



***Additional information
to the extended consolidated report
of TAURON Polska Energia Capital Group
for the third quarter of 2016***

9 November 2016.

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1. Organisation of TAURON Capital Group

1.1 Basic Information on TAURON Capital Group

As at 30 September 2016, TAURON Polska Energia 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 8 other subsidiaries as well as 10 companies with the capital share between 50%-20% and 19 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) 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 comprised eight other subsidiaries, covered by consolidation, dealing, inter alia, with trading in electricity as well as extraction of limestone and stone for construction purposes.

In TAURON Group the Business Model operates which determines the assumptions of the Group's operation (management) and indicates the distribution of tasks and responsibilities among defined entities:

Corporate Centre – the superior organisational unit responsible for management of the Group's activities and taking the most important decisions affecting the Group, Business Areas, Centres of Common Services and companies belonging to TAURON Capital Group;

Business Areas – seven areas of TAURON Group's core activity, defined in accordance with the links of electricity and heat production value chain, i.e.: Trade, Mining, Generation, Renewable Energy Sources (RES), Heat, Distribution and Sales;

Centres of Common Services – units responsible for provision of specific support services (e.g. accounting, IT, HR and payroll, insurance, customer service) in favour of other entities of the Group.

Five defined process streams around which activities of TAURON Group shall concentrate underpin the construction of the Business Model, i.e.: Strategy, Finance, Asset Management and Development, Client, Corporate Governance and Support. The objective of distinguishing process streams is to pay greater attention to cross-sectional issues, referring to more than one Business Area.

The main regulatory act of TAURON Group is the Code of TAURON Group adopted by the Management Board of the Company which regulates its operations, ensuring the implementation of the goals through tailored solutions in the area of management of TAURON Group entities, including, in particular, determining the operating objectives of companies, enabling the achievement of assumed effects.

As of the date of adoption of resolutions on their accession to TAURON Group by general meetings/general meetings of shareholders, the companies listed below obtained the status of TAURON Group members.

As at 30 September 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 Wydobywanie 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 Pomiary 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
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

Within TAURON Group, besides Business Areas established by the Company Management Board, comprising companies of TAURON Group, the established Management Areas operate within which the relevant cooperation rules apply.

In addition, within TAURON Group permanent committees of TAURON Group operate, including:

- a) Project Assessment Committee,
- b) TAURON Group Management Committee,
- c) TAURON Group Compliance Committee,
- d) Risk Committee.

The aforementioned Committees were established in order to enable performing of operations in accordance with principles of operating consistency of TAURON Group, in compliance with law and interests of TAURON Group and its stakeholders.

The underlying task of the Committees is to provide surveillance over the implementation of consistent activities by all participants of TAURON Group, compliant with the TAURON Group Code and satisfying interests of TAURON Group. The specific tasks of the Committees are defined in detail in the by-laws of their activity adopted by the Company Management Board.

1.2 Entities subject to consolidation

As at 30 September 2016, consolidation covered the parent company - TAURON Polska Energia S.A. - and the following subsidiaries:

1. TAURON Wydobywanie S.A.
2. TAURON Wytwarzanie S.A.
3. TAURON Ekoenergia sp. z o.o.
4. TAURON Ciepło sp. z o.o.

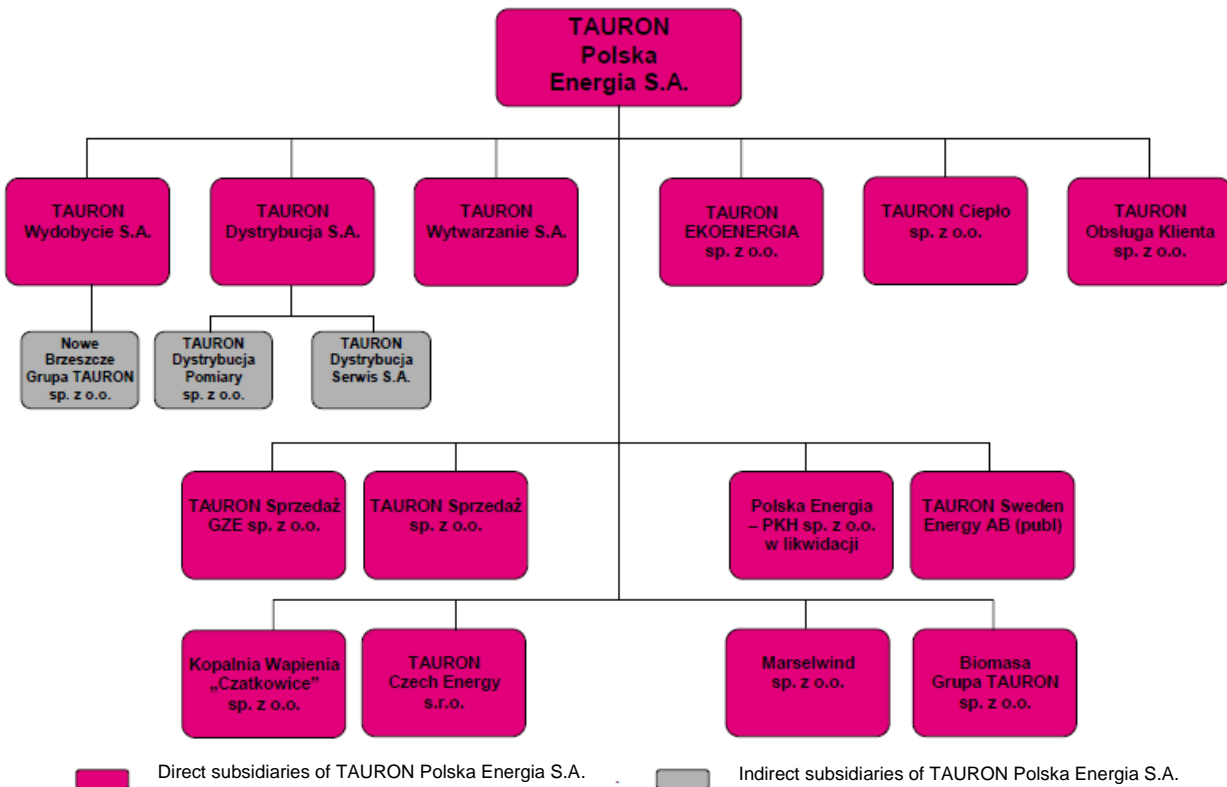
5. TAURON Dystrybucja S.A.
6. TAURON Dystrybucja Serwis S.A.
7. TAURON Dystrybucja Pomiary sp. z o.o.
8. TAURON Sprzedaż sp. z o.o.
9. TAURON Sprzedaż GZE sp. z o.o.
10. TAURON Czech Energy s.r.o.
11. TAURON Obsługa Klienta sp. z o.o.
12. Kopalnia Wapienia "Czatkowice" sp. z o.o.
13. Polska Energia Pierwsza 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.

TAURON Polska Energia S.A. Capital Group also 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 TAURON Capital Group and significant changes in its structure

The chart below presents companies whose results are consolidated within TAURON Capital Group, as at 30 September 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 3rd quarter of 2016 and after the balance sheet day:

Purchase of TAURON Wytwarzanie Serwis sp. z o.o. company shares

On 4 August 2016, pursuant to sales agreement, TAURON Polska Energia S.A. purchased 63,910 shares of TAURON Wytwarzanie Serwis sp. z o.o. company from TAURON Wytwarzanie S.A., with the nominal value of PLN 50 per share and the total nominal value of PLN 3,195,500, constituting 95.54% interest in the share capital of TAURON Wytwarzanie Serwis sp. z o.o. company.

The purchase of the shares was one of implementation stages of the project called "Reorganisation of the area of services in TAURON Group", with the objective of centralisation of service activity carried out for TAURON Wytwarzanie S.A. and TAURON Ciepło sp. z o.o. in TAURON Serwis sp. z o.o. company.

Increase of share capital of Nowe Brzeszcze Grupa TAURON sp. z o.o.

On 11 August 2016 the Extraordinary Meeting of Shareholders of Nowe Brzeszcze Grupa TAURON sp. z o.o. company was held which adopted the resolution concerning the increase of the company share capital by the amount of PLN 78,000 through creating 780 new shares with the nominal value of PLN 100 per share and the total nominal value of PLN 78,000. In connection with the aforementioned resolution all newly created shares were taken up by the existing sole shareholder - TAURON Polska Energia S.A. The shares were acquired at a price of PLN 5,000 per share, i.e. for the total amount of PLN 3,900,000, whereas the surplus in the amount of PLN 3,822,000 was transferred to the share capital of the company. The increase in the share capital was registered in the National Court Register on 25 August 2016.

Removal of TAURON Wytwarzanie GZE sp. z o.o. company from the National Court Register in connection with the termination of company liquidation

On 30 August 2016 TAURON Wytwarzanie GZE sp. z o.o. company was removed from the National Court Register (KRS). The aforementioned act resulted from the execution of liquidation activities required by law by the company liquidator, in the framework of liquidation of TAURON Wytwarzanie GZE sp. z o.o. company, adopted under the resolution of the Extraordinary Meeting of Shareholders of the company of 29 September 2015 – on 8 June 2016, in accordance with Article 288 § 1 of the Code of Commercial Companies, the Extraordinary Meeting of Shareholders of TAURON Wytwarzanie GZE sp. z o.o. company approved the liquidation report of the company and stated that the liquidation of the company had been completed.

Increase of the share capital of TAURON Dystrybucja Pomiary sp. z o.o.

On 14 September 2016 the Extraordinary Meeting of Shareholders of TAURON Dystrybucja Pomiary sp. z o.o. was held which adopted the resolution concerning the increase of the company share capital by the amount of PLN 1,540,000 through creating 1,540 new shares with the nominal value of PLN 1,000 per share and the total nominal value of PLN 1,540,000. In connection with the aforementioned resolution all newly created shares were taken up by the existing sole shareholder - TAURON Dystrybucja S.A. The shares were acquired at a price of PLN 50,000 per share, i.e. for the total amount of PLN 77,000,000, whereas the surplus in the amount of PLN 75,460,000 was transferred to the share capital of the company. The increase in the share capital was registered in the KRS on 11 October 2016.

Disposal of Nowe Brzeszcze Grupa TAURON sp. z o.o. company shares

On 15 September 2016, pursuant to the sales agreement concluded on 9 September 2016, TAURON Polska Energia S.A. disposed of 550,780 shares of Nowe Brzeszcze Grupa TAURON sp. z o.o. company from TAURON Wydobywanie S.A., with the nominal value of PLN 100 per share and the total nominal value of PLN 55,078,000, constituting 100 % interest in the share capital of Nowe Brzeszcze Grupa TAURON sp. z o.o. company. The disposal of the shares was one of the implementation stages of the project called "Integration of assets of Nowe Brzeszcze Grupa TAURON sp. z o.o. in the Mining Area".

Increase of TAURON Wydobywanie S.A. share capital

On 28 September 2016 the Extraordinary General Meeting of TAURON Wydobywanie S.A. company was held, which adopted the resolution concerning the increase in the share capital of this company from the amount of PLN 354,540,780 to the amount of PLN 355,510,780, i.e. by the amount of PLN 970,000, through issuing of 97,000 new shares with the nominal value of PLN 10 per share and with the total nominal value of PLN 970,000, which were taken up by the sole shareholder of the company - TAURON Polska Energia S.A. The shares were acquired at a price of PLN 1,000 per share, i.e. for the total amount

of PLN 97,000,000, whereas the surplus in the amount of PLN 96,030,000 was transferred to the share capital of the company.

The increase of the share capital of TAURON Wydobycie S.A. company was registered in the KRS on 27 October 2016.

Withdrawal from the demerger of TAURON EKOENERGIA sp. z o.o. Company through the separation to Marselwind sp. z o.o. company

In connection with a significant change in legal circumstances and facts, on 28 September 2016 the Extraordinary Meetings of Shareholders of companies: TAURON EKOENERGIA sp. z o.o. and Marselwind sp. z o.o. adopted resolutions concerning the withdrawal from the demerger of TAURON EKOENERGIA sp. z o.o. and waiver of demerger resolutions of 9 February 2015 concerning the demerger of TAURON EKOENERGIA sp. z o.o. company through the separation and transfer of separated components of assets constituting a part of the enterprise to Marselwind sp. z o.o. company.

Adoption of merger resolutions by Meetings of Shareholders of companies: TAURON Serwis sp. z o.o. and TAURON Wytwarzanie Serwis sp. z o.o.

On 5 October 2016 the Extraordinary Meetings of Shareholders of companies: TAURON Serwis sp. z o.o. (the acquiring company) and TAURON Wytwarzanie Serwis sp. z o.o. (the acquired company) adopted resolutions concerning the merger of TAURON Serwis sp. z o.o. company with TAURON Wytwarzanie Serwis sp. z o.o. company pursuant to Article 492 § 1 item 1) of the Code of Commercial Companies, i.e. through the transfer of all assets of TAURON Wytwarzanie Serwis sp. z o.o. to TAURON Serwis sp. z o.o. (merger through acquisition).

The merger shall take place including the increase in the share capital of the acquiring company from the amount of PLN 65,000 to the amount of PLN 4,596,700, i.e. by the amount of PLN 4,531,700, through creating 90,634 new equal and indivisible shares with the nominal value of PLN 50 per share, to be received by partners of the acquired company at a quantity calculated in accordance with the exchange parity indicated in the merger plan.

In connection with the merger, TAURON Polska Energia S.A., as a shareholder of the acquired company – TAURON Wytwarzanie Serwis sp. z o.o. shall receive 86,597 shares of the acquiring company – TAURON Serwis sp. z o.o. with the nominal value of PLN 50 per share and the total nominal value of PLN 4,329,850, which will constitute 95.61% share in the share capital of TAURON Serwis sp. z o.o.

The merger of the companies is performed under the implementation of the project called “Reorganisation of the area of services in TAURON Group” with the objective of centralisation of service activity carried out for TAURON Wytwarzanie S.A. and TAURON Ciepło sp. z o.o. in TAURON Serwis sp. z o.o. company.

Formation of ElectroMobility Poland S.A. company with its registered office in Warsaw

On 19 October 2016 r. TAURON Polska Energia S.A. and PGE Polska Grupa Energetyczna S.A., ENEA S.A. and ENERGA S.A. established a company under the enterprise name ElectroMobility Poland S.A., in which TAURON Polska Energia S.A. acquired 2,500 shares with the nominal value of PLN 1,000 per share and with the total nominal value of PLN 2,500,000, constituting 25% of interest in the company share capital. The core area of the company activity will cover conducting of studies and analyses in the scope of development, promotion and popularisation of electromobility and development of electromobility in Poland.

Increase of the share capital of the Komfort – ZET sp. z o.o. company

On 2 November 2016 the Extraordinary Meeting of Shareholders of Komfort – ZET sp. z o.o. was held which adopted the resolution concerning the increase of the company share capital by the amount of PLN 60,000 through creating 60 new shares with the nominal value of PLN 1,000 per share and the total nominal value of PLN 60,000. In connection with the aforementioned resolution all newly created shares were taken up by the existing sole shareholder - TAURON Dystrybucja S.A. The shares were acquired at a price of PLN 50,000.00 per share, i.e. for the total amount of PLN 3,000,000, whereas the surplus in the amount of PLN 2,940,000 was transferred to the share capital of the Company.

As at the day of drawing up this information the aforementioned increase in the share capital has not been registered in the KRS.

Adopting of merger resolutions by general meetings of companies TAURON Wydobycie S.A. and Nowe Brzeszcze Grupa TAURON sp. z o.o.

On 4 November 2016 the Extraordinary General Meeting of TAURON Wydobycie S.A. Company was held, whereas on 7 November 2016 the Extraordinary Meeting of Shareholders of Nowe Brzeszcze Grupa TAURON sp. z o.o. Company was held, both of which adopted resolutions concerning the merger of TAURON Wydobycie S.A. (the acquiring company) with Nowe Brzeszcze Grupa TAURON sp. z o.o. (the acquired company). The merger shall take place pursuant to Article 492 § 1 item 1 of the Code of Commercial Companies, i.e. through takeover and transfer of the entire assets of Nowe Brzeszcze Grupa TAURON sp. z o.o. Company to TAURON Wydobycie S.A. company. The merger takes place without increasing the share capital of TAURON Wydobycie S.A. company, since TAURON Wydobycie S.A. Company holds 100 % interest in the share capital of Nowe Brzeszcze Grupa TAURON sp. z o.o. company.

The merger of the companies is implemented under the project called "Integration of assets of Nowe Brzeszcze Grupa TAURON sp. z o.o. in the Mining Area".

As at the day of drawing up this information the merger of the companies has not been registered in the KRS.

2. Basic information concerning TAURON Polska Energia**2.1 Composition of the Management Board and Supervisory Board of TAURON Polska Energia*****Composition of the Management Board as at 30 September 2016 and as at the day of submission of this information***

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 Customer and Commercial Affairs.

Changes in personal composition of the Management Board in the 3rd quarter of 2016 and until the day of submission of this information

In the 3rd quarter of 2016 and until the day of submission of this information, no changes in the composition of the Management Board took place.

COMPOSITION OF THE SUPERVISORY BOARD***Composition of the Supervisory Board as at 30 September 2016 and as at the date of submission of this Information***

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. Leszek Koziorowski - Member of the Supervisory Board,
7. Wojciech Myślecki - Member of the Supervisory Board,
8. Jacek Rawecki - Member of the Supervisory Board,

9. Stefan Świątkowski - Member of the Supervisory Board.

Changes in personal composition of the Supervisory Board in the 3rd quarter of 2016 and until the day of submission of this information

In the 3rd quarter of 2016 and until the day of submission of this information, no changes in the composition of the Supervisory Board of the Company took place.

2.2 Structure of share capital

As at 30 September 2016, the share capital of the TAURON Polska Energia S.A. 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 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 per cent 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. 9 November 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 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. 17 August 2016, until the date of submission of this information, no changes in proprietary structure of significant blocks of the Company shares have occurred.

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

Managing persons:

The status of holding TAURON Polska Energia shares, or the authorisation to hold the shares by persons managing the Company in the period from the day of submission of the report for the first quarter of 2016,

i.e. from 17 August 2016, until 9 November 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 17 August 2016 (publication of the report for the 1 st half of 2016)	Change in number of shares held	Number of shares as at 9 November 2016 (day of submission of the report for the 3 rd quarter of 2016)
Remigiusz Nowakowski	935	-	935
Jarosław Broda	0	-	0
Kamil Kamiński	0	-	0
Marek Wadowski	0	-	0
Piotr Zawistowski	0	-	0

Since the day of submission of the previous periodical report, i.e. 17 August 2016, until the date of publication of this report, no changes in the shareholding structure of shares held by members of the Management Board have occurred.

Supervising persons:

As at the day of submission of his quarterly report, i.e. as at 9 November 2016 Members of TAURON Polska Energia Supervisory Board did not hold the Company shares. Since the day of submission of the previous periodical report, i.e. 17 August 2016, until the date of submission 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) trading in electricity (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.

Besides managing TAURON Capital Group, the core activity of the Company comprises wholesale trading in electricity, related products, gas, CO₂ emission allowances and production fuel, in order to maximise financial results of activity carried out in this area.

As a result of implementation of the business model and centralisation of functions, TAURON concentrated many competences related to the functioning of TAURON Capital Group companies 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 scope 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. The centralisation is aimed at improvement of effectiveness in TAURON Capital Group.

The Company has focused on the purchase and sales of electricity for the needs of securing the purchase and sales positions of entities included in TAURON Capital Group and on wholesale electricity trading. The following companies represented the main direction of electricity sales performed by the Company in the period of 2016 Q 1-Q 3: TAURON Sprzedaż and TAURON Sprzedaż GZE.

The competence of TAURON also includes management of certificates of origin for the needs of TAURON Capital Group, constituting the confirmation of electricity generation in renewable sources, in high-performance co-generation, in gas fuel fired co-generation, in mining methane- or biomass fired co-generation, from sources using agricultural biogas and certificates of energy efficiency. The Company also secures the demand of TAURON Capital Group for guarantees of origin confirming electricity generation in renewable energy sources.

The Company also acts as a competence centre in the area of management and trading in CO₂ emission allowances for companies of TAURON Capital Group. Due to centralisation of trading in emissions, a synergy effect was obtained, consisting in optimisation of available resources of 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 the emission demand of the subsidiaries, taking into account the allowances allocated and the support in the process of acquiring limits of allowances for the following periods. While implementing the aforementioned goals, the Company is an active participant of trading in CO₂ emission allowances.

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 plays a governing function in the scope of production fuel procurement management for the needs of the generating entities included in TAURON Capital Group. In order to implement the tasks in the scope of trading in coal, in the period of 2016, Q1-Q3 the Company continued fuel supplies for TAURON Wytwarzanie and TAURON Ciepło.

In the period of 2016, Q1-Q3, approximately 60% of coal supplies for electricity and heat production was satisfied by coal from own mining plants of TAURON Capital Group: TAURON Wydobycie and Nowe Brzeszcze Grupa TAURON. The remaining part of the demand was covered from external sources.

Additionally, as of 1 July 2015 TAURON launched the first balancing group in Poland for entities trading in gas.

As of 6 February 2015 the Company pursues trade 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.

The Company develops activity in the scope of trading in gas fuel. Since obtaining of the concession in 2012, TAURON has been an active participant of the gas market. It actively pursues commercial activity on

the domestic market, i.e. on TGE and OTC market and develops competence in the scope of the European market.

In 2015 the Company obtained the status of member on the European POWERNEXT/PEGAS gas exchange, where it pursues trading in spot and forward gas markets.

The Company is present on the most important European wholesale gas markets within the areas of Gaspool, New Connect Germany and Tittle Transfer Facility hubs. Through PRISMA and GSA auction platforms the Company purchases interconnector capacity enabling cross-border trading in gas and physical deliveries of gas for the needs of companies of TAURON Capital Group and consumers. In TAURON Capital Group, distribution of competence in the scope of gas sales applies: TAURON conducts wholesale gas trade on the domestic and European market through access to exchanges and sources of gas acquisition whereas TAURON Sprzedaż conducts complex gas sales to end consumers.

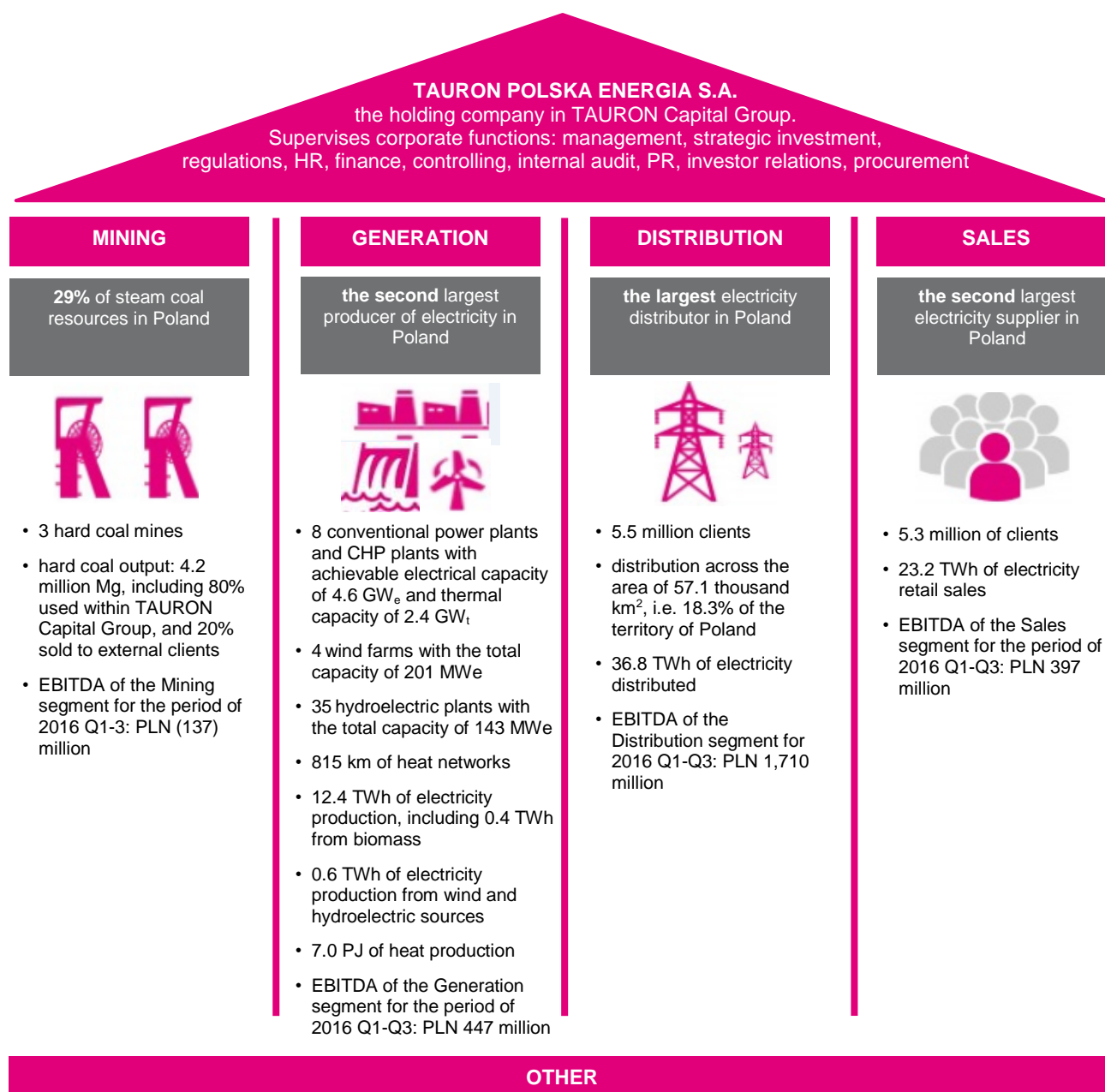
In connection with the implementation of the new strategy of TAURON Group the area associated with the mass market became an important area of the Company operations, namely: the coordination of the Customer Area, The Company expands its competence by sales planning on the retail market, development of the range of products and services as well as tools supporting sales service on this market. Activities associated with the area of research and development make an important element.

3. Operations of TAURON Capital Group

3.1 Areas of activity of TAURON Capital Group

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

Figure no. 2. TAURON Capital Group



TAURON Capital Group conducts its operations in the following 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 acquiring assets of a designated part of the Mining Plant in Brzeszcze, as an organised part of the enterprise.



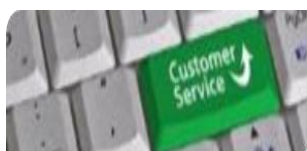
Generation Area, comprising mainly generation of electricity in conventional sources, including co-generation, as well as generation of electricity from renewable energy sources, including combustion and co-firing of biomass, and in hydroelectric power plants and wind farms. The Area also comprises generation, 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, comprising the distribution of electricity with the use of 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 electricity to end-customers and wholesale trading in electricity, as well as trading and management of CO₂ emission allowances and property rights arising from energy certificates of origin and trading in 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).

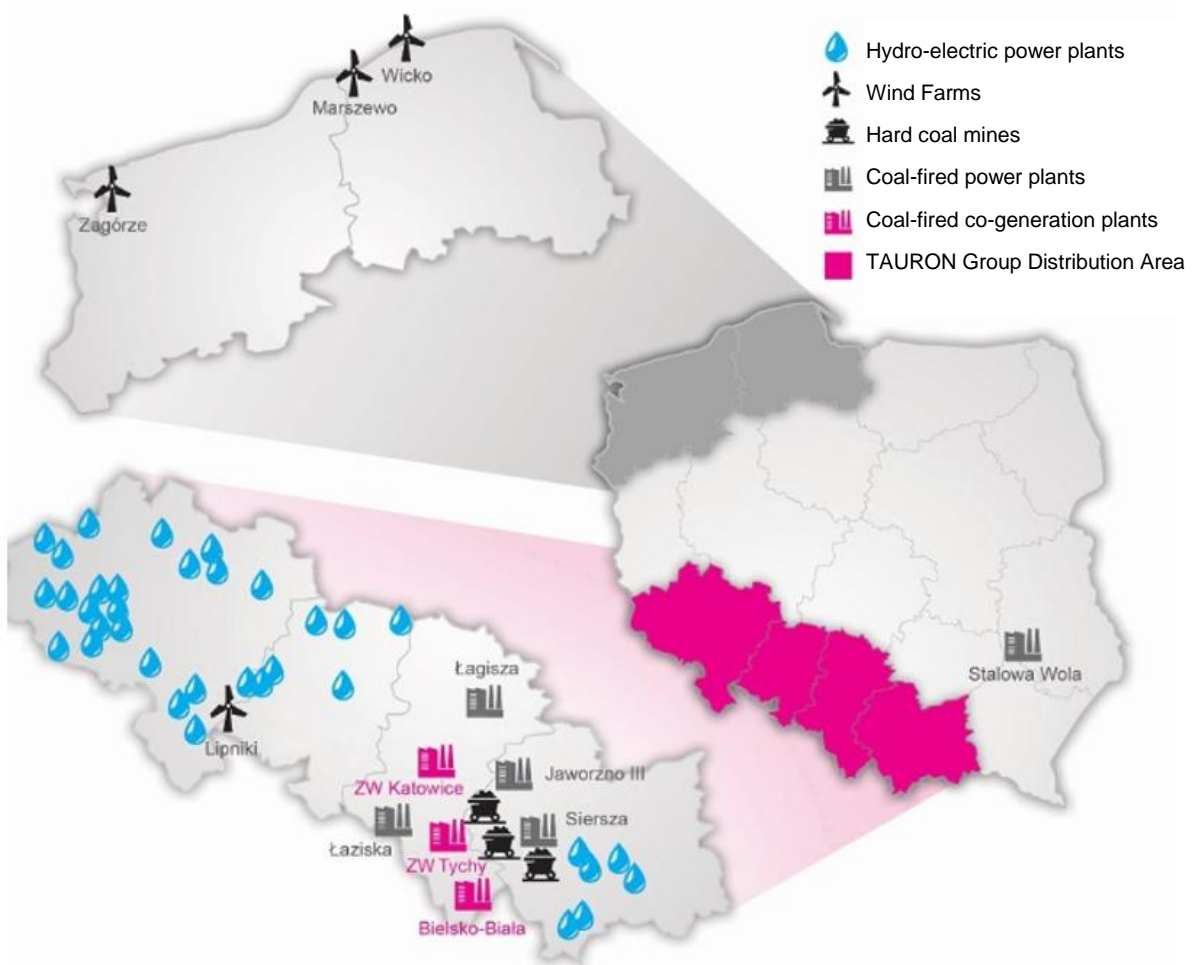


Other Area, comprising activity in the scope of customer service for clients of TAURON Capital Group and provision of support services for companies of TAURON Capital Group in the scope of accounting and ICT, provided by TAURON Obsługa Klienta sp. z o.o. company (TAURON Obsługa Klienta), as well as extraction 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

Major strategic investment projects under implementation

The table below presents the activities carried out in TAURON Capital Group until the end of the 3rd quarter of 2016, in connection with implementation of the key strategic investment projects.

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

No. Investment	Status of investment implementation
<p>1. Construction of the CCGT unit with the capacity of 449 MW_e, including the heat generation component with the capacity of 240 MW_i in Stalowa Wola (the investment implemented with participation of the strategic partner - Polskie Górnictwo Naftowe i Gazownictwo S.A.).</p> <p>Contractor: the contract with Abener Energia S.A. was abandoned</p> <p>Scheduled date of investment project completion: 2019 (it will be possible to estimate the precise date after the inventory of the project is performed)</p> <p>Progress level: 85%</p> <p>Expenditure incurred: PLN 1,077 million</p>	<p>The process of complex inventory of the project is under completion, in connection with abandoning of the contract with the general contractor (Abener Energia S.A.). Maintenance works of installed machines and equipment are carried out in on-going basis and talks with suppliers and subcontractors of major installations are carried out. The concept of investment continuation and contracting was prepared, development of tender documentation in this scope is in progress.</p> <p>On 27 October 2016 a conditional agreement was concluded between TAURON, PGNiG and Elektrociepłownia Stalowa Wola S.A. concerning determination of key preconditions for the project restructuring (the agreement regulates the conditions related to settlement of contractual penalties, introduces market rules for pricing formulas used so far, regulates financial restructuring issues, including the change of the financing formula to corporate finance, while maintaining the involvement of financial institutions). Negotiations with participation of the strategic partner in the scope of further investment financing formula are in progress.</p>
<p>2. Construction of a new power unit with the capacity of 910 MW_e, for supercritical parameters on the premises of Elektrownia Jaworzno III (TAURON Wytwarzanie).</p> <p>Contractor: RAFAKO S.A. and Mostostal Warszawa S.A. consortium</p> <p>Scheduled date of investment project completion: 2019</p> <p>Progress level: 27%</p> <p>Expenditure incurred: PLN 1,425 million</p>	<p>In the reporting period works were continued in the scope of production and assembly of the boiler load-bearing construction and steel construction of main buildings of the unit and the pumping station of cooling water, process water as well as IOS and the absorber. Construction works in the unit control room building and works in the scope of reinforced concrete construction of electrical switching station were continued. Foundations of meal storage reservoirs, sorbent preparation building and IOS wastewater treatment plant building are under construction. The top slab of the turbogenerator was installed. The process of large-sized equipment has commenced. Works in the scope of external ash disposal system and external carburisation system - part 1 and 2, are continued.</p> <p>Public procurement procedures for the selection of contractors of auxiliary services are ongoing in the scope of: water treatment station and wastewater treatment plant; auxiliary fuel installation; compressed air system; water supply system; power discharge system; track layout system; water and sewage network; fire protection; road; macro-levelling; greenery as well as flyovers of pipelines, heat and steam network, storage of hydrogen, technical gases, oil and lubricants as well as the office building.</p>
<p>3. The construction of the installation for flue gas denitrification in 6 units of Elektrownia Jaworzno III and 4 units of Elektrownia Łaziska (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: Łaziska - 100%, Jaworzno - 95%</p> <p>Expenditure incurred: Łaziska - PLN 418.4 million; Jaworzno - PLN 655.3 million</p>	<p>At Elektrownia Jaworzno III, modernisation of the installation of six units with the capacity of 200 MW was completed, using the SNCR technology, i.e. selective non-catalytic reduction. In the fourth quarter of 2016 confirmation of guaranteed parameters of the last of units is planned.</p> <p>At Elektrownia Łaziska the modernisation was completed in 2015.</p>
<p>5. Construction of the "Grzegorz" shaft, including the infrastructure and the accompanying headings at ZG Sobieski (TAURON Wydobywanie).</p> <p>Contractor: Call for tender announced in 2016</p> <p>Scheduled date of investment project completion: 2023</p> <p>Progress level: 20%</p> <p>Expenditure incurred: PLN 80.8 million</p>	<p>Construction of the GSZ 20/6 switching station and 2x20kV cable lines supplying the Grzegorz shaft was completed. The general contractor was selected for drilling of mining headings to the Grzegorz shaft at a level of 540 m. Site of works was handed over, preparatory works for drilling are in progress.</p> <p>The selection of the general contractor is in progress under the public procurement procedure for the selection of the General Contractor of "Grzegorz" shaft drilling, including the construction of surface infrastructure - verification of tenders is on-going.</p>
<p>6. Construction of a 800 m level at ZG Janina (TAURON Wydobywanie).</p>	<p>Drilling of horizontal headings is in progress. Construction of the stone belt haulage and the road-railway system constituting a part</p>

No. Investment	Status of investment implementation
<p>Contractor: Consortium of KOPEX and Przedsiębiorstwo Budowy Szybów S.A. (main task - shaft drilling)</p> <p>Scheduled date of investment project completion: 2020</p> <p>Progress level: 45%</p> <p>Expenditure incurred: PLN 230 million</p>	<p>of modernisation of the Coal Mechanical Processing Plant was completed. The contractor of projects related to reconstruction of coal transport to the Mechanical Processing Plant was selected. Agreement with PKP PLK was concluded concerning railway siding tapping into railway tracks – the site was handed over to the contractor.</p>
<p>7. Nowe Brzeszcze investment programme (TAURON Wydobycie)</p> <p>General Contractors of the Investment Programme: TRANS-JAN, FAMUR and KOPEX Machinery consortium, FAMUR and KPRGiBSz consortium, MAS and Carbospec consortium, Elektrometal Cieszyn</p> <p>Scheduled date of investment project completion: 2026</p> <p>Progress level: 2%</p> <p>Expenditure incurred: PLN 6.4 million</p>	<p>The investment programme comprises all tasks adopted in the multiannual investment plan, in particular:</p> <ul style="list-style-type: none"> • acquisition of powered roof support for level 510 (delivery of a longwall complex), • drilling of excavations in levels 510 and 364, • construction of technical infrastructure at level 900 m, • construction of water-ash emulsifier, • construction of small sale facility. <p>Drilling of headings at Andrzej VIII shaft, level 900 is in progress. The agreement was signed for construction of the facility for small sale of 'nut' and 'peas' assortment, including transport routes. The procedure is in progress concerning the delivery of a brand-new longwall complex, including the equipment. Agreements and deliveries for the construction of auxiliary infrastructure are executed, inter alia, in the scope of haulage automation and visualisation and installation of a hydrant network, including an internal fire protection installation for the Coal Mechanical Processing Plant.</p>

Project associated with the construction of the nuclear power plant

On 15 April 2015, TAURON, KGHM Polska Miedź S.A. (KGHM) and ENEA S.A., as Business Partners and PGE Polska Grupa Energetyczna S.A. (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 the preparation and execution of an investment consisting in construction and operation of the first Polish nuclear power plant with the capacity of approximately 3 thousand MWe (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 1 sp. z o.o. company was registered in the National Court Register.

In 2016, pursuant to the concluded Agreements, TAURON carried out surveillance works in the PGE EJ 1 company in the framework of operations of the PGE EJ 1 Supervisory Board. The major scope of works focused around tasks aimed at launching the Integrated Procedure, commencing environmental and location studies as well as on other project activities implemented by PGE EJ 1.

Project on construction of the CCGT unit at Elektrownia Blachownia

The portfolio of investment projects of TAURON Capital Group also comprised the project on the construction of a new CCGT unit with the capacity of 850 MW on the premises of Elektrownia Blachownia. However, the implementation of the project was suspended until concluding of the agreement between KGHM, TAURON and TAURON Wytwarzanie on 30 December 2013 (KGHM share in Elektrownia Blachownia Nowa company: 50%, TAURON Wytwarzanie share: 50%).

At the end of the 1st half of 2016, talks were undertaken in the scope of further activities under the project on the construction of a new CCGT unit with the capacity of 850 MW on the premises of Elektrownia Blachownia. Taking into consideration the results of conducted analyses and the recommendations of the Management Board of the Elektrownia Blachownia Nowa company, the decision to abandon its implementation and terminate the Shareholders' Agreement binding KGHM and TAURON Wytwarzanie was made. The decision on termination of the agreement of 30 December 2013 and the commencement of liquidation of Elektrownia Blachownia Nowa company was also made. The arrangements were expressed by signing of the relevant agreement by KGHM, TAURON and TAURON Wytwarzanie on 28 July 2016, as communicated by the Company in the current report no. 32/2016 of 28 July 2016, the content of which is described in section 5.1. hereof.

Capital expenditure

In three quarters of 2016, the capital expenditure of TAURON Capital Group amounted to PLN 2,450 million and were lower by 11.8% as compared to the expenditure incurred in the period of 2015 Q1-Q3, which amounted to approx. PLN 2,779 million. The decline of total expenditure mainly results from lower expenditure in the Generation Area; simultaneously, growth in expenditure was recorded in the Distribution Area.

The table below presents selected capital expenditure incurred in the period of 2016 Q1-Q3, the highest in terms of value, within TAURON Capital Group Business Areas:

Table no 6. The highest capital expenditure in terms of value, incurred in the period of 2016 Q1-Q3 within TAURON Capital Group Business Areas

Specification	Capital expenditures (PLN M)
Distribution	
Modernisation and reconstruction of existing grids	619
Construction of new connections	411
Generation	
Construction of new capacity at Elektrownia Jaworzno III (910 MW)	787
Construction of new capacity in cogeneration at EC Tychy (50 MW)	107
Development and improvement of district heating networks	42
Construction of flue gas de-nitrification installation and modernisation of units at Elektrownia Jaworzno III	10
Modernisation of hydroelectric power plants	10
Adjustment of the source at ZW Katowice to the needs of the heat market after 2015	9
Mining	

Specification	Capital expenditures (PLN M)
Construction of a 800 m level at ZG Janina	44
Construction of Grzegorz shaft at ZG Sobieski	21
Nowe Brzeszcze Grupa TAURON	9

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	in PLN thou.		in thou. EUR	
	2016 period from 01.01.2016 to 30.09.2016	2015 period from 1.01.2015 to 30.09.2015 (converted data)	2016 period from 01.01.2016 to 30.09.2016	2015 period from 1.01.2015 to 30.09.2015 (converted data)
Selected consolidated financial data of TAURON Polska Energia Capital Group				
Revenues on sales	13,123,745	13,634,241	3,003,970	3,278,644
Operating profit	522,941	1,532,260	119,699	368,465
Gross profit	369,544	1,313,679	84,587	315,902
Net profit	276,132	1,079,155	63,205	259,506
Net profit attributable to shareholders of the parent entity	274,283	1,076,641	62,782	258,901
Net profit attributable to non-controlling shares	1,849	2,514	423	605
Other total income	70,393	51,953	16,113	12,493
Total aggregate income	346,525	1,131,108	79,318	271,999
Total aggregate income attributable to shareholders of the parent entity	344,676	1,128,581	78,895	271,391
Total aggregate income attributable to non-controlling shares	1,849	2,527	423	608
Profit per share (in PLN/EUR) (basic and diluted)	0.16	0.61	0.04	0.15
Weighted average number of shares (in pcs) (basic and diluted)	1,752,549,394	1,752,549,394	1,752,549,394	1,752,549,394
Net cash flows from operating activity	2,405,354	2,783,092	550,575	669,254
Net cash flows from investment activity	(2,730,803)	(2,791,346)	(625,069)	(671,239)
Net cash flows from financial activity	129,191	(319,453)	29,571	(76,819)
Increase/(decrease) in net cash and equivalents	(196,258)	(327,707)	(44,923)	(78,804)
	Status as at 31.09.2016	Status as at 31.12.2015	Status as at 31.09.2016	Status as at 31.12.2015
Fixed assets	28,486,467	28,124,185	6,606,323	6,599,597
Current assets	3,427,219	3,947,248	794,810	926,258

TAURON Polska Energia Capital Group

Additional Information to the Extended Consolidated Report for the Third Quarter of 2016

Total Assets	31,913,686	32,071,433	7,401,133	7,525,855
Share capital	8,762,747	8,762,747	2,032,177	2,056,259
Equity attributable to shareholders of the parent entity	16,348,985	16,018,328	3,791,509	3,758,847
Equity attributable to non-controlling shares	28,534	29,829	6,617	7,000
Total equity	16,377,519	16,048,157	3,798,126	3,765,847
Long-term liabilities	10,989,315	8,583,950	2,548,542	2,014,302
Short-term liabilities	4,546,852	7,439,326	1,054,465	1,745,706
Total liabilities	15,536,167	16,023,276	3,603,007	3,760,008

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

	in PLN thou.		in thou. EUR	
	2016 period from 01.01.2016 to 30.09.2016	2015 period from 1.01.2015 to 30.09.2015 (converted data)	2016 period from 01.01.2016 to 30.09.2016	2015 period from 1.01.2015 to 30.09.2015 (converted data)
Revenues on sales	5,810,862	6,735,918	1,330,082	1,619,795
Operating profit (loss)	11,190	36,194	2,561	8,704
Gross profit	503,159	1,618,165	115,171	389,122
Net profit	498,963	1,608,637	114,210	386,831
Other total income	68,025	50,279	15,571	12,091
Total aggregate income	566,988	1,658,916	129,781	398,922
Profit per share (in PLN/EUR) (basic and diluted)	0.28	0.92	0.06	0.22
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	90,032	205,812	20,608	49,492
Net cash flows from investment activity	27,389	(48,078)	6,269	(11,561)
Net cash flows from financial activity	52,611	(334,689)	12,042	(80,483)
Increase/(decrease) in net cash and equivalents	170,032	(176,955)	38,919	(42,552)
	Status as at 31.09.2016	Status as at 31.12.2015	Status as at 31.09.2016	Status as at 31.12.2015
Fixed assets	25,690,470	24,866,370	5,957,901	5,835,121
Current assets	1,221,415	1,607,786	283,260	377,282
Total Assets	26,911,885	26,474,156	6,241,161	6,212,403
Share capital	8,762,747	8,762,747	2,032,177	2,056,259
Equity	17,159,485	16,592,497	3,979,473	3,893,581
Long-term liabilities	7,559,653	5,069,118	1,753,166	1,189,515
Short-term liabilities	2,192,747	4,812,541	508,522	1,129,307
Total liabilities	9,752,400	9,881,659	2,261,688	2,318,822

The above financial data were converted into EUR, cumulatively for the third quarter of 2016 and 2015, according to the following principles:

- individual items of the statement of financial standing - according to the average NBP exchange rate announced on 30 September 2016 - PLN/EUR 4.3120 (as at 31 December 2015 - PLN/EUR 4.2615),
- individual items of the statement of comprehensive income and the statement of cash flows - according to the exchange rate representing the arithmetic means of average NBP exchange rates announced on the last day of each month of the financial period from 1 January 2016 to 30 September 2016 - PLN/EUR 4.3688 (for the period from 1 January 2015 to 30 September 2015 - PLN/EUR 4.1585).

4.2 Key operating data of TAURON Capital Group

In the period of three quarters of 2016, TAURON Group reached the following key operating parameters:

Table no 8. Key operating parameters of TAURON Capital Group

Key operating parameters	unit	Q 1-3 2016	Q 1-3 2015	Change % 2016/2015	Q 3 2016	Q 3 2015	Change % 2016/2015
Commercial coal production	M Mg	4.21	3.45	22%	1.73	1.44	20%
Electricity generation (gross production)	TWh	12.45	13.80	-10%	4.00	5.04	-21%
Generation of electricity from renewable sources	TWh	1.00	1.20	-17%	0.23	0.23	0%
<i>Production from biomass</i>	<i>TWh</i>	<i>0.45</i>	<i>0.61</i>	<i>-26%</i>	<i>0.08</i>	<i>0.10</i>	<i>-20%</i>
<i>Production of hydroelectric power plants and wind farms</i>	<i>TWh</i>	<i>0.56</i>	<i>0.59</i>	<i>-5%</i>	<i>0.16</i>	<i>0.13</i>	<i>23%</i>
Heat generation	PJ	7.00	7.59	-8%	0.57	0.75	-24%
Distribution of electricity	TWh	36.82	36.69	0.4%	12.05	12.10	-0.4%
Sales of electricity (by Sales and Generation Area)	TWh	35.46	38.26	-7%	11.40	12.38	-8%
- retail sales	<i>TWh</i>	<i>23.19</i>	<i>26.46</i>	<i>-12%</i>	<i>7.61</i>	<i>8.44</i>	<i>-10%</i>
- wholesale	<i>TWh</i>	<i>12.27</i>	<i>11.79</i>	<i>4%</i>	<i>3.80</i>	<i>3.95</i>	<i>-4%</i>
Number of clients - Distribution	thou.	5,458	5,404	1%	5,458	5,404	1%

4.3 Sales structure according to areas of operations

The table below presents the volumes and structure of sales of TAURON Capital Group, divided into individual Areas (Segments) of operations for the period of 2016 Q1-Q3 and 2015 Q1-Q3, and for the 3rd quarter of 2016, compared to the 3rd quarter of 2015.

Table no 9. Volumes and structure of sales of TAURON Capital Group according to individual Areas of operations

Specification	unit	Q 1-3 2016	Q 1-3 2015	Change % 2016/2015	Q 3 2016	Q 3 2015	Change % 2016/2015
Sales of coal by the Mining Area	M Mg	4.10	3.66	12%	1.64	1.37	20%
Sales of electricity and heat by the Generation Area	TWh	11.48	15.89	-28%	3.72	5.29	-30%
	PJ	9.56	9.65	-1%	0.69	0.65	6%
Sales of electricity distribution services by the Distribution Area	TWh	36.82	36.69	0.4%	12.05	12.10	-0.4%
Retail sales of electricity by the Sales Area	TWh	23.18	26.45	-12%	7.60	8.43	-10%

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: ZG Sobieski and ZG Janina operated by the TAURON Wydobycie company and, since 1 January 2016, ZG in Brzeszcze operated by Nowe Brzeszcze Grupa TAURON company (NBGT). The Mining Plant is the producer of coal offered for sale on the market in coarse, medium coal assortments and as steam coal dust.

The volume of coal sales in the period of 2016 Q1-Q3 amounted to 4.10 million Mg, which means an increase by 12%, as compared to the corresponding period of 2015 and results from recognising the volume of sales of NBGT company in 2016. Without recognising the new company, the volume of coal sales by TAURON Wydobycie was lower (by 6%) than the volume gained in the period of 2015 Q1-Q3, in particular, in relation to steam coal dust. The reason is the continuing difficult market situation, resulting mainly from oversupply of coal dust in relation to the demand and its selling off by competitive companies below production costs.

Only in 2016 Q3, a growth of the volume of sales by 19.9% was recorded, mainly as a result of commissioning of extraction from longwall 193 at ZG Brzeszcze.

In the period of three quarters of 2016, 60% of the current demand of TAURON Capital Group for coal used for generation of electricity and heat was satisfied by hard coal coming from own mining plants. The remaining part of the demand was covered from external sources.

Production of commercial coal in the period of Q1-Q3 of the current year was higher by 22% than in the corresponding period of the previous year, as a result of launching the production at ZG Brzeszcze. Without recognising the production accomplished by NBGT, the production accomplished by TAURON Wydobycie mines was higher by 1%.

Generation Area

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

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

The total achievable capacity of generation units of the Generation Area at the end of June 2016 reached 5.0 GW of electrical capacity and 2.4 GW of heat capacity.

In the period of three quarters of 2016 the Generation Area produced 12.45 TWh of electricity, i.e. by 10% less in relation to the previous year (13.80 TWh), which is a consequence of a lower contracted sales YoY.

Production from RES reached 1.00 TWh, i.e. by 17% less in relation to the previous year (1.20 TWh), which resulted from reduction of biomass co-burning and a lower production from wind farms, as a result of less favourable wind conditions.

Sales of electricity from own production, including energy purchased for trading purposes in the period of three quarters of 2016 reached 11.5 TWh, which means a decline by 28%, in relation to the corresponding period of 2015. In relation to 2015, the volume of resale of energy purchased was lower (0.4 TWh in the period of three quarters of 2016; 3.5 TWh in the period of three quarters of 2015).

In the period of three quarters of 2016 sales of heat reached 9.6 PJ (analogically to the previous year).

Distribution Area

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

In the period of three quarters of 2016, the Distribution Area supplied the total of 36.8 TWh of electricity, including 35.3 TWh to end consumers. In this period, the Distribution Area provided distribution services to 5.46 million consumers. In the corresponding period of the previous year, the Distribution Area supplied, in total, 36.7 TWh of electricity to 5.40 million consumers, including 35.0 TWh to end consumers. The YoY increase in the volume of supplies to end consumers results from the GDP growth and depends on the growth of energy consumption in relation to the growth of consumers' production sold, mainly those connected to the MV grid.

Sales Area

Sales Area comprises activities in the scope of electricity sales and wholesale trading of electricity and other products of the energy market. Operations in the area of sales comprise sales of electricity to end customers, including key accounts.

On the other hand, operations within wholesale trading comprise mainly wholesale trading in electricity, trade and management of CO₂ emission allowances, property rights arising from the certificates of electricity origin and fuel.

In the period of three quarters of 2016 companies of the Sales Area sold the total of 30.9 TWh of electricity to 5.3 million clients, both households and enterprises, i.e. at a similar level as in the corresponding period of the previous year.

4.4 Financial situation of TAURON Capital Group after the third quarter of 2016

4.4.1 Analysis of financial situation

In the table below the analysis of financial situation of TAURON Capital Group for three quarters of 2016 is presented, as compared to the status as at the end of 2015.

Table no 10 Structure of the interim condensed consolidated statement of financial situation

Consolidated statement of financial situation	Status as at 30 September 2016	Status as at 31 December 2015	Change % (2016 vs. 2015)
ASSETS			
Fixed assets	89.3%	87.7%	2%
Current assets	10.7%	12.3%	-13%
TOTAL ASSETS	100.0%	100.0%	
LIABILITIES			
Equity attributable to shareholders of the parent entity	51.2%	49.9%	3%
Non-controlling shares	0.1%	0.1%	-
Total equity	51.3%	50.0%	3%
Long-term liabilities	34.4%	26.8%	28%
Short-term liabilities	14.2%	23.2%	-39%
Total liabilities	48.7%	50.0%	-3%
TOTAL LIABILITIES	100.0%	100.0%	
Financial liabilities	8,623,662	8,138,647	6%
Net financial liabilities	8,298,552	7,763,963	7%

Consolidated statement of financial situation	Status as at 30 September 2016	Status as at 31 December 2015	Change % (2016 vs. 2015)
Net debt/EBITDA ratio	2.64	2.20	20%
Current liquidity ratio	0.75	0.53	42%

In the structure of assets as at 30 September 2016, fixed assets constitute 89% of total assets, which means the change by almost 2% in relation to the status as at the end of 2015.

The share of current assets as at 30 September 2016 decreased to the level of 11% of total assets.

In the structure of total liabilities as at 30 September 2016, liabilities make 49% of total liabilities, including 34% of long-term liabilities and 14% of short-term liabilities in the balance sheet total, which means a change in the structure of debt in relation to the end of 2015 when the share of liabilities amounted to 27% and 23%, respectively.

In relation to 2015, in the period of three quarters of 2016, a growth in net financial liabilities by 7% occurred, which translated into a growth of net debt/EBITDA ratio - to the level of 2.64x (the ratio expressed in relation to EBITDA for the period of the last twelve months).

The current liquidity ratio increased to the level of 0.75. The liquidity of the Company is not at risk - the indicators are maintained at a high, safe level.

Consolidated statement of comprehensive income

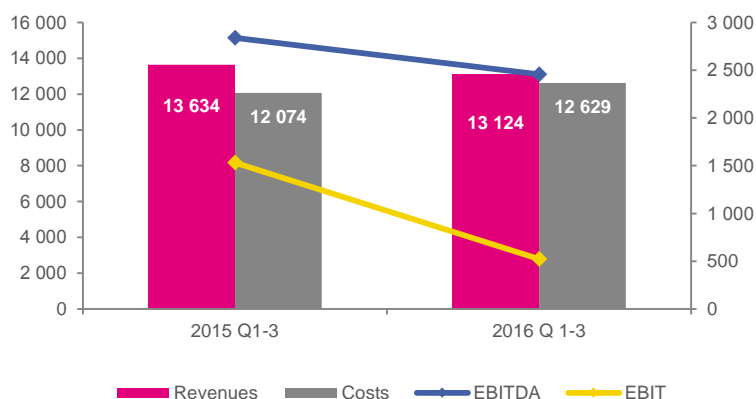
The table below presents selected items of the consolidated statement of comprehensive income of TAURON Capital Group for the period of 9 months, ended on 30 September 2016, as well as comparative data for the period of 9 months ended on 30 September 2015. These items are provided in accordance with the interim condensed consolidated financial statement of TAURON Capital Group, compliant with the International Financial Reporting Standards for the period of 9 months ended on 30 September 2016.

Table no 11. Condensed interim consolidated statement of comprehensive income

Specification (PLN thous.)	2016 Q1-Q3 (unaudited)	2015 Q1-Q3 (not audited)	Change % (2016 vs. 2015)
Revenues on sales	13,123,745	13,634,241	-4%
Own cost of sales	-12,628,783	-12,074,415	5%
Other operating revenues and costs	27,979	-27,566	-
Operating profit (loss)	522,941	1,532,260	-66%
<i>Operating profit margin (%)</i>	4.0%	11.2%	-65%
Share in the profit of joint projects	78,338	310	-
Interest costs of debt	-200,606	-219,275	-9%
Other financial revenues and costs	-31,129	384	-
Gross profit (loss)	369,544	1,313,679	-72%
<i>Gross profit margin (%)</i>	2.8%	9.6%	-71%
Income Tax	-93,412	-234,524	-60%
Net profit (loss) for the period	276,132	1,079,155	-74%
<i>Net profit margin (%)</i>	2.1%	7.9%	-73%
Total income for the period	346,525	1,131,108	-69%
Profit attributable to:			
Shareholders of the parent entity	274,283	1,076,641	-75%
Non-controlling shares	1,849	2,514	-26%
EBIT and EBITDA			
EBIT	522,941	1,532,260	-66%
EBITDA	2,457,512	2,841,076	-14%

The figure below shows the financial results of TAURON Capital Group for the period of three quarters of 2016, as compared to the corresponding period of 2015.

Figure no 5. Financial results of TAURON Capital Group for three quarters of 2015 and 2016.



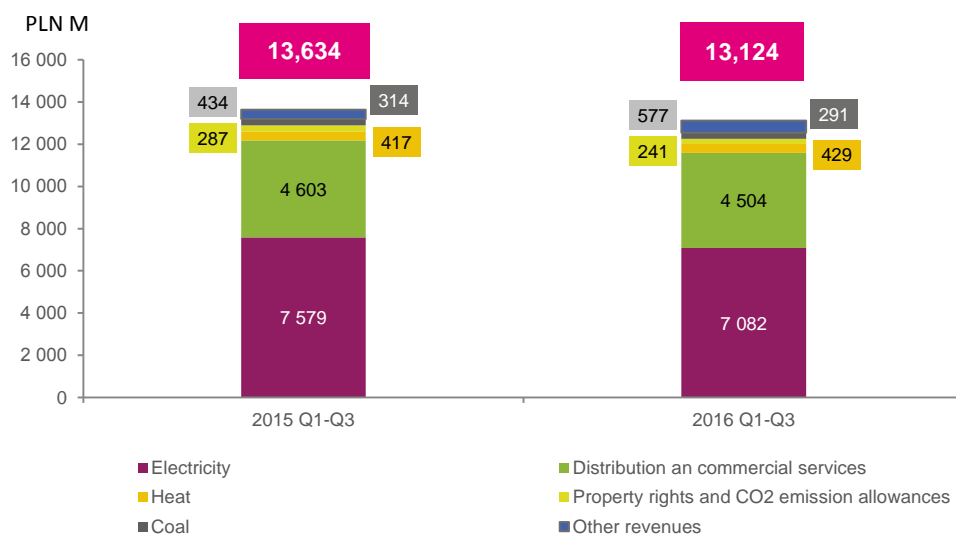
In the period of three quarters of 2016 TAURON Capital Group generated revenue at a level slightly lower in relation to the revenues reported for the period of three quarters of 2015. The main factors affecting the decline in revenue include lower revenue on sales of:

1. electricity - due to the lower volume of retail sales (by 12%), partly set off by the growth in the volume of sales on the wholesale market (by 4%),
2. coal - due to oversupply on the market and the applied pricing policy of the largest domestic producer (sales of coal volume outside TAURON Capital Group lower by 17%)
3. distribution service - a rate for distribution services delivered to end consumers lower by 3.6% and lower revenue from connecting fees.

The aforementioned declines were partly set off by 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 (ORM). Moreover, as of 1 January 2016 TAURON Capital Group has been gaining revenues from the Intervention Cold Power Reserve (IRZ).

The figure below shows the structure of revenues of TAURON Capital Group for three quarters of 2016 as compared to three quarters of 2015.

Figure no. 6. Structure of revenues of TAURON Capital Group for the period of Q 1-3 of 2015 and 2016.



In the period of three quarters of 2016 costs of TAURON Capital Group operations amounted to PLN 12.6 billion, which means that their level was higher by 5% than the costs incurred in the period of three quarters of 2015.

The main reason of the growth is the write-off created as at 30 June 2016 due to impairment in the carrying amount of generation units of the Generation segment, arising mainly from including the changes in the market environment unfavourable for energy generators in the performed impairment tests, such as the decline in prices of certificates of origin for energy from renewable sources and new regulations in the RES area.

Should the aforementioned one-off event be disregarded in the results, the level of TAURON Capital Group costs in the period of 2016 Q1-Q3 would be lower than costs incurred in the corresponding period of 2015 by over 1%, which results from the following factors:

1. commencement of activity of the new company, Nowe Brzeszcze GT in the Mining Segment as of 1 January 2016, which affected the growth in operating costs YoY,
2. growth in costs of taxes and fees, which is associated with higher costs of CO₂ reserve as a result of a higher deficit of free CO₂ emission allowances in relation to CO₂ emission YoY (which mainly results from recognising the surplus of allowances transferred from 2014 in the settlement for 2015) and higher costs of term CO₂ contracting YoY,
3. growth in costs of distribution services, mainly as a result of higher purchase costs of transmission services due to a higher rate of the qualitative fee applied to higher electricity consumption,
4. lower costs of electricity sold resulting from a lower volume,
5. lower costs of amortisation and depreciation - the effect of write-offs due to the impairment in the value of tangible fixed assets and intangible assets applied at the end of 2015,
6. accomplishment of commercial coal sales below the volume of coal produced, which did not take place in the corresponding period of the previous year. In the period of three quarters of 2015 the Group carried out sales of coal from reserves, which resulted from limited production as a result of geological and mining disturbances and deterioration in the qualitative parameters of the dredging spoils.

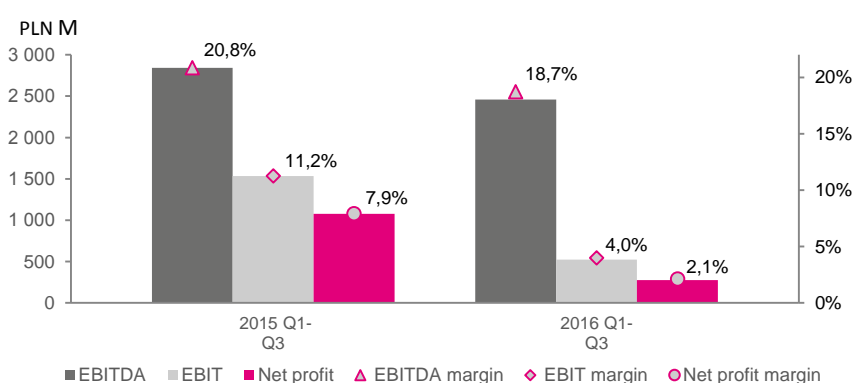
The EBITDA margin achieved in the period of the three quarters of 2016 reached 18.7% and was lower by 2.1 percentage points as compared to the corresponding period of the previous year. As a result of applied write-offs, EBIT margin and net profit reached a level significantly lower than last year, amounting to 4.0% and 2.1%, respectively. Should the effects of the impairment write-off be disregarded, the EBIT margin would reach 9.4%, and net profit - 6.5%.

In accordance with the presented consolidated statement of comprehensive income, the total income of TAURON Capital Group, taking into account the net profit increased or decreased by the change in value of hedging instruments, currency translation differences arising from conversion of a foreign entity and other revenues after tax, amounted to PLN 346.5 million in the period of 2016 Q1-Q3, as compared to PLN 1,131.1 million generated in the corresponding period of 2015.

The total income attributable to shareholders of the parent entity reached PLN 344.7 million, as compared to PLN 1,128.6 million gained in the period of three quarters of 2015, and the net profit attributable to shareholders of the parent entity reached PLN 274.3 million, as compared to PLN 1,076.6 million gained in the same period of the previous year.

The figure below shows the financial results of TAURON Capital Group and the level of margins accomplished in the period of three quarters of 2016 as compared to the corresponding three quarters of 2015.

Figure no. 7. Financial results of TAURON Capital Group and the level of accomplished margins



4.4.2 Financial results according to areas of operations

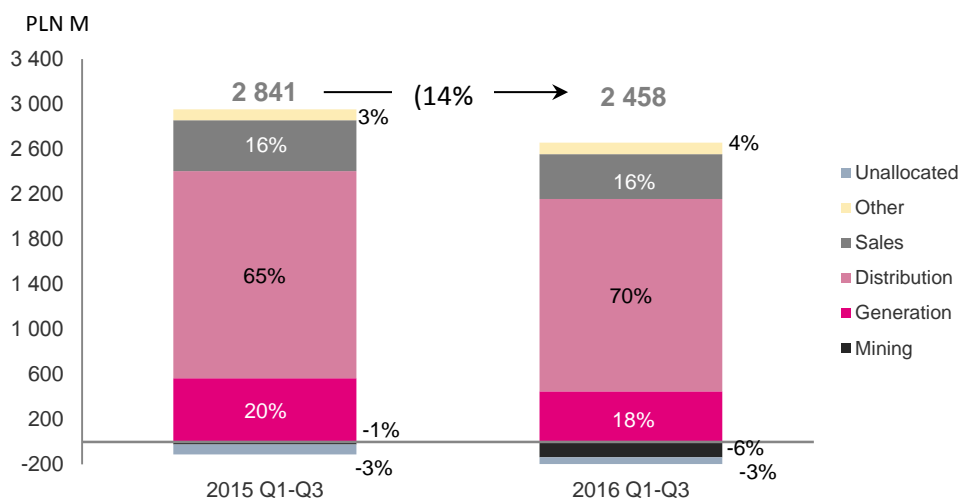
The table below presents the EBITDA results of TAURON Capital Group, divided into individual Areas (Segments) of operations for the period of three quarters and the third quarter of 2016, as compared to the corresponding periods of 2015. The data for individual Areas do not include consolidation exclusions.

Table no 12. EBITDA of TAURON Capital Group according to Areas of operations

EBITDA (PLN thous.)	Quarters 1-3, 2016	Quarters 1-3, 2015	Change % 2016 vs 2015	Q3 2016	Q3 2015	Change % 2016 vs 2015
Mining	-136,658	-23,232	-	32,590	134,670	-76%
Generation	447,109	564,039	-21%	93,148	97,637	-5%
Distribution	1,709,660	1,839,293	-7%	562,063	596,633	-6%
Sales	397,119	451,935	-12%	117,315	116,782	0.5%
Other	102,268	98,183	4%	36,232	37,188	-3%
Unallocated items and exemptions	-61,986	-89,142	-	-37,242	-49,706	-
Total EBITDA	2,457,512	2,841,076	-14%	804,106	933,204	-14%

The figure below shows the EBITDA structure of TAURON Capital Group for three quarters of 2015 and 2016.

Figure no. 8. EBITDA structure of TAURON Capital Group



The Distribution Area and the Generation Area have the highest share in EBITDA of TAURON Capital Group.

Mining Area

The table below shows the results of the Mining Area.

Table no 13. Results of Mining Area

Specification (PLN thous.)	Q 1-3 2016	Q 1-3 2015	Change % 2016 vs 2015	Q3 2016	Q3 2015	Change % 2016 vs 2015
Mining						
Revenue on sales	887,524	874,814	1%	375,392	332,863	13%
<i>coal - coarse and medium assortments</i>	231,660	246,177	-6%	102,732	111,245	-8%
<i>steam coal</i>	618,491	611,903	1%	256,067	215,758	19%
<i>other products, materials and services</i>	37,373	16,734	123%	16,593	5,860	183%
EBIT	-228,703	-107,579	-	1,833	106,686	-98%
Depreciation and write-offs	92,045	84,347	9%	30,757	27,984	10%
EBITDA	-136,658	-23,232	-	32,590	134,670	-76%

The operating results, EBIT and EBITDA of the Mining Segment in the period of 2016 Q1-Q3 reached a level lower than in 2015. The following factors affected the level of achieved results:

- 1) recognising the result of Nowe Brzeszcze GT in the period of three quarters of 2016,
- 2) sales of the volume of coal dust lower by 4.8%,
- 3) price of coal dust sold lower by 14.8%,
- 4) gaining lower revenues for other assortments, as a result of a volume of medium assortments lower by 14.2% and coarse assortments - by 3.5%, while obtaining a price lower by 2.9% and 0.7%, respectively,

as a result of coal oversupply in the domestic market and, accordingly, considerable price competition among market participants,

5) lower own cost of coal sold, as a result of:

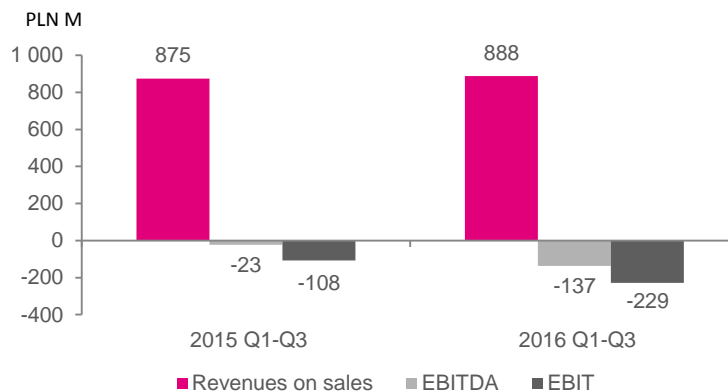
- labour costs lower by 8.4% as a consequence of average employment lower by 552 FTEs,
- sales of coal from reserves in 2015, which resulted in recognising of a higher value of coal reserves in own cost in this period. In the period of 2016 Q1-Q3 the volume of coal produced by TAURON Wydobycie is higher than coal sold, which results in allocation of production costs in the company balance sheet,

6) recognising, in the result of 2015 Q1-Q3, costs related to:

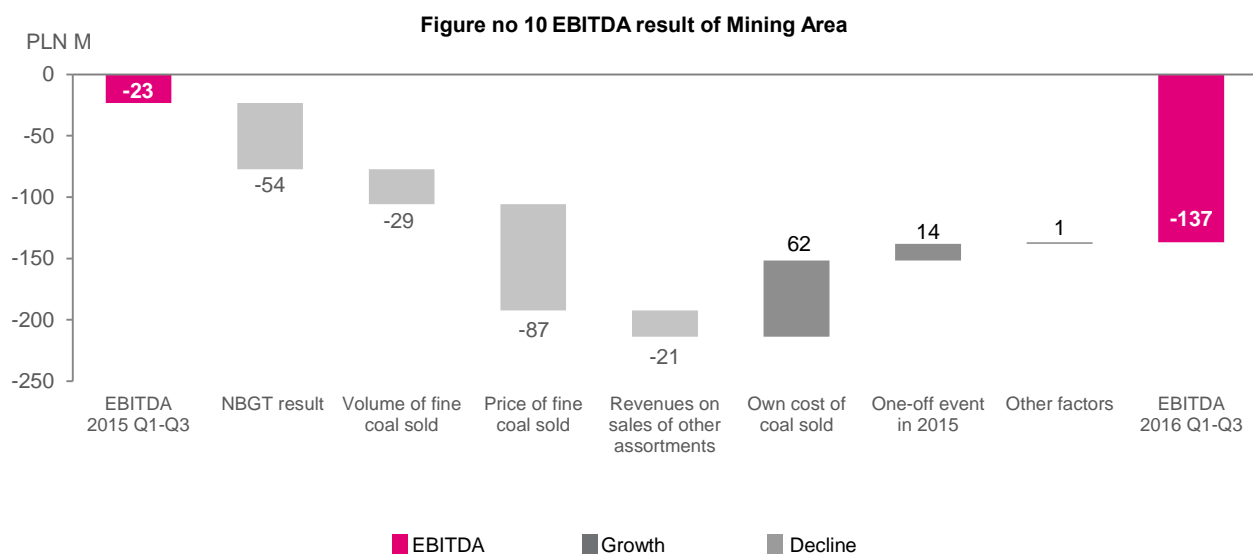
- adjustment of the status of commercial coal and semi-product inventories following the physical stocktaking,
- verification of the real value of pre-payments of costs arising from works associated with drilling of production access workings and longwall reinforcement,
- settlement of longwall decommissioning costs at ZG Sobieski,
- reversal of actuarial provisions for the Company Social Benefits Fund and coal benefit in its part for current pensioners.

The figure below presents the financial data of the Mining Area for three quarters of 2016 as compared to three quarters of 2015.

Figure no. 9. Financial data of the Mining Area for three quarters of 2015 and 2016.



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



Generation Area

The table below shows the results of the Generation Area.

Table no 14. Results of the Generation Area

Specification (PLN thous.)	Q 1-3 2016	Q 1-3 2015	Change % 2016 vs 2015	Q3 2016	Q3 2015	Change % 2016 vs 2015
Generation						
Revenue on sales	3,243,691	3,911,459	-17%	901,057	1,164,371	-23%
<i>electricity</i>	2,323,340	2,960,352	-22%	739,254	993,811	-26%
<i>heat (including heat transmission)</i>	572,150	557,573	3%	111,257	106,592	4%
<i>property rights arising from certificates of electricity origin</i>	306,270	357,745	-14%	36,646	51,235	-28%
<i>other</i>	41,931	35,789	17%	13,900	12,733	9%
EBIT	-569,841	130,489	-	-11,530	-51,447	-
Depreciation and write-offs	1,016,950	433,550	135%	104,678	149,084	-30%
EBITDA	447,109	564,039	-21%	93,148	97,637	-5%

In the period of three quarters of 2016, the revenues on sales in the Generation Segment were lower by approximately 17% 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) and higher revenue on sales of property rights to electricity certificates of origin (lower volume of production from RES, lower price of PM OZE, lack of support to hydroelectric power plants with the electrical capacity above 5 MW_e and limiting the support for co-generation as of 1 January 2016).

EBITDA and EBIT results of the Generation Segment in the period of three quarters of 2016 reached a lower level than in the corresponding period of 2015. The level of the results obtained was affected by the following factors:

- 1) higher costs of CO₂ reserve - a result of a higher deficit of free CO₂ emission allowances in relation to CO₂ emission YoY (resulting mainly from recognising the surplus of allowances transferred from 2014 in the settlement for 2015) and higher costs of term CO₂ contracting YoY,

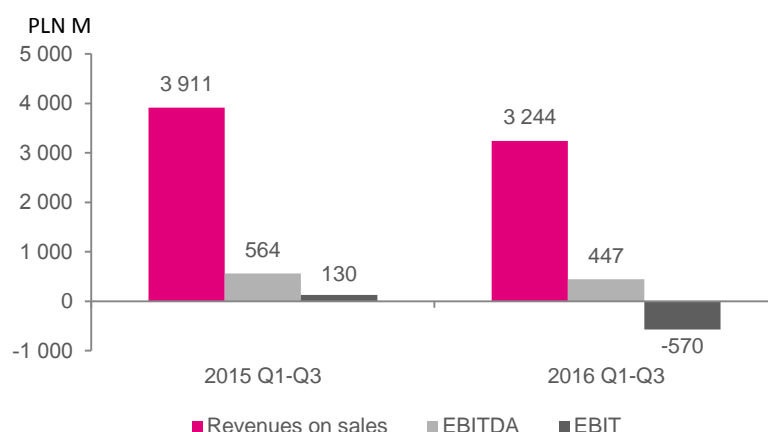
- 2) higher revenues from the ORM - the effect of a higher volume of available capacity (lower contracting sales of electricity YoY) and a higher unit rate of the ORM YoY,
- 3) revenues from the IRZ (gained as of 1 January 2016),
- 4) lower unit variable costs of generation, due to the decline in unit consumption costs of coal and biomass and optimisation of use of generation units,
- 5) decline in electricity prices in the term wholesale market YoY, translating into a lower volume of electricity sales YoY (including, within resale of energy purchased),
- 6) lower price and volume of property rights from RES (effect of RES PR oversupply in the market, lack of support to hydroelectric power plants with the installed electrical capacity over 5 MW_e and limitation of support to co-burning as of 1 January 2016 and lower production from RES YoY),
- 7) recognising impairment write-offs of tangible fixed assets, intangible assets and goodwill as a result of impairment tests conducted as at 30 June 2016 - the most significant reason of the negative EBIT result.

As at 30 September 2016 the analysis of the environment was performed, which indicated that in the third quarter of the current year no significant changes in the market situation had occurred in relation to information available as at 30 June 2016. For this reason it was acknowledged that results of recent impairment tests of the loss in value of tangible fixed assets conducted as at 30 June 2016 were valid and it was not necessary to create successive write-off as at the balance sheet day.

- 8) other factors - lower fixed costs, a higher margin on heat and a higher result on other operating activity.

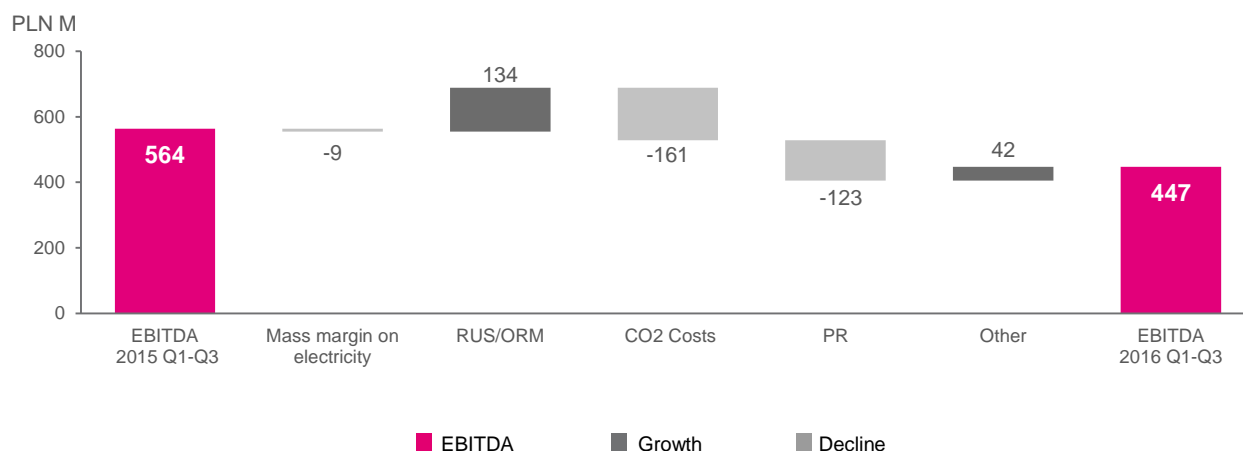
The figure below presents the financial data of the Generation Area for three quarters of 2016 as compared to three quarters of 2015.

Figure no. 11. Financial data of the Generation Area for three quarters of 2015 and 2016.



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

Figure no. 12. EBITDA result of the Generation Area



Distribution Area

The table below shows the results of the Distribution Area.

Table no 15. Results of the Distribution Area

Specification (PLN thous.)	Quarters 1-3 2016	Quarters 1-3 2015	Change % 2016 vs 2015	Q 3 2016	Q 3 2015	Change % 2016 vs 2015
Distribution						
Revenue on sales	4,676,098	4,792,875	-2%	1,531,592	1,564,518	-2%
<i>distribution services</i>	4,393,587	4,489,699	-2%	1,436,177	1,459,756	-2%
<i>connection fees</i>	68,863	94,034	-27%	21,831	31,744	-31%
<i>maintenance of street lightning</i>	86,589	86,239	0%	29,826	29,147	2%
<i>other services</i>	127,058	122,903	3%	43,757	43,871	0%
EBIT	946,514	1,106,723	-14%	302,990	348,307	-13%
Depreciation and write-offs	763,146	732,570	4%	259,073	248,326	4%
EBITDA	1,709,660	1,839,293	-7%	562,063	596,633	-6%

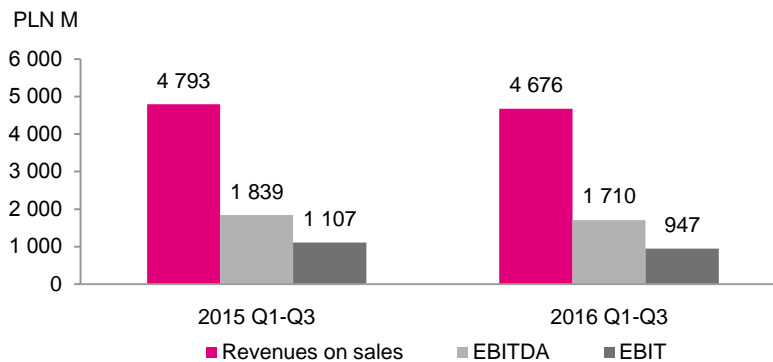
In the period of three quarters of 2016, as compared to the corresponding period of 2015, the Distribution Segment recorded a decline in revenues by 2%, whereas the decline of results at the EBIT and EBITDA level reached 14% and 7%, respectively. The following factors affected the level of achieved results:

- 1) decrease of the average rate of distribution service sales to end consumers in each tariff group, excluding A group,
- 2) growth of supplies to industrial consumers as a result of GDP and production growth, in particular, among consumers in B group; a decline in supplies to consumers in A group as a result of difficulties in the mining and metallurgical sector,
- 3) decline in energy volume supplied to households as a result of one-off recognition of a favourable estimation associated with migration of clients to the Central Billing System in the previous year,

- 4) reduction of revenues on connecting fees from entities connected to the HV and MV grid (inter alia, wind farms); a lower level of fees also in connection with the completion of HV connection at PKP Energetyka in 2015,
- 5) significantly lower price of balancing of energy losses, as the resultant of energy purchase and resale prices,
- 6) growth in purchase costs of transmission services as a result of a higher rate of qualitative fee applied for higher electricity consumption, higher ordered contractual capacity and the RES fee introduced in 2016 Q3,
- 7) lower payroll costs (mainly due to PDO (voluntary redundancy programme) in 2015), lower costs of tree logging,
- 8) growth in costs of tax on grid assets as a consequence of the implemented investment and growth in the value of assets,
- 9) higher result on other core activities and other operating activities.

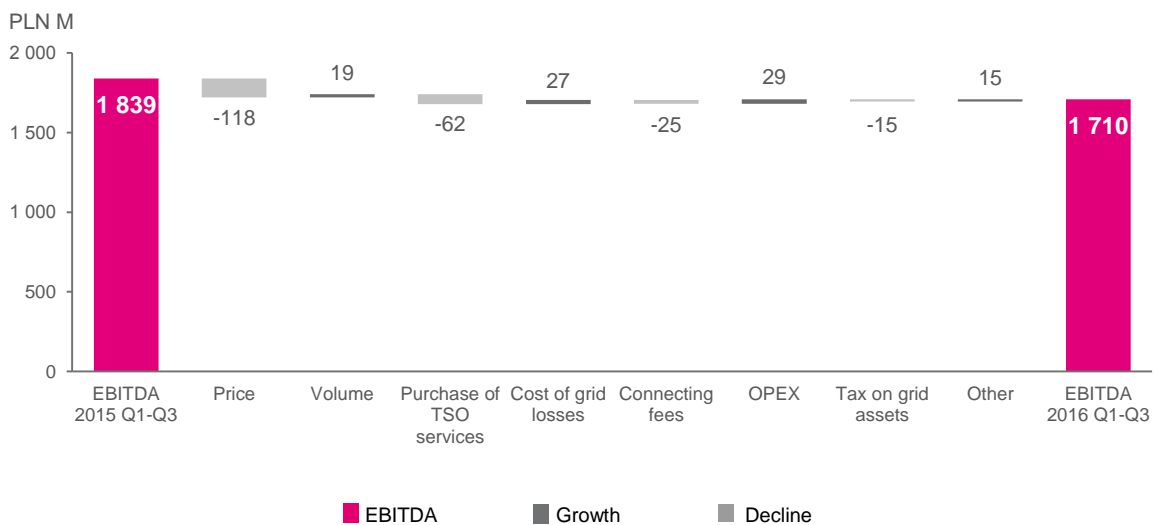
The figure below presents the financial data of the Distribution Area for three quarters of 2016 as compared to three quarters of 2015.

Figure no. 13. Financial data of the Distribution Area for three quarters of 2015 and 2016.



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

Figure no. 14. EBITDA result of the Distribution Area



Sales Area

The table below shows results of the Sales Area.

Table no 16. Results of the Sales Area

Specification (PLN thous.)	Quarters	Quarters	Change %	Q 3	Q 3	Change %
	1-3 2016	1-3 2015	2016 vs 2015	2016	2015	2016 vs 2015
Sales						
Revenues on sales	10,286,983	11,813,153	-13%	3,299,797	3,719,173	-11%
<i>electricity, including:</i>	<i>6,439,491</i>	<i>7,677,217</i>	<i>-16%</i>	<i>2,097,765</i>	<i>2,389,765</i>	<i>-12%</i>
<i>revenues from retail sales of electricity</i>	<i>5,188,166</i>	<i>5,991,091</i>	<i>-13%</i>	<i>1,701,073</i>	<i>1,901,394</i>	<i>-11%</i>
<i>greenhouse gas emission allowances</i>	<i>281,456</i>	<i>153,862</i>	<i>83%</i>	<i>23,652</i>	<i>26,654</i>	<i>-11%</i>
<i>fuel</i>	<i>1,164,270</i>	<i>1,411,016</i>	<i>-17%</i>	<i>406,577</i>	<i>483,655</i>	<i>-16%</i>
<i>distribution service (transferred)</i>	<i>2,354,821</i>	<i>2,518,317</i>	<i>-6%</i>	<i>759,273</i>	<i>803,826</i>	<i>-6%</i>
<i>other services, including commercial services</i>	<i>46,946</i>	<i>52,740</i>	<i>-11%</i>	<i>12,762</i>	<i>15,261</i>	<i>-16%</i>
EBIT	388,811	443,797	-12%	114,921	114,042	1%
Depreciation and write-offs	8,308	8,138	2%	2,394	2,740	-13%
EBITDA	397,119	451,935	-12%	117,315	116,782	0.5%

In the period of three quarters of 2016 revenues on sales in the Sales Segment were lower by 13% as compared to the corresponding period of the previous year, mainly as a result of lower revenues on sales of electricity (lower sales volume) and lower revenues on sales of fuel (in the current year, no trading in biomass is carried out), with the simultaneous growth of revenues on sales of greenhouse gas emission allowances (higher volume of sales).

EBITDA and EBIT results of the Sales Segment in the period of three quarters of 2016 reached a lower level than in the corresponding period of 2015. The level of achieved results was affected by the following factors:

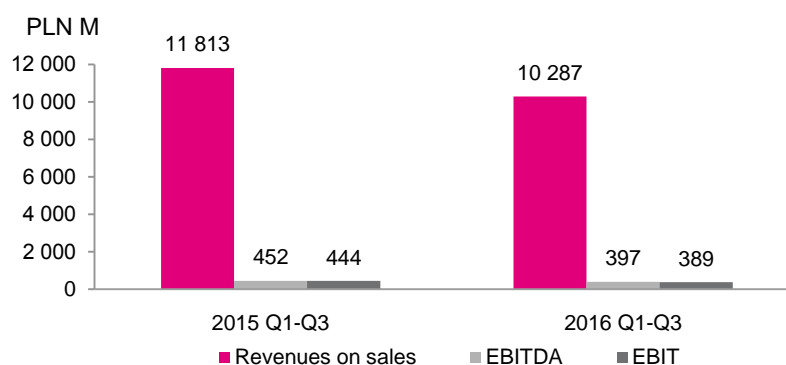
- 1) energy volume and prices - a negative impact on the result is caused by a volume of electricity sales lower by 6.7 TWh YoY (from 37.6 TWh to 30.9 TWh) and a decline in sales price resulting from lower wholesale electricity prices and lower prices of RES property rights - in connection with the client loyalty programme (business clients, SMEs and individual clients) from the tariff to the product, reduction of G tariff by 0.88% YoY. The price was also affected by a high share of sales of exchange-traded products, where the sales price depends on the level of conventional energy quotations on TGE.
- 2) prices of property rights - positive impact on the result through taking advantage of the favourable market situation, mainly in the scope of "green" certificates (execution of the PMOZE purchase at lower prices),
- 3) obligation to redeem property rights - adverse impact on the result as a consequence of growth in the level of the obligation for "green" certificates from 14% to 15%, and as of July this year - change to 14.35%, with simultaneous introduction of the obligation for PMOZE-BIO (so-called "blue" property rights) at a level of 0.65%; for "violet" certificates from 1.3% to 1.5%, for "yellow" certificates from 4.9% to 6.0% and maintaining of the obligation to redeem certificates from co-generation for "red" certificates at a level of 23.2%,
- 4) growth in the level of revenues on commercial fees - as a result of assumed higher pace of developments in customer loyalty programmes,

5) other - recognised result of other operating activities and lower costs of marketing and sales actions.

EBITDA and EBIT results of the Sales Segment in 2016 Q3 reached a level comparable as in the corresponding period of 2015 which was mainly affected by a lower level of electricity purchase on the wholesale market, lower purchase prices of PMOZE and, in addition, a lower loss of electricity volume than in previous quarters and acquisition of business clients with considerable energy consumption (Jeronimo Martins Polska SA, Polska Grupa Górnicza Sp. z o.o., ISD Huta Częstochowa).

The figure below presents the financial data of the Sales Area for three quarters of 2016 as compared to three quarters of 2015.

Figure no. 15. Financial data of the Sales Area for three quarters of 2015 and 2016.



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

Figure no. 16. EBITDA result of the Sales Area



Other Area

The table below shows the results of Other Area.

Table no 17. Results of Other Area

Specification (PLN thous.)	Quarters 1-3 2016	Quarters 1-3 2015	Change % 2016 vs 2015	Q 3 2016	Q 3 2015	Change % 2016 vs 2015
Other						
Revenue on sales	616,896	702,794	-12%	188,053	199,648	-6%
<i>customer service, accounting and IT services</i>	426,426	442,270	-4%	143,709	147,848	-3%
<i>electricity and property rights arising from certificates of electricity origin</i>	8,307	69,333	-88%	2,009	3,155	-36%
<i>biomass</i>	100,188	115,929	-14%	15,123	21,387	-29%
<i>aggregates</i>	67,694	67,997	1%	24,171	23,605	4%
<i>other revenues</i>	14,281	7,265	69%	3,041	3,653	-26%
EBIT	48,146	47,972	0.4%	18,324	20,076	-9%
Depreciation and write-offs	54,122	50,211	8%	17,908	17,112	5%
EBITDA	102,268	98,183	4%	36,232	37,188	-3%

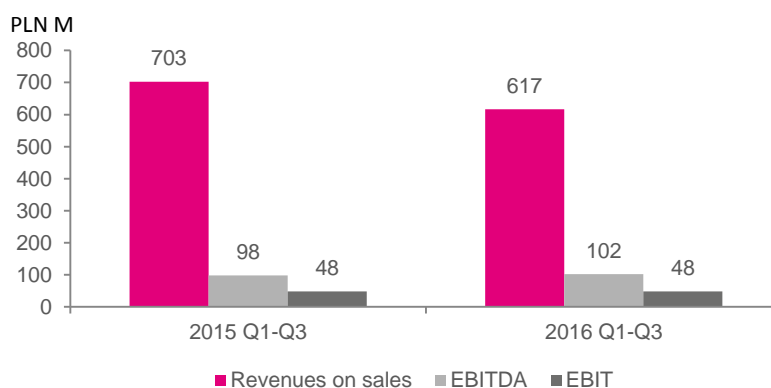
In the period of three quarters of 2016 revenues on sales of the Other Area dropped from 12% as compared to the corresponding period of the previous year; the main reasons of this situation which should be identified include loss of revenues on sales of electricity, property rights and biomass.

Higher results of the Other Area YoY arise from the following events:

- settlement of covering Biomasa Grupa TAURON company by consolidation in 2015,
- gaining a higher margin on sales of stone assortments,
- decline in turnover on sales of electricity and property rights, which reduced the accomplished negative margin.

The figure below presents the financial data of the Other Area for three quarters of 2016 as compared to three quarters of 2015.

Figure no. 17. Financial data of the Other Area for three quarters of 2015 and 2016.



4.4.3 Status of assets

In the table below, the consolidated statement of financial standing as at 30 September 2016, as compared to 31 December 2015, is presented.

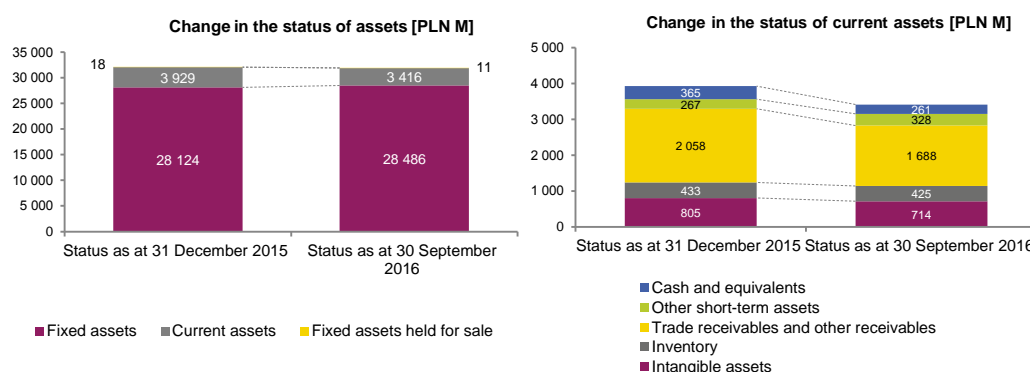
Table no 18. Consolidated statement of financial standing - assets (significant items)

Consolidated statement of financial situation (in PLN thous.)	Status as at 30 September 2016	Status as at 31 December 2015	Change % (2016 vs. 2015)
ASSETS			
Fixed assets	28,486,467	28,124,185	1%
Tangible fixed assets	25,637,117	24,882,817	3%
Current assets	3,427,219	3,947,248	-13%
Cash and equivalents	261,017	364,912	-28%
Fixed assets and assets of the Group for disposal, classified as held for trade	10,913	17,898	-39%
TOTAL ASSETS	31,913,686	32,071,433	-0.5%

As at 30 September 2016 the statement of financial situation of TAURON Capital Group recognises balance sheet total lower by 0.5%, as compared to 31 December 2015.

The figure below shows the change in the status of assets and current assets as at 30 September 2016, as compared to 31 December 2015.

Figure no. 18. Change in the status of assets and current assets



Fixed assets constitute the major item of assets as at the end of September 2016, with the share of 89% of the balance sheet total. As compared to the status as at the end of the previous year, the value of fixed assets is higher by PLN 362 million (1%), due to changes in the analytical items of fixed assets specified below, which resulted from the following factors:

- 1) tangible fixed assets - a growth by 3% is the resultant of investment implemented in companies of TAURON Capital Group and the write-off due to impairment in the carrying amount of generation units in the Generation Segment, applied as at 30 June 2016,
- 2) goodwill – a decline by 56%, which is the result of the impairment test performed as at 30 June 2016, which indicated a loss on the carrying amount of the goodwill of TAURON EKOENERGIA company presented in the Generation Segment,
- 3) intangible assets – a decline by approximately 77% arising from reclassification of certificates of electricity origin and CO₂ emission allowances to current assets in order to fulfil the obligation related to redemption of the aforementioned assets for 2016,

- 4) value of stocks and shares in joint projects – growth by 14% arising from the share of TAURON Capital Group in the profit generated by TAMEH HOLDING in the period of 2016 Q1-Q3,
- 5) other long-term financial assets - growth by 15% as a result of purchase of participation units in investment funds,
- 6) other long-term non-financial assets - a decline by 15% as a result of settlement of advance payment for tangible fixed assets under construction and intangible assets,
- 7) assets due to deferred income tax - growth by 21%, inter alia, as a result of assessed income tax arising from the created impairment write-off on generation assets.

The following factors had an impact on the decline in the value of current assets by PLN 520 million (13%):

- 1) intangible assets - a decline by 11%, which is caused by the settlement of the obligation to redeem certificates of electricity origin and CO₂ emission allowances for 2015 and the growth of their status in connection with the production and acquisition of property rights and CO₂ emission allowances on account of the obligation of the current year,
- 2) Receivables from consumers - a decline by 11% and receivables due to taxes - a decline by 73%, mainly due to VAT,
- 3) status of other financial assets - a growth by 463% as a result of growth in the value of margin and measurement of financial instruments,
- 4) other non-financial assets - a decline by 42%, mainly as a result of settlement of the advance payment for supplies,
- 5) status of cash and equivalents - a decline by 28%. The reasons of the change were described in item 4.4.4. Hereof related to cash flow account.

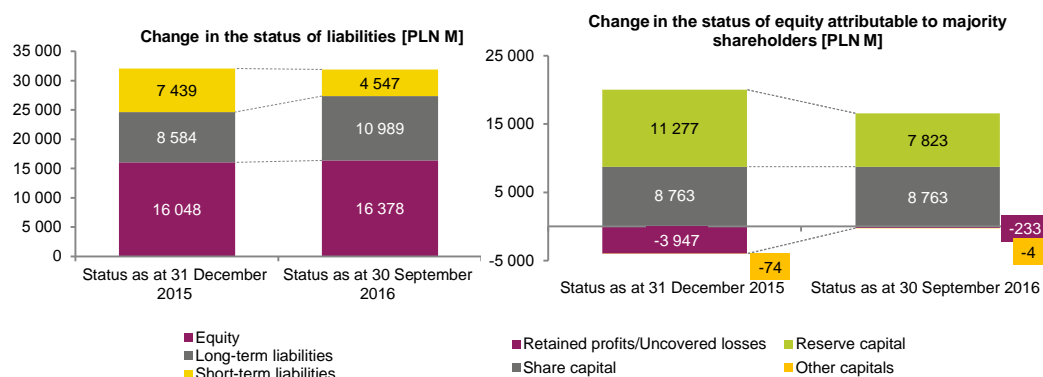
In the table below, the consolidated statement of financial standing - liabilities, is presented.

Table no 19. Consolidated condensed statement of financial standing - liabilities (significant items)

Consolidated statement of financial situation (in PLN thous.)	Status as at 30 September 2016	Status as at 31 December 2015	Change % (2016 vs. 2015)
LIABILITIES			
Equity attributable to shareholders of the parent entity	16,348,985	16,018,328	2%
Non-controlling shares	28,534	29,829	-4%
Total equity	16,377,519	16,048,157	2%
Long-term liabilities	10,989,315	8,583,950	28%
Liabilities due to debt	7,397,598	4,924,127	50%
Short-term liabilities	4,546,852	7,439,326	-39%
Liabilities due to debt	1,133,015	3,214,520	-65%
Total liabilities	15,536,167	16,023,276	-3%
TOTAL LIABILITIES	31,913,686	32,071,433	-0.5%

The figure below shows the change in the status of liabilities and equity as at 30 September 2016 and 31 December 2015.

Figure no. 19. Change in the status of liabilities and equity

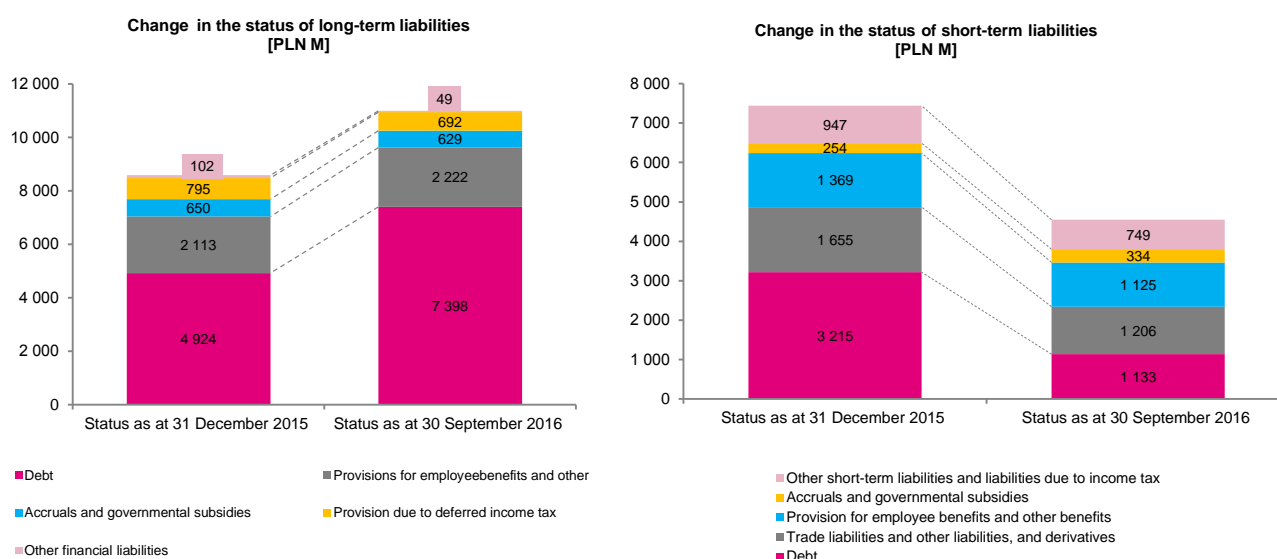


Similar to previous years, the equity is still the dominating source of financing of the assets, and its share in the balance sheet total increased to 51%.

In June 2016, in accordance with the decision of the Ordinary GM of TAURON, the net loss for the financial year 2015 in the amount of PLN 3,453,908.3 was covered by reserve capital.

The figure below shows the change in the status of liabilities as at 30 September 2016 and 31 December 2015.

Figure no. 20. Change in the status of liabilities



The value of long-term liabilities of TAURON Capital Group in the period of 2016 Q1-Q3 increased by PLN 2,405 million (28%), which is associated with the issue of bonds in the reporting period with the nominal value of 2,860 million and the redemption of bonds with the total nominal value of PLN 300 million on 30 September 2016.

The value of short-term liabilities of TAURON Capital Group decreased by PLN 2,892 million (39%), which resulted from the following factors:

- 1) liabilities due to debt – a decline by 65% as a result of redemption of bonds with the nominal value of PLN 2,250 million on 29 February 2016,
- 2) investment liabilities - a decline by 37% and liabilities towards suppliers - a decline by 22%,

- 3) financial derivative instruments - a growth by 9%, which results from valuation of commodity contracts (forward, futures, swap) for forward purchase and sales transactions, mainly CO₂ emission allowances and electricity,
- 4) provisions - a decline by 38%, which is the resultant of using the provision created in 2015 on account of the fulfilment of the obligation to submit electricity certificates of origin for redemption, arising from the provisions of the Act of 10 April 1997 - Energy Law and CO₂ emission allowances as well as creating of the provision on account of fulfilment of the obligations described above for the period of 2016 Q1-Q3,
- 5) prepayments - a growth by 31%, which results from periodically created settlement for employee benefits,
- 6) liabilities due to taxes and fees - a decline by 30%, which results from lower liabilities due to income taxes and fees for the use of the environment,
- 7) a growth of other non-financial liabilities by 5%, which results from creation of monthly write-offs by companies of TAURON Capital Group, in accordance with the provisions of the *Act of 4 March 1994 on the Company Social Benefits Fund*.

4.4.4 Cash Flows

Consolidated statement of Cash Flow

In the table below, condensed interim statement of cash flows is presented for a period of nine months of 2016, in relation to the corresponding period of 2015.

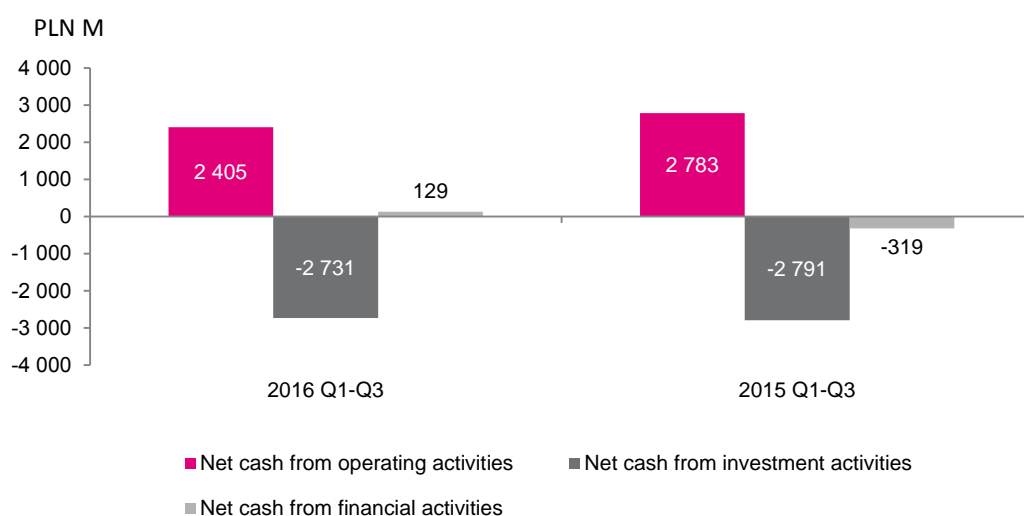
Table no 20. Condensed interim statement of cash flows (data in PLN thousand)

Statement of cash flows (data in PLN thousand)	Q 1-3 2016	Q 1-3 2015	Change % (2016 vs. 2015)
Cash flows from operating activities			
Gross profit / (loss)	369,544	1,313,679	-72%
Adjustments	2,035,810	1,469,413	39%
Net cash from operating activities	2,405,354	2,783,092	-14%
Cash flows from investment activities			
Sales of tangible fixed assets and intangible assets	23,836	22,511	6%
Purchase of tangible fixed assets and intangible assets	-2,629,223	-2,825,828	-7%
Return of public aid	-131,077	0	-
Net cash from investment activity	-2,730,803	-2,791,346	-2%
Cash flows from financial activities			
Issue of debt securities	2,860,000	0	-
Redemption of debt securities	-2,550,000	-150,000	1,600%
Repayment of loans/credits	-66,959	-67,126	-0.2%
Interest paid	-114,419	-126,101	-9%
Net cash from financial activity	129,191	-319,453	-
Increase/(decrease) in net cash and equivalents	-196,258	-327,707	-40%
Cash opening balance	327,715	1,408,071	-77%
Cash closing balance	131,457	1,080,364	-88%

The sum of all cash streams of net cash flows from operating, investment and financial activities in the period of 2016 Q1-Q3 was a negative value and amounted to PLN -196.3 million.

The figure below presents cash flows for the period of Q1-Q3 of 2016 and 2015.

Figure no. 21. Cash flows for the period of Q1-Q3 of 2016 and 2015.



The value of cash flows on operating activities achieved in the reporting period was lower by 14% 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) incurring of expenditure for the purchase of certificates of electricity origin higher by PLN 16 million in the period of 9 months,
- 2) income tax expenses higher by PLN 207 million, which resulted from the advance payment on account of income tax, contributed by the Tax Capital Group in the amount of PLN 185 million and payment of the advance payment for 2015 Q4 in the amount of PLN 89 million. In the corresponding period of the previous year the Tax Capital Group contributed an advance payment for income tax at a level of PLN 106 million and received the return due to surplus payment of income tax in 2013 in the amount of PLN 22 million,
- 3) negative change in the status of inventory, inter alia, as a result of higher production and lower sales of coal in 2016; in the corresponding period of 2015, an opposite relation of production to sales occurred, which results in the negative change in the status of inventory YoY by PLN 158 million,
- 4) negative change in the balance of receivables and liabilities at a level of PLN -62 million.

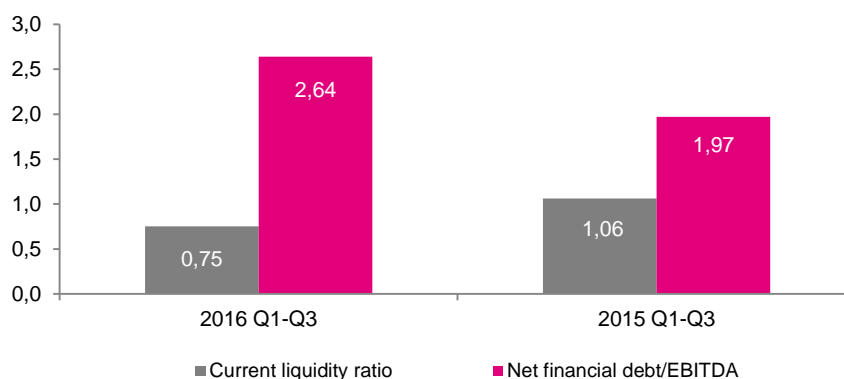
Expenditures due to the purchase of tangible fixed assets represented the factor of the highest impact on the developments of the cash stream of investment nature, which were higher by 7% in the reporting period than the expenditures incurred in the corresponding period of 2015. In the current period, the highest expenditures were incurred by the Generation and Distribution Segments. In addition, in the 1st quarter of 2016, the Nowe Brzeszcze GT company returned public aid, in accordance with the provisions of the concluded agreement for return of the aid, in the amount of PLN 131 million.

The positive value of cash of financial nature results from the issue of bonds with the nominal value of PLN 2,860 million performed in the 1st quarter of 2016, and from the redemption of bonds issued in previous years, with the nominal value of PLN 2,250 million. In addition, on 30 September 2016 TAURON Capital Group redeemed bonds with the nominal value of PLN 300 million.

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

The figure below presents cash flow and debt ratio in the period of Q1-Q3 of 2016 and 2015.

Figure no. 22. Liquidity and debt ratios



TAURON Capital Group effectively manages its financial liquidity 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 liquidity loss, TAURON Capital Group uses the *cash pooling* mechanism. Currently, TAURON Capital Group uses various sources of financing, such as, for example, overdraft, bank facilities, loans from environmental funds, issue of bonds, financial leasing contracts and lease contracts with the purchase option.

4.5 Factors and events, including those of unusual nature, significantly affecting the condensed financial statement

In the third quarter of 2016, no factors or events of unusual nature occurred, which would significantly affect the financial results achieved.

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

External factors

As in the past, the following external factors will mainly affect the results of TAURON Capital Group operations:

- 1) the macroeconomic situation, especially in Poland, as well as the economic situation of the area where TAURON Capital Group operates and at the European Union and global economy level, including volatility of interest rates, currency rates, etc., influencing the measurement of assets and liabilities recognised by the Company in the statement of financial situation,
- 2) political environment, especially in Poland as well as at the European Union level, including the standpoints and decisions of public administration institutions and authorities, for example: Office for Competition and Consumer Protection (UOKiK), Energy Regulatory Office (ERO) and the European Commission,
- 3) changes in regulations related to the energy sector as well as changes in the legal environment, including: tax law, commercial law, environmental protection law, in particular: the announced liberalisation of electricity prices for households, the announcement of the ERO President related to the application of maximum prices in tariffs for G group (instead of fixed priced), in order to protect consumers against rapid changes of prices upon full liberalisation,

- 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 energy generators in co-generation,
- 5) introduction as of 1 July 2016, under the amendment to the RES Act, of the obligation to purchase certificates allocated for electricity produced in agricultural biogas plants with the purpose of their redemption (so-called "blue" certificates), resulting in the growth of redemption costs of property rights of electricity sellers to end consumers,
- 6) situation in the electricity sector, including the activity and measures undertaken by competition in the energy market,
- 7) the number of CO₂ emission allowances allocated free of charge, as well as prices of allowances purchased - under the circumstances of the deficit in free allowances,
- 8) electricity prices on the wholesale market,
- 9) sales prices of electricity and coal as well as distribution tariffs, as factors influencing the level of revenues,
- 10) prices of certificates of origin of energy from renewable sources and co-generation,
- 11) prices of energy-producing raw materials,
- 12) environmental protection requirements,
- 13) research and technical progress,
- 14) demand for electricity and other products of the energy market, including changes arising from seasonality and weather conditions.

Internal factors

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

- 1) activities in the area of optimisation of processes in all companies of TAURON Capital Group,
- 2) assumed effects of the Effectiveness Improvement Programme in TAURON Group for the years 2016-2018,
- 3) pace and effects of implementation of TAURON Group Strategy for the years 2016-2025,
- 4) decisions in the scope of implementation of key investment projects,
- 5) marketing activities in the scope of acquisition of new clients and loyalty activities in terms of maintaining existing clients,
- 6) 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,
- 7) 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,
- 8) procurement management by TAURON, in particular, fuel purchases for the needs of generation entities included in TAURON Capital Group,
- 9) geological and mining conditions of extraction,
- 10) 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 air temperature, and it is higher in the autumn and winter season. The level of electricity sales to individual consumers depends on the length of a day, which usually makes electricity sales in this group of consumers lower in the spring and summer season and higher in the autumn and winter season.

Sales of coal to individual consumers is higher in the autumn and winter season. The seasonality of the remaining areas of TAURON Capital Group operations is limited.

The impact of the aforementioned factors on the financial result achieved in the period of 2016 Q1-Q3 is described in item 4 hereof. 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 did not publish any forecasts of financial results for 2016. The financial situation of TAURON Capital Group is stable and no negative events occurred which would cause any threat to its business continuity or significant deterioration of its financial standing.

The detailed description of the financial standing understood as the provision of financial resources for both operating and investment activity is included in section 4 hereof.

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

5.1 Significant events or failures of the Issuer which occurred in the third quarter of 2016

Amendments to the Articles of Association of TAURON Polska Energia S.A.

On 8 June 2016 the Ordinary General Meeting of the Company adopted the resolution on the amendment to the Company Articles of Association.

On 30 June 2016 the District Court for Katowice-Wschód, 8th Commercial Department of the National Court Register issued the decision on entry of the amendments to the Company Articles of Association, adopted under resolution no. 44 of 8 June 2016 of the Company Ordinary General Meeting concerning the amendments to the Company Articles of Association to the register of entrepreneurs of the National Court Register.

On 26 July 2016 the Supervisory Board of TAURON Polska Energia S.A. acting pursuant to § 20 section 1 item 13 of the Company Articles of Association adopted a uniform text of the Articles of Association of TAURON Polska Energia S.A. that includes the amendment to the Articles of Association entered by the District Court for Katowice-Wschód in Katowice, 8th Commercial Division to the National Court Register.

Introduction of the amendments to the Company Articles of Association was aimed at implementing the 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 provide an effective tool supporting the respect of shareholders' rights. Moreover, the said implementation will have a positive impact on development of TAURON relations with its market environment.

In the scope of the 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.

Information on the aforementioned events was included in current reports no.: 27/2016 of 8 June 2016, 29/2016 of 1 July 2016 and no. 31/2016 of 26 July 2016.

Information about planned recognition of a write-off of impaired generation assets of the Generation Segment in financial statements for the 1st half of 2016

On 26 July 2016, following the completion of main works related to impairment tests on assets, in line with the requirements of the IAS 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 due to the loss of the carrying amount of generation units in the Generation Segment. The Generation Segment comprises companies generating energy and heat from conventional and renewable sources.

The reason behind the write-offs lies primarily in changes in market environment that have been unfavourable for electricity generators and must have been taken into account for test purposes, including the decline in prices of certificates of electricity origin from renewable sources and new regulations in the RES segment. The value of the write-off related to conventional sources resulted from continued unfavourable trend in electricity prices and the expected higher supply of energy from sources competitive to domestic coal-fired power plants. At the same time, in the assumptions to the forecasts account has been taken of estimated impact of introduction of the so-called capacity market. The above mentioned market conditions had an impact, on the one hand, on decrease of cash flows that determine the recoverable amount of individual units and, on the other hand, led to reversal of impairment write-offs created previously for assets associated with heat and electricity generation

In reference to the consolidated financial statements of TAURON Capital Group for the 1st half of 2016 the conducted tests indicated that it was necessary to write-off the impairment of tangible and intangible assets and goodwill as well as to reverse the write-offs created previously in the Generation segment. The total net write-off amount (i.e. the excess of created write-offs over reversals) reached approx. PLN 0.7 billion. This amount included impairment write-offs related to wind farms at a level of approx. PLN 0.5 billion and impairment write-offs related to generation assets in the area of electricity and heat generation at a level of approx. PLN 0.2 billion net. The total estimated impact on reduction of net financial result is approx. PLN 0.6 billion. The value of the aforementioned write-offs had no impact on EBITDA result, understood by the Group as EBIT increased by depreciation and write-offs for non-financial assets.

In reference to standalone financial statements of TAURON Polska Energia S.A. for the 1st half of 2016 the conducted tests indicated that it was necessary to recognise write-offs due to impairment of stocks and shares in TAURON Wytwarzanie S.A. and TAURON Ekoenergia sp. z o.o. companies as well as to reverse the write-off for the company TAURON Ciepło sp. z o.o. in the total net amount of approx. PLN 1.0 billion. Expected estimated impact of those write-offs on the net result presented in standalone financial statements is approx. PLN 1.0 billion.

Information concerning the aforementioned event was published in the current report no. 30/2016 of 26 July 2016.

Withdrawal from execution of project for the construction of CCGT unit at Elektrownia Blachownia

On 28 July 2016 TAURON, KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. signed the agreement under which they jointly decided to withdraw from execution of the project for the construction of CCGT unit at Elektrownia Blachownia Nowa Sp. z o.o. and terminate the Shareholders' Agreement binding KGHM and TAURON Wytwarzanie, which means the expiry of any obligations specified in the Shareholders' Agreement and termination of all works defined therein, in particular, those defined in the preliminary schedule of project execution, as well as in further arrangements and covenants. KGHM and TAURON Wytwarzanie jointly agreed to participate in winding up of the company which would be carried out in accordance with the provisions of the articles of association of the company and generally applicable laws. The Parties will cooperate with each other and with the company to guarantee the execution of the Agreement. The Parties agreed to terminate the binding agreement of 30 December 2013 under which they decided to suspend temporarily the project for the construction of CCGT unit at Elektrownia Blachownia.

Information concerning the aforementioned event was published in the current report no. 32/2016 of 28 July 2016.

Publication of estimated consolidated financial data for the 1st half of 2016

On 29 July 2016 the Company publicly presented selected estimated consolidated financial data of TAURON Polska Energia Capital Group for the 1st half of 2016.

Net revenues on sales: approx. PLN 8,940 billion

EBITDA (operating profit increased by depreciation, amortisation and write-offs for non-financial assets): approx. PLN 1,650 million EBIT (operating profit): approx. PLN 130 million

Net loss: approx. PLN 10 million

The above results take into account the write-off due to the loss in the carrying amount of impaired generation assets of the Generation segment to be recognised in the consolidated financial statements for the 1st half of 2016, of which the Company informed in the current report no. 30/2016 of 26 July 2016, and which affected the decrease in EBIT result by approx. PLN 710 million and net result by approx. PLN 590 million.

Moreover, the Company reserved that the consolidated financial statements of TAURON Capital Group are reviewed by the certified auditor which means that the presented values are estimated and may be subject to change.

Information concerning the aforementioned event was published in the current report no. 33/2016 of 28 July 2016.

Publication of the TAURON Group's 2016-2025 Strategy

On 2 September 2016 the Company Management Board adopted and the Supervisory Board issued a positive opinion on the document entitled "TAURON Group's 2016-2025 Strategy". The Strategy is a response to the challenges stemming from the current and forecast situation on the market and in the power sector. Within the process of the Strategy preparation an in-depth analysis of the macroeconomic, market and regulatory environment as well as sector development forecasts was performed, translating them into opportunities and risks for TAURON Polska Energia Group in the perspective of the nearest ten years. The capacity of TAURON Group to finance current and planned investment projects was analysed to the extent enabling their implementation from funds generated by operating activity and by acquisition of debt financing. The aforementioned analyses and market trends provided basis for verification of market, macroeconomic assumptions and the investment plan.

The Strategy presents the optimal expansion path that will ensure financial stability and growth, while at the same time providing support for ensuring stability of the power system. The long term growth will be driven by solutions based on customer relations. The adopted mission and vision reflect new management philosophy and are in line with the customer-oriented growth concept.

In accordance with the adopted Strategy the Group's mission was defined in the following way: "With passion and commitment we are delivering modern solutions that provide energy in the constantly changing world".

The vision of the Group is as follows: "We are a company that best meets customer needs in the Polish energy industry".

The Strategy determines priorities to transform the Group into the innovative energy concern, adjusted to market and client needs which guarantees the return on invested capital to its shareholders.

Key assumptions of TAURON Group's 2016-2025 Strategy

The Strategy includes an action plan split into three coherent and complementary priorities for the Group.

1. Ensuring the Group's financial stability to be achieved through the following actions:

- Efficiency Improvement Programme, adopted in March 2016 and assuming achieving PLN 1.3 billion in savings in 2016-2018. The above savings comprise actions resulting in the cumulative EBITDA increase by approximately PLN 1 billion and involving CAPEX reduction by approximately PLN 0.3 billion in 2016-2018

- Strategic Initiatives, including CAPEX reduction to generate the financial effect at a level of PLN 1.9 billion in 2017-2020. It will be achieved as a result of measures leading to the cumulative EBITDA increase by approximately PLN 1.2 billion and the CAPEX reduction by approximately PLN 0.7 billion. These are additional financial outcomes, besides the effects included in the Efficiency Improvement Programme

- suspension of the investment in the new CCGT unit at Łągisza Power Plant, resulting in not incurring PLN 1.5 billion in CAPEX. It will be possible to resume the project in the case the regulatory and market environment turns favourable.

2. Building a strong capital group. The Strategy defines a new approach to the value chain where key tasks are set for each line of business. The Strategy does not assume balanced growth along each link of the value chain. Sales and development of new products and services are to constitute a strong base for the Group's growth. The Group is planning rapid development of its offer for customers in this segment which will allow for retaining the existing base of customers that purchase TAURON products and increasing profitability. Electricity distribution as well as heat generation and distribution segments are to constitute a stable base of the Group's regulated businesses. Mining and conventional generation segments have tasks related first of all to efficiency improvement.

The following three pillars of building the strong capital group were defined:

- customer relations based on integrated high quality service with the use of modern sales and customer service channels as well as developing a product and service offer.

- stable base of regulated assets based on the refurbished electricity distribution and heat segments as well as readiness to develop renewable energy sources in the case the regulatory environment turns favourable

- efficient conventional assets, i.e. mining and conventional generation segments, which as a result of improving cost efficiency and productivity will be competitive on the market or, in case of generation assets, will be shifted to the regulated segment of the power system.

3. Transforming the Group into a modern and innovative organization, by deploying changes supporting the implementation of the strategy:

- expanding research and development as well as innovative activities for which expenditures equal to 0.4% of the consolidated annual revenue are envisaged

- developing innovative projects based on the Corporate Venture Capital (CVC) type fund dedicated for this purpose

- implementing a new, process-oriented operational model. Five priority process streams have been identified around which TAURON Group's operations will be concentrated, i.e. Strategy, Finance, Assets Management and Development, Client and Corporate Governance and Support. Such approach will allow for placing a greater emphasis on cross-sectional issues that will determine the Group's competitive advantages in the future.

Implementation of the Strategy will enable to increase EBITDA from PLN 3.5 billion in 2015 to over PLN 4 billion in 2020 and over PLN 5 billion in 2025. The estimated recurring effect of the Efficiency Improvement Programme in the form of impact on the Group's EBITDA is approx. PLN 0.4 billion starting from 2018 and the effect of Strategic Initiatives in the form of impact on the Group's EBITDA is approx. PLN 0.3 billion after 2020.

Investment Programme for 2016-2025

Under streamlining of CAPEX, the expenditures planned for 2016-2020 were reduced from PLN 20.2 billion to approx. PLN 18 billion. It is assumed that the commenced and well advanced investment projects will be continued. The detailed analysis has indicated that 75 per cent of the investment plan up to 2020 include tasks continued or representing the implementation of undertaken obligations. Those tasks include the

investment in the 910 MW unit at Jaworzno III Power Plant and tasks contracted or arising from regulatory requirements in the Distribution segment. Abandoning or postponing of those tasks would have an adverse impact on the Group's value or is impossible for legal or security reasons.

In the Mining segment investments at Janina coal mine and the construction of Grzegorz shaft at Sobieski coal mine will be continued and the planned investments at Nowe Brzeszcze Grupa TAURON coal mine will be carried out. CAPEX in this line of business is approximately PLN 1.3 billion until 2020.

In the generation segment investment in the construction of the 910 MW unit at Jaworzno III Power Plant and the CCGT unit at Stalowa Wola Combined Heat and Power Plant as well as the investments in the heating networks will be continued. TAURON assumes implementation of construction of the 910 MW unit at Jaworzno III Power Plant under a new financing formula envisaging separation of an organised part of the enterprise and selling its shares to third party partners, provided they do not acquire a controlling stake. The change in the method of the unit construction would affect the decline in the net debt/EBITDA ratio, consequently, it would significantly mitigate the risk of exceeding the threshold level of this covenant (3.5x) contained in financing agreements.

It should be stressed that the Strategy assumes that financial stability will be maintained and the net debt/EBITDA covenant at a level of 3.5x will not be exceeded, without considering sales of the minority share in the project on 910 MW unit construction to external partners. This means that the planned change in the financing formula of this project is an additional element stabilising the financial situation of TAURON Group.

Capital expenditures in the Generation segment amount to PLN 6.7 billion until 2020.

More than 50 percent of the entire CAPEX, i.e. PLN 9.5 billion by 2020, covers investments in the Distribution segment that include connecting new customers and electricity sources as well as upgrading and replacing grid assets.

In the scope of innovation and research and development activities the Strategy assumes expenses at a level of 0.4 per cent of the consolidated revenue value per year.

In the area of investment the adjustment of the investment portfolio to market needs is the overarching objective. In particular, activities will be oriented to:

- optimisation of asset structure in all areas of activity and adjustment to environmental requirements
- implementation of only those investment projects which guarantee the expected level of return on equity and are not burdened with significant market risk
- use of off-balance sheet forms of financing, in particular, through involving external partners
- analysis of investment in the conventional generation segment, provided that revenue ensuring mechanisms are introduced (e.g. capacity market or other form of regulation)
- investing in projects in sectors related to the power sector (in particular services) in order to supplement the value chain within which TAURON operates as well as creating an offer of high margin services.

Assumed directions of investments beyond 2020 include first of all the regulated segments of the power sector (i.e., among others, electricity distribution, heat generation and distribution, participation in the nuclear power generation and regulated conventional generation) and the new power industry (i.e. e-mobility, dispersed heat and electricity generation, power generation by prosumers, Smart Home, Smart City solutions and energy related services). The Company assumed that in the years 2020-2025 it would hold an investment capacity estimated at over PLN 6 billion.

The Strategy will enable to transform the Group into a modern entity with stable financial position and a wide offer of products and services meeting the expectations of customers, around whom the Group will be building its value.

Within TAURON Group's 2016-2025 Strategy, the Company adopted the dividend policy. In the long-term perspective, the Company is planning to pay out a dividend of minimum 40 percent of the consolidated net profit. The intention of the Company is to provide a dividend yield that would be competitive towards the yield offered by long-term debt instruments issued on the Polish market by investment grade rated

companies. The final recommendation on the dividend will be affected by additional factors, including in particular:

- Group's liquidity position
- market situation
- implementation of the investment policy
- cost and ability to raise financing
- legal requirements and provisions of the financing agreements, in particular related to not breaching the defined value of the leverage ratio
- ensuring investment grade rating.

The dividend policy will be subject to periodic reviews by the Management Board and the final decision in the scope of the dividend will be made by the Company General Meeting on a case by case basis.

The forecasts underlying the Strategy indicate that 2020 will be the first year when the dividend payout will be possible.

Information on the aforementioned events was published in current reports no.: 34/2016 and 35/2016 of 2 September 2016

5.2 Other events which occurred in the third quarter of 2016

Extension of activity on Intercontinental Exchange (ICE)

On 4 July 2016 TAURON extended its activity in the scope of trading in natural gas on the largest exchange of gas and oil in Europe – Intercontinental Exchange (ICE), in the scope of UK Natural Gas Futures product.

The former activity on Intercontinental Exchange comprised the following petroleum products: LS Gas Oil, Brent Crude, WTI Crude, Heating Oil Gas. Entering the market in the United Kingdom (through the National Balancing Point – NBP hub) provides the Company with access to the most liquid natural gas market on the continent which enables it to conduct proprietary trading and increase volumes and revenues due to gas trading. The access to new hubs and exchanges is a consequence of activity aiming at enhancing the competence of TAURON Polska Energia S.A. in the scope of operations on the gas market and gaining access to new fuel sources.

5.3 Market situation

Situation in the energy market

Energy consumption in the National Power System in the 3rd quarter of 2016 amounted to 39,546 GWh and it was higher by almost 0.7% as compared to the corresponding period of the previous year. The summer of 2016 turned out relatively mild, with an average temperature in the 3rd quarter at a level of 18.0°C, i.e. by 1.46°C less than during the record 2015. While comparing energy consumption during the first three quarters of the current year, we observe its growth by 1.6% in relation to the corresponding period of 2015. Installed capacity of wind farms at the end of September amounted to 5,704 MW (growth by approx. 1,500 MW year-over-year), however, the development of wind power sector was strongly hampered and in the 3rd quarter of the current year growth of capacity installed in wind farms reached only 90 MW. As compared to the 3rd quarter of 2015 production of energy from wind increased by only 5.9% due to poor wind conditions. The growth dynamics of new capacity in renewable sources declines due to regulatory instability and persistently low prices of RES property rights.

Production of electricity in Poland in the 3rd quarter of 2016 amounted to 38,645 GWh and it was lower by 2.3% in relation to the previous year. The highest quantity of energy, i.e. 18,635 GWh, was produced by professional coal-fired power plants, although their output dropped by as much as 10.7% in relation to the 3rd quarter of 2015. In the 3rd quarter of 2016 lignite-fired power plants produced 14,049 GWh (growth by 2.9% year-over-year). Hydroelectric power plants produced 402 GWh, which means a growth by 6.3% year-over-year. A significant growth of energy production was recorded in gas-fired power plants which, in connection with the commissioning of a new investment by PKN Orlen, produced 1,293 GWh (growth by 106.5% year-over-year).

In the analysed quarter Poland was the net energy importer, and the surplus of imports over exports reached 930 GWh. It is the opposite situation as compared to the previous year, when in the 3rd quarter of the year the exports balance at a level of 258 GWh was recorded. In total, during the first three quarters of 2016 Poland was the net energy importer at a level of 2,587 GWh.

Electricity prices in the wholesale market

Due to persistently low prices of commodities, temperatures lower than in the previous year and a very limited quantity of capacity losses resulting from repairs of Centrally Dispatched Generating Units (CDGU), wholesale market SPOT energy prices in the 3rd quarter of the current year were very low. The average price on RDN TGE S.A. in the period under discussion reached PLN 149.03/MWh and it was higher by PLN 23.02 than in the previous year. So far, it has been the cheapest quarter in 2016, despite very poor wind conditions. The fundamentally low prices were fostered by systemic, macroeconomic factors and prices of energy-producing raw materials. Prices of hard coal in July and August reached PLN 8.86 and 8.52/GJ, respectively (according to PSCMI index). Electricity prices in SPOT supplies on RDN TGE in individual months were as follows: in July PLN 151.57/MWh, in August PLN 140.47/MWh and in September PLN 155.24/MWh.

In neighbouring markets of Poland, similar conditions, in particular poor wind conditions, resulted in a slightly different situation and a growth in SPOT prices in the 3rd quarter, which turned out the most expensive quarter of the current year. In the 3rd quarter of 2016, the average price on the German EPEX spot exchange amounted to EUR 28.26/MWh and in was, on the one hand, by EUR 4.58 lower than a year ago and by approx. EUR 4 higher than in the first half of the year. In the Czech Republic, in the 3rd quarter of the current year average SPOT prices amounted to EUR 30.14/MWh, whereas in Poland the converted average price reached EUR 34.32/MWh. As usual, the cheapest market in Europe was the Scandinavian NordPool, where the average SPOT price in the 3rd quarter amounted to EUR 25.23/MWh.

In connection with persistently low prices of energy-producing raw materials, trading in forward contracts recorded a downward trend in the 3rd quarter of 2016, until the third decade of September. In this period, prices of Base Y-17 contracts with the delivery in the next year dropped by over PLN 7 to PLN 155.75/MWh, subsequently recovering to the level around PLN 160.00/MWh. Similar developments were recorded in contracts for 2018 which, after the decline by PLN 5 to PLN 157.00/MWh recovered to PLN 160.20/MWh by the end of the quarter. On the German market the scheme of quotations was similar and the reference product - Base Y-17 dropped by EUR 2.24 to EUR 25.16/MWh from the beginning of July to mid-September. However, subsequently, as a result of the dynamic traffic on the ARA coal market and the market of CO₂ emission allowances, its price peaked to EUR 29.23/MWh. The spread between the valuation of German and Polish contracts continues to reach over PLN 34/MWh.

Prices of Property Rights

In the third quarter of 2016 the market of PMOZE_A property rights continued to follow its strong downward trend. During the analysed three months, property rights decreased their value by over a half, reaching the level of PLN 32.69/MWh. The persistent oversupply of these rights at a level of over 25 TWh is continually recorded on the market; additionally, amendments to the Act on renewable energy sources and the approaching auctions do not create any demand side signals for RES property rights. In addition, a separate register was created for agricultural biogas which has been quoted as a separate instrument: PMOZE_BIO since September. During several first sessions its price dropped from PLN 295.00 to 273.07/MWh, whereas these are still levels close to the substitution fee, i.e. PLN 300.03/MWh.

Since July 2016, on the market of property rights originating from co-generation (PMEC, PMGM and PMMET) only property rights confirming energy generation in 2016 have been quoted. Prices of property rights confirming electricity generation in high-performance coal co-generation (PMEC-2016) demonstrated very high stability and the value of the KECX index ranged from PLN 10.60/MWh to PLN 10.69/MWh. The lack of possibility of right banking has caused that the balancing of the system remains at an adequate level and the values of KECX index in 2016 oscillate around the substitution fee of PLN 11.00/MWh.

A similar situation occurred on the market of property rights confirming generation of electricity in high-performance gas co-generation (PMGM-2016) and through methane removal from coal mines (PMMET-2016) in 2016. The value of KGMX index ranged from PLN 119.32 to 122.00/MWh, with the substitution fee reaching PLN 125.00/MWh, whereas in case of KMETX index the quarterly volatility was contained in the range of PLN 61.01 - 62.00/MWh while the substitution fee for 2016 amounts to PLN 63.00/MWh.

On the market of property rights of energy efficiency the volatility in the 3rd quarter ranged from PLN 939.15 and 1,055.96/toe, with the substitution fee at a level of PLN 1,000.00/toe. It was the last quarter of market operation under the former rules; since 1 October new rules of issuing so-called white certificates have been applicable.

Prices of CO₂ emission allowances

Prices of CO₂ emission allowances in the 3rd quarter of 2016 remained at a relatively low level, ranging between EUR 3.87 and 5.37/MgCO₂. In the period under discussion, the average EUA price reached EUR 4.55/MgCO₂ for the EUA DEC-16 contract and it was lower, on average, by EUR 1.22/MgCO₂ (-21%) than the average price in the 2nd quarter of 2015. The reason was the decline in prices triggered by the striking news on the results of voting concerning United Kingdom's exit from the European Union structures. It is also worth noting that the European Union urged the United Kingdom to commence the procedure of exit from the Community as soon as possible in order to prevent further dangerous turbulences in financial markets, affecting, inter alia, CO₂ prices.

The concerns associated with this fact, in connection with the holiday season and a lower demand for EUA units resulted in the decline of EUA DEC-16 price to over 2-year minimum at a level of EUR 3.87/MgCO₂ at the beginning of September. Despite quotations in September which had started at such a low level, this month ultimately demonstrated a definite upward trend. The 3rd quarter ended with quotations at a level of EUR 4.96/MgCO₂ for EUA DEC-16 (which means a growth by almost 30% in relation to the beginning of September).

There were several reasons of the growth. The major reason was the problem associated with nuclear power plants in France, which had been mostly decommissioned due to the necessity to replace fuel in reactors and perform additional pressure tests, resulting in a dramatic growth in prices of forward contracts for electricity in France and across Western Europe. High correlation of electricity prices with EUA prices additionally fostered their growth.

The second reason was a systematic strengthening of steam coal prices in ARA ports, directly affecting electricity prices, thus, indirectly also CO₂ prices. While analysing the third quarter in terms of political events associated with the EU ETS market, strong pressure on EU authorities should be mentioned, aimed at increasing CO₂ prices, e.g. through raising a linear emission reduction coefficient from the current 1.74% to the level of 2.40-2.60%, i.e. increasing the quantity of allowances backloaded by the MSR mechanism.

Gas prices in the wholesale market

In the 3rd quarter of 2016 the average price on the TGE Day-Ahead Market amounted to PLN 63.53/MWh. As compared to the corresponding period of the previous year, a decline by PLN 24.02 occurred (-27.44% YoY). Such a strong decline resulted from the global downward trend in the natural gas market. The peak moment of the decline was the turn of August and September. The SPOT price then remained below PLN 60.00/MWh during most of days. The all-time low value of a contract with the delivery on the next day was recorded on 11 September. On that day, a price on RDNg amounted to PLN 49.61/MWh. The volume of trade in the said market in the 3rd quarter of the current year amounted to 1,678 GWh (a growth by approx. 57% YoY).

A cumulative volume of trade for 9 months of 2016 (9,871 GWh) was higher than trade turnover throughout the whole previous year (8,730 GWh). The average difference between the Polish exchange and the German gas hub, Gaspool in the analysed quarter amounted to PLN 5.49/MWh. The average gas price of

our western neighbours reached a level of EUR 12.97/MWh. Similar to other European countries, a very strong slump in prices of the blue fuel was recorded there (decline of 36% YoY).

In the forward market the situation was similar to that in the spot markets. However, minimum prices were not achieved earlier since in the 1st quarter of 2016, as a consequence of very strong declines in oil prices at the end of 2015, in the 3rd quarter of 2016 the price resumed its downward trend after market reaction and increases recorded in April, May and June. At the end of September, the reference price of an annual contract with the delivery in 2017 amounted to PLN 73.50/MWh, the last quarter of 2016 was assessed at a level of PLN 72.35/MWh, whereas the gas winter season (October-March) - at a level of PLN 73.00/MWh.

In the analysed period the volume of trade on RTTg of TGE S.A. reached 14,968 GWh (a decline by 48.45% YoY). The highest trading was recorded in the annual GAS_BASE_Y-17 contract and the quarterly GAS_BASE_Q-1-17 contract. The total volume of aforementioned products constituted almost a half of the trade in the forward market in the 3rd quarter.

At the end of September the Storage System Operator indicated the status of storage filling at a level of 96%. According to the data of the European Association Gas Infrastructure Europe (GIE), the average status of reserves in the European Union in the same period amounted to 90%.

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

Agreement on the conditions for further execution of the project on “Construction of a CCGT Unit in Stalowa Wola”

On 27 October 2016 TAURON informed that under the project on “Construction of a CCGT Unit in Stalowa Wola” (the “Project”) the following conditional documents were signed:

- a) agreement concerning determination of key preconditions for the Project restructuring, between TAURON, Polskie Górnictwo Naftowe i Gazownictwo S.A. (“PGNiG”), and Elektrociepłownia Stalowa Wola S.A. (“ECSW”) (“Agreement”);
- b) annex to the power purchase agreement of 11 March 2011 (“Power Purchase Agreement”) between TAURON, PGNiG and ECSW;
- c) annex to the gas fuel supply agreement of 11 March 2011 (“Gas Supply Agreement”) between PGNiG and ECSW.

Agreement

First of all, the negotiated Agreement sets forth the rules of settlement of contractual penalties that may be imposed by PGNiG on the basis of the Gas Supply Agreement as it currently stands, and addresses the issues related to financial restructuring of the Project. Furthermore, it defines the direction of changes that must be made in ECSW’s key trading transactions, i.e. in the method of purchase of gas fuel and sale of the generated electricity, which are to be introduced on the basis of the annexes to the Gas Supply Agreement and the Power Purchase Agreement.

The Agreement reflects the intent of the Project sponsors (TAURON, PGNiG) (“Sponsors”) to go ahead with the construction of the CCGT unit, amend the Gas Supply Agreement and the Power Purchase Agreement and change the method of funding the Project from project finance to corporate finance, with continued involvement of the financing institutions.

Power Purchase Agreement and Gas Supply Agreement

The conditional amendments to the Gas Supply Agreement and the Power Purchase Agreement provide, in particular, for introducing market rates for the pricing formulas used under these agreements.

Furthermore, in view of delays in the Project implementation, the annex to the Gas Supply Agreement provides for changes to the amounts, times and methodologies of charging contractual penalties.

Conditions Precedent

The Agreement and the annexes to the Gas Supply Agreement and the Power Purchase Agreement enter into force concurrently, upon the amendment of the currently applicable Project financing agreements, or

upon the final discharge of liabilities towards the last of the institutions currently financing ECSW (i.e. the European Investment Bank ("EIB"), the European Bank for Reconstruction and Development ("EBRD"), and Bank Polska Kasa Opieki S.A. ("Pekao")).

Standstill agreement

At the same time, TAURON, PGNiG, EIB, EBRD, Pekao and ECSW entered into Standstill Agreement, the purpose of which is to ensure that the institutions currently providing financing to ECSW would refrain from calling the loans granted to ECSW immediately due and payable, and from satisfying their claims from the security provided in respect of these loans.

The Standstill Agreement shall remain in force until 31 March 2017. It is assumed that new documentation to restructure the Project financing may be negotiated and signed by that date.

The entry into force of the Standstill Agreement is conditional, in particular, on the financial institutions being provided with bank guarantees up to the amount of about PLN 629 million until 30 October 2016, where each of the Sponsors should provide the financial institutions with bank guarantees for half that amount (i.e. about PLN 314.5 million). The said guarantees were submitted together with other required documents.

Notwithstanding the foregoing, ECSW will have the right to give notice to the financial institutions of voluntary early repayment of the loans by 20 March 2017.

According to preliminary estimates, the newly signed documents should enable completion of the Project in 2019.

The Company informed of the aforementioned event in the current report no. 36/2016 of 27 October 2016.

Estimated financial figures of TAURON Polska Energia Group for Q3 2016.

On 28 October 2016 TAURON published selected estimated consolidated financial figures of TAURON Polska Energia Capital Group for the period of Q1-Q3 2016 and for Q3 2016.

Cumulative figures for the period of Q1-Q3 2016:

Sales revenue: approx. PLN 13,124 million

EBITDA (operating profit increased by depreciation, amortisation and write-offs for non-financial assets): approx. PLN 2,458 million

including:

Mining segment's EBITDA: approx. PLN (137) million

Generation segment's EBITDA: approx. PLN 447 million

Distribution segment's EBITDA: approx. PLN 1,710 million

Sales segment's EBITDA: approx. PLN 397 million

EBIT (operating profit): approx. PLN 523 million

Net profit: approx. PLN 276 million

Data for Q3 2016:

Sales revenue: approx. PLN 4,181 million

Group's EBITDA (operating profit increased by depreciation, amortisation and write-offs for non-financial assets): approx. PLN 804 million

including:

Mining segment's EBITDA: approx. PLN 33 million

Generation segment's EBITDA: approx. PLN 93 million

Distribution segment's EBITDA: approx. PLN 562 million

Supply segment's EBITDA: approx. PLN 117 million

EBIT (operating profit): approx. PLN 389 million

Net profit: approx. PLN 271 million

The Company reserved that the presented figures represented estimated values and may be subject to change.

The information on estimated financial results the termination of bankruptcy proceedings was published in the current report no. 37/2016 of 28 October 2016.

Shareholder's request to convene Extraordinary General Meeting of TAURON Polska Energia S.A. and include particular items on the agenda

On 4 November 2016 TAURON received a request in electronic form, from the Minister of Energy exercising the rights of the State Treasury as the shareholder representing 30.06% of the Company share capital, to convene Extraordinary General Meeting of the Company and include the following items in the agenda of the meeting:

1. Adoption of the resolution concerning the principles for determining remuneration for members of the management board of TAURON Polska Energia S.A. with its seat in Katowice.
2. Adoption of the resolution concerning the principles for determining remuneration for members of the supervisory board of TAURON Polska Energia S.A. with its seat in Katowice.

In the rationale the Minister of Energy representing the State Treasury as the shareholder indicated, among others, that the principles for determining remuneration of members of management boards in companies where the State Treasury is a shareholder are regulated by the provisions of the Act of 9 June 2016 concerning the principles for determining the remuneration of individuals managing selected companies. The Minister of Energy, exercising the duty defined in Article 2 section 1 and in section 2 item 1 of the above mentioned act requests the Company General Meeting to adopt resolutions concerning the principles for determining remuneration for members of the managing body and the supervisory body.

In addition, the Minister of Energy informed that draft resolutions concerning determining the remuneration for members of the management board and the supervisory board would be announced without delay, as soon as they are specified.

The Company Management Board informed that the General Meeting would be convened in line with the applicable laws, and information about convening the meeting as well as the agenda would be announced in a separate current report and published on the Company website.

The Company informed of the aforementioned event in the current report no. 38/2016 of 4 November 2016.

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

In the third 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 46 of the Consolidated interim financial statement for the period of nine months, ended on 30 September 2016.

9. Information on granted guarantees, loan or credit sureties

In the third 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 July 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.