backloading mechanism and leading to accelerated launch of the Stabilisation Reserve mechanism (MSR) as early as in 2019. The consequence of those events was the continuation of the upward trend started still in 2014, as a result of which the closing price of emission allowances in 2015 ended at a level of EUR 8.32/MgCO₂. Several factors simultaneously affected over 30% decline of prices in January 2016. The first of them was the negative response of market participants to the unbinding findings of the 21st climate change conference in Paris. The second factor driving the decline was the continuation of sale of European forward contracts for electricity and the persistent decline in coal prices. The third factor were the official statements of European Commission representatives indicating that the Stabilisation Reserve will be the only instrument to combat the oversupply of allowances, at least until 2022. Consequently, concerns appeared among market participants that in case of continued further decline of emission in the EU ETS system, there is high chance that the situation in which significant oversupply of allowances is recorded in the market may extend even until 2030. In February the barrier of EUR 5.00/MgCO₂ was temporarily overcome and quotations reached their 2-year minima at a level of EUR 4.62/MgCO₂. March was recorded as a neutral month with the average price of EUA SPOT at a level of EUR 4.93/MgCO₂.

The change of the political environment, introduction of the Act restricting construction of wind farms and resumption of work on the amendment to the Act on renewable energy sources resulted in the growth of investment risk and operating risk for entities engaged in this market. However, in the first quarter of 2016 those factors did not trigger significant changes in the intra-day market of property rights. The cost of PMOZE_A in the analysed period reached, on average, PLN 114.49/MWh whereas a year earlier the cost of PLN 147.62/MWh was recorded. Lower prices result from the growth of installed capacity in wind sources and their significant generation causing that at the end of March 2016 the balance of the PMOZE_A system, after adjustment by allowances to be redeemed, showed a surplus of 17.4 TWh (in the 1st quarter of 2015: 11.1 TWh). The OZEX_A index of property rights reached its highest level at the beginning of February, i.e. PLN 117.84/MWh. By the end of March, a decline of the index to PLN 111.50/MWh took place. The level of the substitution fee determined for 2016 amounts to PLN 300.03/MWh, and the obligation to submit PMOZE_A certificates for redemption is 15.0%.

Prices of cogeneration property rights confirming generation in 2015 of electricity in high efficiency coal cogeneration (PMEC-2015), gas cogeneration (PMGM-2015) and in the process of methane removal from coal mines (PMMET-2015) are traded until the end of June 2016, i.e. The final deadline for their submission for redemption. Due to the non-cumulative nature of certificates, i.e. lack of possibility to fulfil the obligation for a given year by rights confirming production of the previous years, demand and supply should be considered only in relation to the specific year, in this case - 2015. In the first quarter of the current year prices of the aforementioned certificates remained at a level close to the level of substitution fees. For PMEC-2015 the average price in this period amounted to PLN 10.79/MWh (with the substitution fee at a level of PLN 11.00/MWh, for PMGM-2015 the average price amounted to PLN 118.53/MWh (with the substitution fee at a level of PLN 125.00/MWh), and for PMMET-2015 - the price reached PLN 62.23/MWh (with the substitution fee at a level of PLN 63.00/MWh).

In February 2016 a draft of amended act regulating the issues of energy efficiency was published, which extends the effectiveness of the system. Several significant changes, including abandoning of the obligation to conduct a tender based on which the ERO President selects projects aiming at energy efficiency improvement, generally did not influence trading in PMEF certificates (so-called white certificates) in the first quarter of 2016. The average price of the EFX index amounted to PLN 979.80/toe, with the substitution fee at a level of PLN 1000.00/toe. In 2016, up to 30% of the obligation may be still fulfilled by payment of the substitution fee.

Gas prices in the wholesale market

In the 1st quarter of 2016 the average SPOT price of gas on TGE S.A. Reached PLN 67.01/MWh (decline by PLN 32.57/MWh YoY). Relatively high temperatures maintaining in the first months of the current year were the main reason of such a low level of prices. In addition, low oil prices in the global market had also a significant impact. The highest price of gas (PLN 76.73/MWh) was reached on 12 January, whereas the lowest price (PLN 52.46/MWh) - on 28 March. It was the lowest SPOT price since the beginning of existence of RDN_g (Day-Ahead Market for gas) on TGE. In the analysed market a strong downward trend could have been observed since the beginning of the year. The average price in January reached the level of PLN 72.54/MWh, whereas in March it already amounted to approximately PLN 60/MWh. Contrary to prices, the trading volume was much higher than in the previous years. In the first three months of 2016 it reached almost 5.2 TWh. It was by 0.8 TWh more than in the overall 2014 and by 3.6 TWh more as compared to the 1st quarter of 2015 (229% YoY).

In the German gas hub - Gaspool, which remains a benchmark for the Polish market, the average SPOT price in the 1st quarter of 2016 amounted to EUR 14.36/MWh, with the total volume slightly exceeding 3.5 TWh. In comparison to the corresponding period of the previous year, the decline of price by EUR 5.63/MWh and the growth of volume by over 0.8 TWh took place.

In the 1st quarter of the current year, the forward market of TGE, similar to RDN_g (Day-Ahead Market for gas), demonstrated a relatively strong downward trend, resulting mainly from the continuing low prices of oil. The reference annual contract with the delivery in 2017 (Y-17) in the first days of January was quoted at PLN 74.50/MWh, whereas in the last days of March its value reached PLN 65.00/MWh. The price of the analogical contract at the end of March 2015 amounted to PLN 97.63/MWh (- PLN 32.63 YoY). Other contracts (monthly, quarterly, seasonal) in the analysed period also lost their value in the range of PLN 10-15/MWh.

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

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

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

On 12 April 2016 the Management Board of the Company publicly informed of its intention to amend the Company Articles of Association, thus in the agenda of the Ordinary General Meeting of the Company including of an item concerning amendments to the “Articles of Association of TAURON Polska Energia S.A.” has been planned. The draft resolution including rationale, containing the proposed amendments to the Company Articles of Association was published in a current report concerning convening of the Ordinary General Meeting.

Introduction of amendments to the Company Articles of Association is aimed at implementing recommendations and detailed rules contained in “Best Practice of GPW Listed Companies 2016” to be applied in the Company, which will facilitate maintaining good relations with investors and represent an effective tool supporting the respect to shareholders’ rights. Moreover, the said implementation will have a positive impact on development of TAURON relations with its market environment.

In the scope of amendments to the Company Articles of Association, changes of streamlining and editorial nature were also proposed, including, inter alia, deleting in Section IX. “Transitional provisions” of the wording applicable until the day of filing of the motion by TAURON for admission of at least one Company share to trading in the regulated market, which had taken place in 2010.

Pursuant to the Resolution no. 51/IV/2016 of 8 March 2016 the Supervisory Board of the Company issued a positive opinion related to the motion of the Management Board to the General Meeting concerning the amendments to the “Articles of Association of TAURON Polska Energia S.A.”

The information on the intention to amend the Company Articles of Association and the detailed description of the amendments is included in the current report no. 18/2016 of 12 April 2016.

Convening of the Ordinary General Meeting of TAURON

On 12 April 2016, the Management Board of TAURON, acting pursuant to Article 395 § 1, Article 399 § 1 and Article 402¹ of the Commercial Companies Code and § 30 item 1 of the Company Articles of Association, convened the Ordinary General Meeting of the Company on 8 June 2016 at 11 a.m. in Novotel Katowice Centrum Hotel in Katowice at Al. Roździeńskiego 16.

The Company informed of the aforementioned event in the current report no. 19/2016 of 12 April 2016. The wording of draft resolutions of the Ordinary General Meeting and the documents which were not publicly announced earlier and which will be discussed by the Ordinary General Meeting, have been provided in the current report no. 20/2016 of 12 April 2016.

6.2 Other events after the balance sheet day

Adoption of a new Business Model of TAURON Group

Changes taking place in the energy sector affect all links of the value chain of electricity and heat. In the near future, TAURON Group will have to face challenges taking into account, inter alia, mining integration, effectiveness of generation sector operations, investment in new generation units, regional distribution of wholesale markets and structural changes of the market of electricity sales to the end consumer (market liberalisation, increasing competition for a Client as well as new products/ services for end consumers).

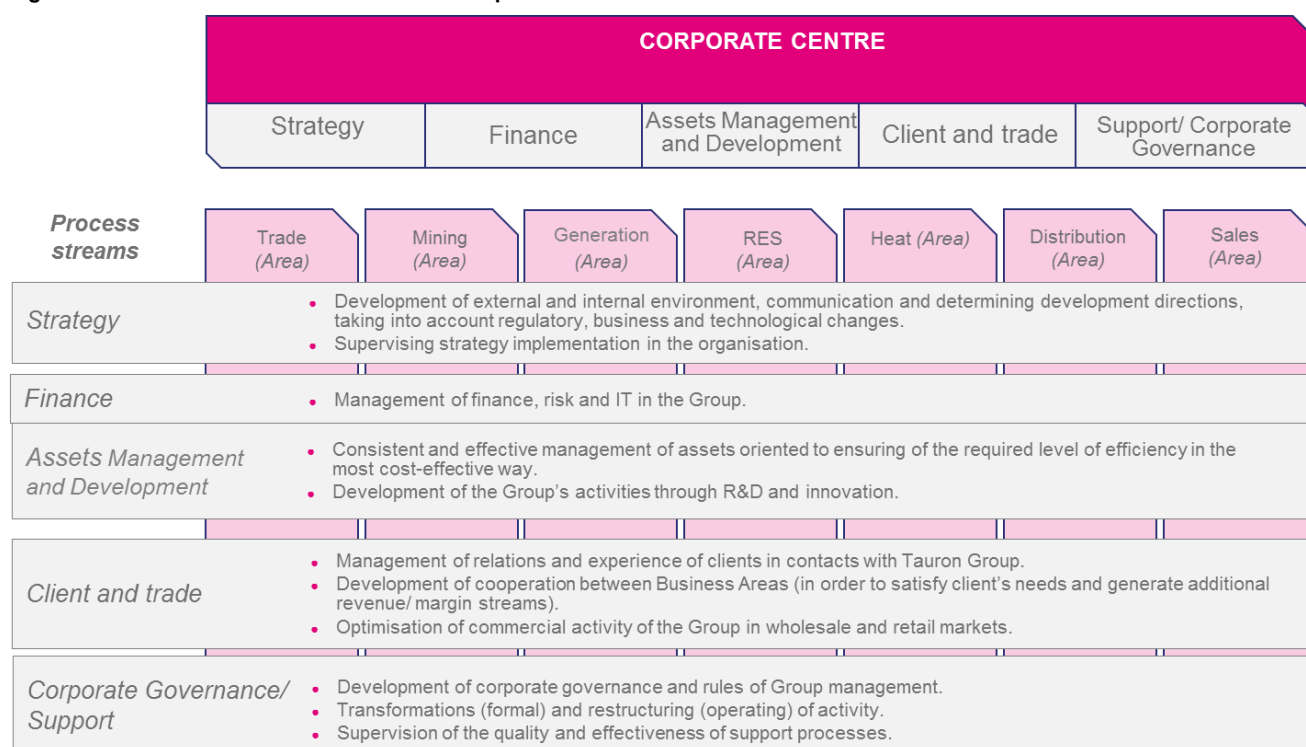
On 25 April 2016 the Management Board of TAURON adopted a new Business Model of TAURON Group. The Business Model is a response to the changing environment, identified ineffectiveness of the organisation and challenges faced by TAURON Group which the Group intends to implement. The Business Model defines the assumptions of operation and management of the Group and indicates the distribution of tasks and responsibilities among defined units: Corporate Centre, Business Areas and Centres of Common Services.

The strategic analysis of strengths and weaknesses of the organisation as well as market opportunities and threats has led to separation of five priority process streams around which the activity of TAURON Group will concentrate; they include: Strategy, Finance, Assets Management and Development, Client and Corporate Governance and Support. The objective of their distinguishing is to pay greater attention to cross-sectional issues (referring to more than one Business Area), which will significantly determine the value of the Group in the future against other entities operating in the energy sector.

Besides defining of five process streams, the basis of construction of the Business Model comprise: building the value of TAURON Group as a whole, focus on Clients (internal and external), being driven by values of the Group, reduction of bureaucracy of decision-making processes and using knowledge and qualifications of TAURON Group employees.

The consequence of adoption of the new Business Model will be the amendment to the "Organisational Regulations of TAURON Polska Energia S.A.". Introduction of amendments to this document is aimed at distribution of competence in the scope of management of the Company and TAURON Group between individual Members of the Management Board of TAURON Polska Energia S.A. and optimisation of this management. Moreover, it is expected that the introduced amendments will affect the development of competence in the Corporate Centre (TAURON Polska Energia S.A.) and in companies of TAURON Group. It should be stressed that simultaneous simplification of the organizational structure will have an impact on the improvement of information flow and minimisation of the time necessary to issue a decision, as well as allow for clear allocation of responsibilities to individual members of the organisation.

Figure no. 22. Business Model of TAURON Group



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

In the first quarter of 2016 no proceedings were pending in TAURON Capital Group (in relation 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 has been provided in note 45 of the Consolidated interim financial statement for the period of three months, ended on 31 March 2016.

9. Information on granted guarantees, loan or credit sureties

In the 1st quarter of 2016, 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 January 2016 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 Capital Group.

The Management Board of TAURON expresses its position that the information presented in this report describes the human resources, economic and financial situation of the Company in a comprehensive manner, and confirms that no other incidents occurred, undisclosed by the Company, which could be relevant for the assessment of the situation.