

***Report on activities of the Supervisory Board
of TAURON Polska Energia S.A.
in the financial year 2014***

Katowice, March 2015

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1 Introduction

Acting pursuant to Article 382 § 1 of the Code of Commercial Companies and provisions of section 1(1) in Chapter III of Best Practice of Warsaw Stock Exchange (GPW) Listed Companies, the Supervisory Board of TAURON Polska Energia S.A. (hereinafter referred to as the Supervisory Board) hereby submits the *Report on activities of the Supervisory Board in the financial year 2014* to the Ordinary General meeting.

Applying the provisions of section 1(1) in Chapter III of Best Practice of Warsaw Stock Exchange Listed Companies, the Supervisory Board also performed brief evaluation of the Company standing with regard to internal control system and material risk management system.

The detailed description of activity and operations of the Supervisory Board and its committees in the financial year 2014 as well as results of the aforementioned evaluation performed by the Supervisory Board are presented in this report.

2 Information on the term of office of the Supervisory Board, personal composition of the Supervisory Board and functions fulfilled in it as well as changes in the composition of the Supervisory Board during the financial year

The term of office of the Supervisory Board is a joint term of office lasting three years, excluding the first term of office which lasts one year (the Supervisory Board of the first term of office was appointed under the Articles of Association on 6 December 2006). The Supervisory Board consists of 5 to 9 members, appointed and dismissed by the General Meeting, subject to the following provisions:

- 1) in the period, in which the State Treasury, together with entities dependent on the State Treasury, within the meaning of § 10 item 5 of the Articles of Association, has a number of shares of the Company entitling to perform at least 25% (twenty five per cent) of the total votes in the Company, the State Treasury, represented by the minister competent for the State Treasury affairs, shall be authorised to appoint and dismiss members of the Supervisory Board in the amount equal to half of the maximum number of the composition of the Supervisory Board defined in the Articles of Association (in case the number is not integral it is rounded down to an integral number, for example 4.5 is rounded down to 4) increased by 1, provided that the State Treasury:
 - a) is obliged to vote at the General Meeting on determining of the number of members in the Supervisory Board representing the maximum number of members of the Supervisory Board defined in the Articles of Association, or in case of submission of such a motion to the Management Board by a shareholder or shareholders holding a number of votes entitling to exercise at least 5% (five per cent) of the total votes in the Company,
 - b) is excluded from the voting right at the General Meeting on appointing and dismissing of other members of the Supervisory Board, including independent members of the Supervisory Board; however, this would not apply to the case when the Supervisory Board cannot act due to a composition minor than required under the Articles of Association, and the shareholders present at the General Meeting, other than the State Treasury, do not supplement the composition of the Supervisory Board in accordance with the distribution of places in the Supervisory Board defined in present item;
- 2) in the period of time in which the State Treasury, together with entities dependent on the State Treasury within the meaning of § 10 item 5 of the Articles of Association, holds a number of Company shares entitling to exercise less than 25% (twenty five per cent) of total voting rights in

the Company, the State Treasury, represented by a minister competent for the State Treasury affairs shall be authorised to appoint and dismiss one member of the Supervisory Board.

- 3) appointing and dismissing of members of the Supervisory Board by the State Treasury pursuant to the procedure defined in item 1 or item 2 above takes place by means of a statement submitted to the Company.

At least two members of the Supervisory Board should meet the criteria of independence (independent members of the Supervisory Board). The definition of an *independent member of the Supervisory Board* shall mean an independent member of the supervisory board within the meaning the Recommendation of the European Commission of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC), taking into consideration Best Practice of Warsaw Stock Exchange (GPW) Listed Companies.

The table below presents personal composition of the Supervisory Board as at 31 December 2014 and as at the date of drawing up this report.

Table no. 1 Personal composition of the Supervisory Board as at 31 December 2014 and as at the date of drawing up this report.

No.	Name and surname	Function
		Chairman of the Supervisory Board
1.	Antoni Tajduś	<i>In accordance with the submitted statement, fulfils the criteria of independence against TAURON Polska Energia S.A. and entities significantly affiliated with the Company.</i>
		Vice-Chairperson of the Supervisory Board
2.	Agnieszka Woś	<i>In accordance with the submitted statement, affiliated with the shareholder holding no less than 5% of the general number of votes at the General Meeting, i.e. the State Treasury, through employment in the Ministry of Treasury.</i>
		Secretary of the Supervisory Board
3.	Jacek Szyke	<i>In accordance with the submitted statement, fulfils the criteria of independence against TAURON Polska Energia S.A. and entities significantly affiliated with the Company.</i>
		Member of the Supervisory Board
4.	Andrzej Gorgol	<i>In accordance with the submitted statement, fulfils the criteria of independence against TAURON Polska Energia S.A. and entities significantly affiliated with the Company.</i>
		Member of the Supervisory Board
5.	Maciej Koński	<i>In accordance with the submitted statement, affiliated with the shareholder holding no less than 5% of the general number of votes at the General Meeting, i.e. KGHM Polska Miedź S.A., through employment in KGHM Polska Miedź S.A.</i>
		Member of the Supervisory Board
6.	Leszek Koziorowski	<i>In accordance with the submitted statement, fulfils the criteria of independence against TAURON Polska Energia S.A. and entities significantly affiliated with the Company.</i>

No.	Name and surname	Function
		Member of the Supervisory Board
7.	Michał Michalewski	<i>In accordance with the submitted statement, fulfils the criteria of independence against TAURON Polska Energia S.A. and entities significantly affiliated with the Company.</i>
		Member of the Supervisory Board
8.	Marek Ściążko	<i>In accordance with the submitted statement, fulfils the criteria of independence against TAURON Polska Energia S.A. and entities significantly affiliated with the Company.</i>
		Member of the Supervisory Board
9.	Maciej Tybura	<i>In accordance with the submitted statement, fulfils the criteria of independence against TAURON Polska Energia S.A. and entities significantly affiliated with the Company.</i>

As at 1 January 2014 the Supervisory Board consisted of the following Members: Antoni Tajduś - Chairman, Rafał Wardziński - Vice-Chairman, Leszek Koziorowski - Secretary, Jacek Kuciński, Marcin Majeranowski, Jacek Szyke, Marek Ściążko, Agnieszka Trzaskalska.

In the financial year 2014 the third term of office of the Supervisory Board lapsed and the fourth term of office started, comprising a period from 15 May 2014 to 15 May 2017. The table below presents changes in the composition of the Supervisory Board during the financial year 2014.

Table no. 2. Changes in the composition of the Supervisory Board during the financial year 2014.

No.	Date	Changes in the composition of the Supervisory Board
1.	1 January 2014	As of 1 February 2014 the Extraordinary General Meeting appointed Aleksander Grad to the Supervisory Board of the third joint term of office.
2.	22 January 2014	The State Treasury, acting pursuant to its personal powers specified in § 23 item 1(1) and (3) of the Company Articles of Association, dismissed Rafał Wardziński (acting in the capacity of the Vice-Chairman) from the Supervisory Board of the third joint term of office and appointed Agnieszka Woś, who was appointed by the Supervisory Board as the Vice-Chairperson on 10 February 2014.
3.	10 February 2014	The Supervisory Board of TAURON adopted the resolution on delegating the Member of the Supervisory Board, Aleksander Grad to temporary performance of the duties of Vice-President of the Management Board of TAURON Polska Energia from 11 February 2014 to 11 May 2014.
4.	16 March 2014	The Member of the Supervisory Board resigned from membership of the Supervisory Board, with the effectiveness as of 16 March 2014. Mandates of Members of the Supervisory Board of the third joint term expired (Antoni Tajduś - Chairman, Agnieszka Woś - Vice Chairperson, Leszek Koziorowski - Secretary, Jacek Kuciński, Marcin Majeranowski, Jacek Szyke, Marek Ściążko, Agnieszka Trzaskalska).
5.	15 May 2014	The State Treasury, acting pursuant to its personal powers specified in § 23 item 1(1) and (3) of the Company Articles of Association, appointed the following persons as members of the Supervisory Board of TAURON for the fourth joint term of office: Antoni Tajduś, Agnieszka Woś, Andrzej Gorgol, Michał Michalewski, Marek Ściążko. The Ordinary General Meeting of the Company appointed Jacek Szyke to the Supervisory Board of the fourth joint term of office.

No.	Date	Changes in the composition of the Supervisory Board
6.	2 June 2014	The Supervisory Board elected the following persons to the Presidium of the Supervisory Board: Antoni Tajduś - Chairman, Agnieszka Woś - Vice Chairperson, Jacek Szyke – Secretary.
7.	1 September 2014	The Extraordinary General Meeting appointed the following persons to the Supervisory Board of the fourth joint term of office: Maciej Koński, Leszek Koziorowski and Maciej Tybura.

3 Information on significant issues considered by the Supervisory Board and the number of meetings held and resolutions adopted

The Supervisory Board execute sits tasks based on specific powers granted by the Company Articles of Association and the Bylaws of the Supervisory Board, as well as corporate governance rules defined in Best Practice of Warsaw Stock Exchange (GPW) Listed Companies.

In the financial year 2014 the Supervisory Board, in total, held 8 meetings and adopted 84 resolutions. In the majority of meetings all Members of the Supervisory Board participated. Absences of individual Members of the Supervisory Board were excused by the relevant resolutions of the Supervisory Board.

While exercising its competence, the Supervisory Board permanently supervised operations of TAURON Polska Energia S.A. in all areas of its activity, in particular, in relation to the implementation of the Corporate Strategy of TAURON Group, including strategic investment of key importance for TAURON Capital Group, taking into account schedules of their implementation as well as the accuracy and effectiveness of spending funds associated with investment executed by the Management Board of the Company.

Within its activities the Supervisory Board actively supported the Management Board in implementation of the strategic goals of the Company, considered motions of the Management Board related to issues requiring the approval of the Supervisory Board as well as reviewed other matters presented by the Management Board. The table below presents the main issues considered by the Supervisory Board during its meetings in 2014.

Table no. 3. Main issues considered by the Supervisory Board during its meetings in 2014.

Main issues considered by the Supervisory Board during its meetings in 2014	
in the scope of its opinion-making / evaluation functions	<ol style="list-style-type: none"> 1. it evaluated the <i>Consolidated financial statement of TAURON Polska Energia S.A. Capital Group, compliant with International Financial Reporting Standards for the financial year ended on 31 December 2013</i> and the <i>Report of the Management Board on the operations of TAURON Polska Energia S.A. Capital Group for the financial year 2013</i>, in the scope of their compliance with the books and documents as well as with the actual status, 2. it adopted the <i>Report of the Supervisory Board of TAURON Polska Energia S.A. on the evaluation of the Consolidated financial statement of TAURON Polska Energia S.A. Capital Group, compliant with International Financial Reporting Standards for the financial year ended on 31 December 2013 and the Report of the Management Board on operations of TAURON Polska Energia S.A. Capital Group for the financial year 2013</i>,

Main issues considered by the Supervisory Board during its meetings in 2014

3. it evaluated the *Financial statement of TAURON Polska Energia S.A., compliant with International Financial Reporting Standards for the financial year ended on 31 December 2013* and the *Report of the Management Board on the operations of TAURON Polska Energia S.A. for the financial year 2013*, in the scope of their compliance with the books and documents as well as with the actual status,
4. it performed the evaluation of the motion of the Management Board to the General Meeting concerning the procedure of profit distribution for the financial year 2013 and defining of the amount allocated for the payment of the dividend to shareholders,
5. it adopted the *Report of the Supervisory Board of TAURON Polska Energia S.A. on the evaluation of the Financial statement of TAURON Polska Energia S.A., compliant with International Financial Reporting Standards for the financial year ended on 31 December 2013, the Report of the Management Board on the operations of TAURON Polska Energia S.A. for the financial year 2013 and the motion of the Management Board concerning the procedure of profit distribution for the financial year 2013*,
6. it issued a positive opinion concerning changes in the *Plan of conducting sponsoring activity in TAURON Group in 2014*,
7. it issued a positive opinion concerning the *Corporate Strategy of TAURON Group for 2014 - 2017 with estimates until the year 2023*, being the update of the document *Corporate Strategy of TAURON Group for 2011 - 2015 with estimates until the year 2020*,
8. it issued a positive opinion concerning the *Plan of conducting sponsoring activity in TAURON Group in 2013*,
9. it issued a positive opinion and approved the new wording of the *Rules on conducting sponsoring activity in TAURON Group*,
10. it issued a positive opinion concerning the *Plan of conducting sponsoring activity in TAURON Group in 2015*;

**in the scope of
decision-making
competence**

1. it adopted the *Report on activities of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2013*,
2. it approved the *Material and financial plan of TAURON Group for 2014* and the *Material and financial plan of TAURON Polska Energia S.A. for 2014*,
3. it adopted the uniform text of the Articles of Association of *TAURON Polska Energia S.A.*, taking into account amendments adopted by the Extraordinary General Meeting of the Company under Resolution no. 5 of 7 January 2014,
4. it adopted amendments to the *Bylaws of the Supervisory Board of TAURON Polska Energia S.A.*, adjusting their wording to the aforementioned amendments to the Articles of Association of the Company,
5. it approved amendments to the *Organisational Regulations of TAURON Polska Energia S.A.* aiming at distribution of the scope of assignments among individual Members of the Management Board of the Company and adjustment of the organisational structure of the Company to the current situation and needs,
6. it approved the updated document of *Scenarios and the schedule of activities in the scope of reorganisation of entities of TAURON Polska Energia S.A. Capital Group (subsidiaries and affiliates)*,
7. it adopted the *Framework work plan of the Supervisory Board of TAURON Polska Energia S.A. for 2015*,
8. it approved the *Material and financial plan of TAURON Group for 2015* and the *Material and financial plan of TAURON Polska Energia S.A. for 2015*;

**in the scope of
supervision of the
current activities of
the Company and
TAURON Group**

1. it monitored the implementation of schedules of strategic investment of key importance for TAURON Capital Group,
2. it analysed the current economic and financial situation of the Company and TAURON Capital Group, including the implementation of the Material and financial plan,
3. it monitored subjects considered under the agenda of General Meetings / Meetings of Shareholders of companies where TAURON Polska Energia S.A. holds stocks / shares,
4. it monitored the process of implementation of the social dialogue in the Company and in TAURON Capital Group,
5. it supervised the implementation of the schedule of activities in the scope of reorganisation of entities of TAURON Polska Energia S.A. Capital Group (subsidiaries and affiliates);

Main issues considered by the Supervisory Board during its meetings in 2014

in the scope of its competence related to the Management Board

1. in connection with the vacancy at the position of the Vice-President of the Management Board of TAURON Polska Energia S.A. Delegated the Member of the Supervisory Board to temporary performance of the duties of Vice-President of the Management Board of the Company and defined the rules and level of remuneration,
2. it performed the distribution of tasks to individual Members of the Management Board of TAURON Polska Energia S.A.,
3. it submitted the motion to the Ordinary General Meeting concerning the acknowledgement of the fulfilment of duties by Members of the Management Board for the period from 1 January 2013 to 31 December 2013,
4. in connection with the expiry of the third term of office of the Management Board of TAURON Polska Energia S.A., it appointed Members of the Management Board of the Company for the fourth joint term of office,
5. in connection with the adopted bonus scheme for Members of the Management Board of TAURON Polska Energia S.A., it conducted the analysis related to the level of implementation of indicators determining awarding of the bonus to Members of the Management Board of the Company and developed a list of non-financial targets to be achieved by Members of the Management Board of the Company in 2014 and in 2015;

in the scope of supervision over the accuracy and effectiveness of spending funds associated with implementation of investment by the Management Board of the Company, including the purchase of tangible fixed assets

1. it monitored the status of Company involvement in works associated with the implementation of the project on the construction and operation of the nuclear power plant,
2. it monitored the process of issue of intra-group bonds and their disposal,
3. it approved incurring contingent liabilities in the form of bank guarantees, with the value exceeding the equivalent of EUR 5,000,000.00 for the purpose of securing the settlement of transactions performed by companies of TAURON Capital Group on the Power Exchange (Towarowa Gielda Energii S.A.),
4. it approved the acquisition of 146,000 shares of PGE EJ1 sp. z o.o. Company and taking up of shares in the increased share capital of this company, to the total level of PLN 100,000,000.00,
5. it approved taking up 3,293,378 shares with the nominal value of PLN 100,00 per share in the increased share capital of TAMEH HOLDING sp. z o.o. company,
6. it approved incurring contingent liabilities in the form of corporate guarantee, with the value exceeding the equivalent of EUR 5,000,000.00, issued in favour of holders of registered bonds issued on the German market with the participation of the special purpose vehicle, TAURON Sweden Energy AB,
7. it approved incurring contingent liabilities in the form of surety, with the value exceeding the equivalent of EUR 5,000,000.00, to secure the guarantee issued in favour of the company implementing the construction of the CCGT unit with the capacity of 400 MWe, at Elektrociepłownia Stalowa Wola S.A.,
8. it supervised expenditure on investment projects implemented within TAURON Capital Group, inter alia, through the analysis of the Material and financial plan, including the accomplishment of investment expenditure in individual Areas of TAURON Capital Group operations.

Based on the aforementioned activities, the Supervisory Board does not report any default in the scope of accuracy and effectiveness of spending funds associated with the implementation of investment by the Management Board of the Company in 2014, including the purchase of tangible fixed assets.

4 Information on implementation of resolutions of the General Meeting related to the activities of the Supervisory Board

In the financial year 2014 the General Meeting of TAURON Polska Energia S.A. did not adopt any resolutions related to the activities of the Supervisory Board of the Company

5 Committees of the Supervisory Board

In connection with the provisions of Best Practice of Warsaw Stock Exchange (GPW) Listed Companies, activities of the Supervisory Board in 2014 were supported by the following Committees: Audit Committee, Nominations and Remuneration Committee and Strategy Committee.

Committees of the Supervisory Board are advisory and opinion-making bodies acting collectively and performing the support and advisory functions towards the Supervisory Board. Tasks of the Committees of the Supervisory Board are carried out through presenting motions, recommendations, opinions and reports concerning the scope of their tasks to the Supervisory Board. The table below presents tasks and competence of Committees of the Supervisory Board.

Table no 4. Tasks and competence of Committees of the Supervisory Board.

Committee of the Supervisory Board	Tasks and competence of Committees of the Supervisory Board
Audit Committee	<ol style="list-style-type: none"> 1. Monitoring of financial reporting process. 2. Monitoring of the accuracy of financial information presented by the Company. 3. Monitoring of the effectiveness of internal control, internal audit and risk management systems existing in the Company. 4. Monitoring of performance of financial auditing function. 5. Monitoring of independence and impartiality of the chartered accountant and the entity entitled to examine financial statements, including in case of their rendering services other than financial audit. 6. Recommendations to the Supervisory Board concerning an entity entitled to examine financial statements to perform the financial audit.
Nominations and Remuneration Committee	<ol style="list-style-type: none"> 1. Recommendations to the Supervisory Board concerning the recruitment procedure for the positions of Members of the Company Management Board. 2. Assessment of candidates for Members of the Management Board as well submitting an opinion in this scope to the Supervisory Board. 3. Recommendations to the Supervisory Board concerning the form and contents of agreements concluded with Members of the Company Management Board. 4. Recommendations to the Supervisory Board concerning the remuneration and bonus scheme for Members of the Company Management Board. 5. Recommendations to the Supervisory Board concerning the need to suspend a Member of the Company Management Board due to material reasons. 6. Recommendations to the Supervisory Board concerning the need to delegate a member of the Supervisory Board to temporarily perform the duties of Members of the Management Board who cannot perform their duties, including the proposal of remuneration.
Strategy Committee	<ol style="list-style-type: none"> 1. Assessment of the Corporate Strategy and presenting its results to the Supervisory Board. 2. Recommendations to the Supervisory Board concerning the scope and deadlines for submission of strategic multi-annual plans by the Management Board. 3. Assessment of impact of the planned and undertaken strategic investments on assets of the Company. 4. Monitoring of implementation of the strategic investment tasks. 5. Assessment of activities concerning the disposal of significant Company assets. 6. Issuing opinions on strategic documents submitted to the Supervisory Board by the Company Management Board.

The Committees of the Supervisory Board consist of three to five members. In case of Audit Committee, at least one member meeting the requirements of independence within the meaning of the Act of 7 May 2009 on chartered accountants and their self-governance, entities authorised to examine financial statements and on public supervision, holding competence in the field of accounting and finance.

At the first meeting members of Committees of the Supervisory Board elect among themselves a Chairperson to manage works of a given Committee and supervise preparation of the agenda, organisation of the distribution of documents and drafting minutes of the meetings. The table below presents personal composition of the Committees of the Supervisory Board as at 31 December 2014 and as at the date of drawing up this report.

Table no. 5. Personal composition of the Committees of the Supervisory Board as at 31 December 2014 and as at the date of drawing up this report.

No.	Name and surname	Audit Committee	Nominations and Remuneration Committee	Strategy Committee
1.	Antoni Tajduś	-	Chairman	-
2.	Agnieszka Woś	Chairperson	-	-
3.	Jacek Szyke	Member	-	Chairman
4.	Andrzej Gorgol	-	Member	-
5.	Maciej Koński	-	-	Member
6.	Leszek Koziorowski	-	Member	-
7.	Michał Michalewski	Member	-	Member
8.	Marek Ściążko	-	Member	Member
9.	Maciej Tybura	Member	-	-

In the financial year 2014: The Audit Committee held, in total, 7 meetings and adopted 14 resolutions; the Nominations and Remunerations Committee held, in total, 5 meetings and adopted 17 resolutions; the Strategy Committee held, in total, 8 meetings and adopted 10 resolutions. The table below presents the main issues considered by Committees of the Supervisory Board during their meetings in 2014.

Table no. 6. Main issues considered by the Committees of the Supervisory Board during their meetings in 2014.

Committee of the Supervisory Board	Main issues considered by the Committees of the Supervisory Board during their meetings in 2014.
Audit Committee	<ol style="list-style-type: none"> 1. it adopted the <i>Report on activities of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2013</i> and submitted it to the Supervisory Board, 2. it monitored and evaluated the effectiveness of internal control, internal audit and risk management systems existing in the Company, 3. it monitored and evaluated the performance of the financial auditing function, including independence of the financial auditing process, independence and impartiality of the chartered auditor examining unit financial statements of the Company and consolidated financial statements of TAURON Group, 4. it monitored the financial reporting process, 5. it performed analyses of reliability of financial information presented by the Company in the following documents, in the scope of their compliance both with books and documents and with the actual status: <ol style="list-style-type: none"> 1) <i>Financial statement of TAURON Polska Energia S.A., compliant with International Financial Reporting Standards for the financial year ended on 31 December 2013,</i> 2) <i>Financial statement of TAURON Polska Energia S.A. Capital Group, compliant with International Financial Reporting Standards for the financial year ended on 31 December 2013,</i> 3) <i>Extended consolidated quarterly report of TAURON Polska Energia S.A. Capital Group for the first quarter of 2014,</i> 4) <i>Extended consolidated semi-annual report of TAURON Polska Energia</i>

Committee of the Supervisory Board

Main issues considered by the Committees of the Supervisory Board during their meetings in 2014.

S.A. Capital Group for the first half of 2014,

5) *Extended consolidated quarterly report of TAURON Polska Energia S.A. Capital Group for the third quarter of 2014,*

6. it accepted activities associated with concluding of an annex to the agreement with the entity authorised to examine financial statements of the Company and TAURON Group for years 2013, 2014 and 2015,
7. it evaluated the *Annual Audit Plan for TAURON Group for 2014,*
8. it reviewed current and future sources of investment financing, implemented in TAURON Group,
9. it performed the analysis of the status of accomplishing expenditure for the purchase of tangible fixed assets associated with the strategic investment projects of TAURON Group,
10. it evaluated the amendments to the *Accounting policy of TAURON Polska Energia S.A. Capital Group,* designed by the Company Management Board,
11. it adopted the *Work plan of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. for the financial year 2015* and submitted it to the Supervisory Board,

Nominations and Remuneration Committee

1. it adopted the *Report on activities of the Nominations and Remunerations Committee of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2013* and submitted it to the Supervisory Board,
2. it developed and submitted to the Supervisory Board a recommendation concerning delegating the Member of the Supervisory Board to temporary performance of operations of the Vice-President of the Management Board for Commercial Affairs of TAURON Polska Energia S.A. And determining the rules and level of the remuneration,
3. in connection with the adopted bonus scheme for Members of the Management Board of TAURON Polska Energia S.A., it conducted the analysis of indicators determining awarding of the bonus to Members of the Management Board of the Company and developed a list of non-financial targets for Members of the Management Board of TAURON Polska Energia S.A. for 2015 and presented the relevant recommendations to the Supervisory Board,
4. it adopted the *Work plan of the Nominations and Remunerations Committee of the Supervisory Board of TAURON Polska Energia S.A. for the financial year 2015* and submitted it to the Supervisory Board.

Strategy Committee

1. it adopted the *Report on activities of the Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2013* and submitted it to the Supervisory Board,
2. it monitored the status of works associated with updating of the *Corporate Strategy of TAURON Group for 2011 - 2015 with an outlook until 2020,*
3. it developed the recommendation concerning the positive opinion on the *Corporate Strategy of TAURON Group for 2014 - 2017 with estimates until the year 2023,* being the update of the document *Corporate Strategy of TAURON Group for 2011 - 2015 with estimates until the year 2020,* and submitted it to the Supervisory Board,
4. it performed the analysis of sources and venues of purchase and sale of electricity in the years 2014 - 2017, taking into consideration the classification of consumers and activity conducted by foreign companies of TAURON Group,
5. it became acquainted with the employment structure in TAURON Group, taking into consideration employment in individual Business Areas (Mining, Generation, RES, Heat, Distribution, Customer Service, Other),
6. it performed the analysis of operations of the corporate governance area, with particular focus on the functioning of Committees of TAURON Group,
7. it adopted the *Programme of activities of the Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. in the first half of 2015,*
8. in order to implement the activities in the scope of reviewing the implementation status of strategic projects and investment tasks arising from the Corporate Strategy of TAURON Group and the Strategies of individual Business Areas, including, on the premises of a given investment, it became acquainted with the implementation status of the following investment projects: *Construction of the LNG Terminal in Świnoujście; A pilot installation*

for production and storage of hydrogen, as well as a dispatch station to control the performance of wind farms in Dauerthal in Brandenburg, Germany; Construction of the coal-fired power unit for supercritical parameters with the capacity of 1075 MW gross, at Elektrownia Koziernice,

9. it submitted the recommendation to the Supervisory Board concerning the follow-up of the process of monitoring the implementation of investment projects in 2015 (*Construction of the CCGT unit with the capacity of 450 MW at Elektrociepłownia Stalowa Wola; Construction of the coal-fired unit for supercritical parameters with the capacity of 910 MWe at Elektrownia Jaworzno*) and the Customer Service Area of TAURON Group, in particular, the industrial client.

6 Brief evaluation of the Company standing with regard to internal control system and the system of managing risk material for the Company

Evaluation of the Company standing.

The Supervisory Board positively evaluates the standing of TAURON Polska Energia S.A., indicating that in the financial year 2014 no events occurred which would pose threat to the continuation of business operations or significant deterioration of the financial situation.

In 2014, the net profit of the Company was lower by approximately 32% in relation to the profit gained in 2013. The net profit margin of the Company (net profit ratio to the revenue on sales) reached 13.2% in relation to 15.5% achieved in 2013.

The decline in the revenue on sales in 2014, as compared to 2013, is associated with the decreased volume of electricity sales by about 3.8 TWh (7%). In 2014, the Company continued its activities as an intermediary in transactions of biomass and coal purchase for companies of the Generation and Heat Segments. The Company purchases raw materials from TAURON Wydobycie and from entities outside TAURON Capital Group, whereas the whole sales is performed to companies of TAURON Capital Group. The Company recognises revenues due to intermediary services - organisation of supplies, exclusively.

Lower revenues from financial activities gained in 2014, as compared to 2013, result mainly from the lower level of dividends from subsidiaries.

The decline in revenues on electricity sales in 2014, as compared to 2013, is associated with the decrease in the volume of electricity sales and the lower average price of electricity sales by approximately 13% YoY.

Lower revenues in trading of CO₂ emission allowances result from the purchase of allowances in 2013 due to the risk of delay in allocation of free allowances in the first quarter of 2014.

In 2014, as compared to the previous year, the gross and net profitability and the return on assets ratios are lower. The level of the operating result is typical for a company conducting activities associated with holding management (costs related to management of TAURON Capital Group are included in operating activities while revenues gained from dividends are recognised under financial activities). The significant decrease in operating profit level YoY was influenced by the reduced margin on commercial activities.

The ability of the Company to settle its liabilities was not threatened in 2014.

The table below presents significant projects implemented in 2014 which affected the economic and financial situation as well as operations of the Company.

Table no. 7. Significant projects implemented in 2014

No.	Significant projects implemented in 2014
1.	fulfilment of the last condition precedent regarding the transfer of ownership of TAURON Wydobywanie S.A. shares to TAURON Polska Energia S.A.,
2.	development of the Centre of Common Services,
3.	Adopting of the <i>Corporate Strategy of TAURON Group for 2014 - 2017 with estimates until the year 2023</i> , being the update of the former Corporate Strategy of TAURON,
4.	signing of a letter of intent with Enea S.A., Energa S.A. and PGE S.A., concerning close cooperation in the scope of research, development and innovation as well as joint implementation of research and development projects,
5.	exceeding of the 10% equity threshold in the scope of trade turnover between companies of TAURON Capital Group and companies of PSE Group,
6.	signing the consortium agreement establishing the Motorway of Technology and Innovation Institute,
7.	registration of Tax Capital Group for a period of consecutive 3 fiscal years,
8.	concluding the Shareholder Agreement between TAURON including companies of TAURON Capital Group and ArcelorMittal including companies of ArcelorMittal Group on the establishment of an entity implementing investment and operating tasks in the scope of industrial power engineering.

Evaluation of the internal control system and risk management system.

In accordance with the guidelines of Best Practice of Warsaw Stock Exchange (GPW) Listed Companies, the Company evaluates internal control system and risk management system through the applicable documents (procedures), executed control operations, IT systems, internal audit, supervision of the internal control system and responsibility for implementation of tasks. In the evaluation of the internal control and risk management systems, the role of an independent chartered auditor is also significant.

Internal audit.

In TAURON Polska Energia S.A., the Internal Audit Department operates whose objective is to plan and implement auditing tasks, among others, of advisory nature, as well as to perform the commissioned ad hoc inspections. The procedures and rules of implementation of the audit are specified in the Regulations of Internal Audit in TAURON Capital Group as well as in rules of cooperation applicable in individual companies of TAURON Capital Group. While implementing the function of internal audit, the Company acts in compliance with the Code of Ethics and International Standards of Internal Audit Professional Practice. The table below presents the basic internal audit functions in TAURON Capital Group.

Table no. 8. Basic internal audit functions in TAURON Capital Group.

No.	Basic internal audit functions in TAURON Capital Group:
1.	supporting TAURON Capital Group in achieving the adopted strategic goals,
2.	supporting TAURON Capital Group in the process of ensuring the accurate and effective functioning of organisational and process solutions constituting its corporate governance,
3.	contributing to the improvement of risk management system and supporting the process of risk identification and assessment,
4.	supporting TAURON Capital Group in maintaining of the effective internal control system and promoting the continuous improvement of the internal control system,
5.	contributing to corporate culture building serving for effective counteracting of abuse.

The Internal Audit Department implements its tasks through long-term and annual audit plans comprising both TAURON Polska Energia S.A. And other companies of TAURON Capital Group. The plans are constructed, inter alia on the basis of risk analysis performed by the Management Board. Results of internal audit activities contain recommendations adjusting control mechanisms operating in the Company (TAURON Capital Group) as well as suggesting changes of effectiveness nature.

Risk management.

In TAURON Polska Energia S.A. a complex enterprise risk management (ERM) system in TAURON Capital Group operates, comprising all significant risks for the implementation of investment projects arising from the adopted Corporate Strategy of TAURON Group, and in the processes of their identification, measurement, assessment, monitoring, reporting and governance activities, instruments, methods and techniques relevant for the specific type of risk are used. The table below shows the functions of the complex enterprise risk management system in TAURON Capital Group.

Table no. 9. Functions of the complex enterprise risk management system in TAURON Capital Group.

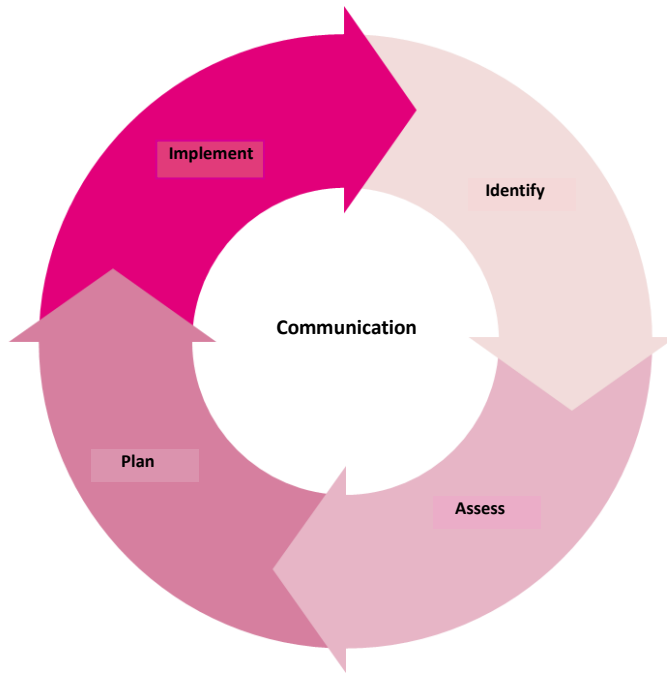
No. Functions of the complex enterprise risk management system in TAURON Capital Group:	
1.	ability of TAURON Capital Group to predict deviations against the planned levels (material and financial plan) and, at the same time, the possibility to prepare effective instruments of response to such a risk,
2.	assessment and identification of risks globally in TAURON Capital Group and the consistent approach to their measurement, as a result of which TAURON Capital Group manages risks posing the most significant impact on financial results and implementation of the adopted strategic goals in case of their materialisation,
3.	development of effective and adequate measures to be taken by TAURON Capital Group towards the specific risk,
4.	harmonisation of the risk management process in the entire TAURON Capital Group.

At the same time, within the operating risk management system in TAURON Capital Group, detailed regulations concerning risk management apply, including:

- 1) The *Policy of risk management in the commercial activities of TAURON Group*, which defines the set of rules and principles of commercial risk management at the level of TAURON Capital Group. The aforementioned document implements market practices and solutions used in the scope of commercial risk management in trading in electricity and related products.
- 2) The *Policy of credit risk management in TAURON Group* defines the set of principles and rules in the scope of credit risk management at a level of TAURON Capital Group, to result in effective mitigation of credit risk impact on the implementation of the TAURON Group objectives.

The figure below shows the processes within enterprise risk management in TAURON Capital Group.

Figure no. 1. Processes within enterprise risk management in TAURON Capital Group.



The risk management system comprises all elements of TAURON Capital Group value chain and is adapted to the scale of operations and the organisational structure. Moreover, the risk management structure is based on several competence levels and all employees of TAURON Capital Group participate in the risk management process. The table below presents participants of the enterprise risk management process.

Table no 10 Participants of the enterprise risk management process.

No. Participants of the enterprise risk management process:	
1.	Supervisory Board of TAURON Polska Energia S.A.,
2.	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.,
3.	The Management Board of TAURON Polska Energia S.A.,
4.	Risk Committee of TAURON Polska Energia S.A.,
5.	Internal Audit Department in TAURON Polska Energia S.A.,
6.	Enterprise Risk Office in the Risk Department in TAURON Polska Energia S.A.,
7.	Risk Owner,
8.	Risk Manager,
9.	Risk Management Coordinator,
10.	Risk Expert,
11.	Other employees of organisational structures of TAURON Polska Energia S.A. and companies of TAURON Group.

Within the risk management process the Risk Committee fulfils a special role, as the permanent team of experts, comprising persons holding relevant knowledge about the Company and its environment, which permanently initiates, analyses, monitors, controls, supports and supervises the performance of the enterprise risk management system in TAURON Capital Group.

Considering the foregoing, the Supervisory Board evaluates the risk management system operating in TAURON Polska Energia S.A. provides the relevant level of operational security. Moreover, the Company actively manages all risks aiming at maximum reduction or elimination of their potential adverse effects, in particular on the financial result of TAURON Capital Group.

Katowice, 11 March 2015

Chairman of the Supervisory Board	-	Antoni Tajduś
Vice Chairperson of the Supervisory Board	-	Agnieszka Woś
Secretary of the Supervisory Board	-	Jacek Szyke
Member of the Supervisory Board	-	Andrzej Gorgol
Member of the Supervisory Board	-	Maciej Koński
Member of the Supervisory Board	-	Leszek Koziorowski
Member of the Supervisory Board	-	Michał Michalewski
Member of the Supervisory Board	-	Marek Ściążko
Member of the Supervisory Board	-	Maciej Tybura