



**REPORT OF THE MANAGEMENT BOARD  
ON OPERATIONS OF TAURON POLSKA ENERGIA S.A.  
FOR THE FINANCIAL YEAR 2015**

**MARCH 2016**

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## 1. TAURON POLSKA ENERGIA S.A. CAPITAL GROUP

### 1.1. Basic information on the Company

TAURON Polska Energia Spółka Akcyjna (hereinafter referred to as the Company or TAURON) was established on 6 December 2006 under the implementation of the *Programme for Power Engineering*. The founders of the Company included: State Treasury represented by the Minister of Treasury, EnergiaPro S.A. with its seat in Wrocław (currently: TAURON Dystrybucja S.A.), ENION S.A. with its seat in Kraków (currently: TAURON Dystrybucja S.A.) and Elektrownia Stalowa Wola S.A. with its seat in Stalowa Wola (currently: TAURON Wytwarzanie S.A.). The Company was registered in the National Court Register on 8 January 2007 under the enterprise name: Energetyka Południe S.A. The change of the Company enterprise to its current name, i.e. TAURON Polska Energia S.A., was registered on 16 November 2007.

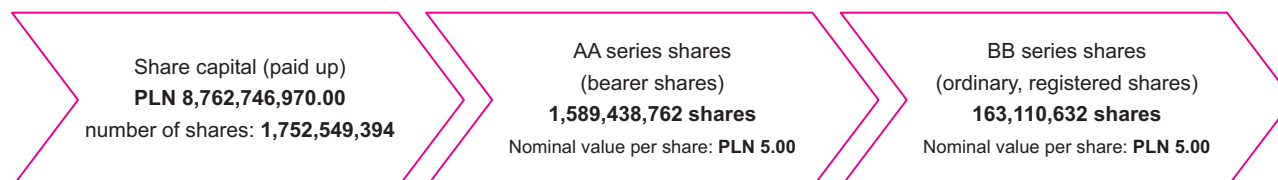
The table below presents general information on the Company and the basic types of activities conducted by the Company.

**Table no 1. General Information on TAURON**

No.	General Information	Basic types of activities conducted by the Company
1.	Name (enterprise): TAURON Polska Energia S.A.	
2.	Legal form: joint stock company	
3.	Seat: Katowice	1) Activities of head offices and holdings, excluding financial holdings (PKD 70.10 Z),
4.	Website: www.auron.pl	2) Electricity trade (PKD 35.14 Z),
5.	National Court Register: 0000271562 District Court Katowice-Wschód in Katowice	3) Wholesale of fuel and derivative products (coal and biomass trading) (PKD 46.71 Z),
6.	NIP: 9542583988	4) Gas fuel trade (PKD 35.23 Z).
7.	REGON: 240524697	
8.	The Company does not have any branches (plants)	

The figure below presents the level of TAURON share capital according to the status as at 31 December 2015, divided by the quantity of shares.

**Figure no. 1 Share capital of TAURON (paid up) as at 31 December 2015, divided by the quantity of shares**

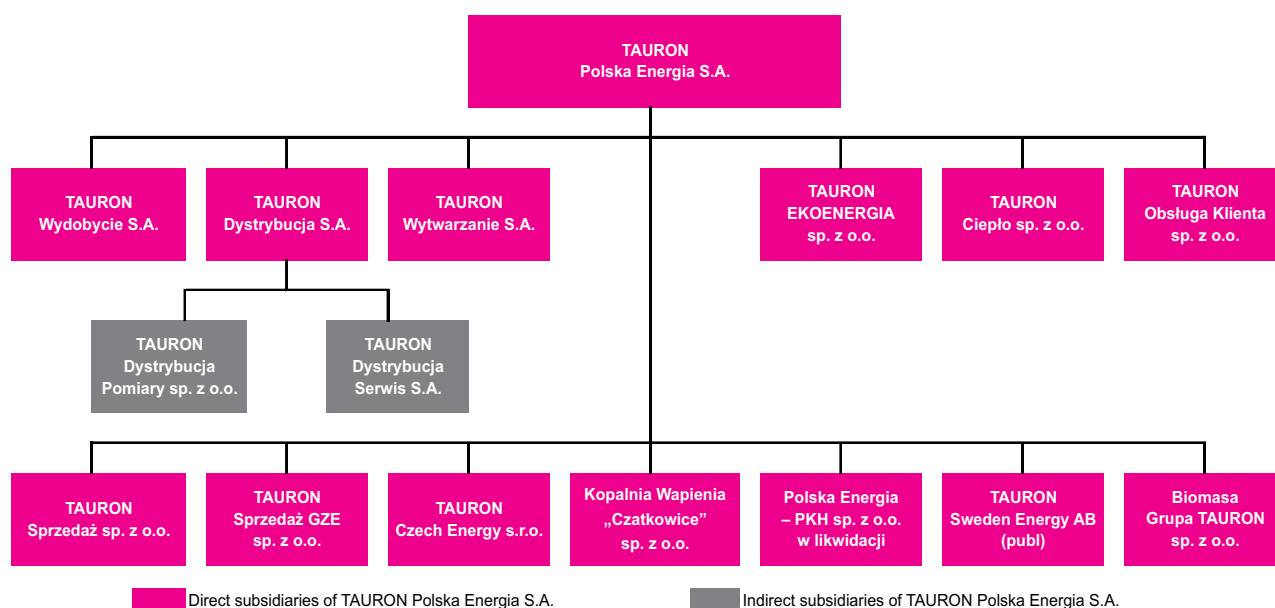


### 1.2. Organisation and structure of TAURON Capital Group

As at 31 December 2015, the key companies of TAURON Polska Energia S.A. Capital Group (TAURON Capital Group), besides the entities of the parent company, TAURON, comprised 15 subsidiaries subject to consolidation. Moreover, the Company held, directly or indirectly, shares in other 42 companies.

The figure below presents the structure of TAURON Capital Group, including the companies subject to consolidation, according to the status as at 31 December 2015.

**Figure no. 2 Structure of TAURON Capital Group, including companies subject to consolidation, as at 31 December 2015**



Moreover, TAURON Capital Group holds investments in joint projects: Elektrociepłownia Stalowa Wola S.A. (EC Stalowa Wola), Elektrownia Błachownia Nowa sp. z o.o. (Elektrownia Błachownia Nowa) and TAMEH HOLDING sp. z o.o. (TAMEH HOLDING), TAMEH POLSKA sp. z o.o. (TAMEH POLSKA) and TAMEH Czech s.r.o. (TAMEH Czech), which are measured by equity method in the consolidated financial statements.

The model of TAURON Capital Group structure assumes functioning of one leading company in each Business Area, which simultaneously enables operation of companies established or acquired for the needs of strategic alliances, activities in international markets, identified business needs and implementation of investment projects. Such a structure enables to optimise the functioning of entities along the whole value chain, indicated in the figure below, in order to maximise the margin generated in the whole TAURON Capital Group.

**Figure no. 3 Value chain in TAURON Capital Group**



\* The RES Area and Heat Area have been recognised in the Generation Segment since 2015.

\*\* The Customer Service Area has been recognised in the Other Segment since 2015.

Detailed information on companies covered by consolidation and on TAURON share in their initial capital and in their governing body, is presented in subsection 1.5 of this report.

### 1.3. Strategy and Policy of the Company Development

#### 1.3.1. Development policy

On 2 June 2014 TAURON Management Board adopted and the Supervisory Board issued a positive opinion on the document entitled *Corporate Strategy of TAURON Group for 2014–2017 with an outlook until 2023* (Corporate Strategy), which is an update of the corporate strategy adopted and approved in 2011. In 2014, activities performed so far were comprehensively reviewed and evaluated, and the assumptions concerning the economic, market and regulatory conditions adopted in 2011 were verified in detail. When updating the Corporate Strategy, among others, the changing market and regulatory environment were taken into account, where the most important factors affecting the sector are the European Union and national regulations related to the conditions of the energy sector operation in Poland, including, in particular, the energy and climate package (achievement of the 3x20 targets), the Polish *Act on Energy Efficiency*, Energy Efficiency Directive, European Union (EU) assistance funds, European Commission (EC) activities aimed at emission abatement, the Polish energy regulation package, regulations related to

electricity distribution and development of smart technologies, Energy Policy of Poland up to 2030, the Polish Nuclear Energy Programme and the Energy Roadmap 2050.

The description of changes in the macroeconomic environment is included in subsection 2.2.2.1. of this report.

The updated Corporate Strategy has maintained the existing Mission, Vision and Overall Objective of TAURON Capital Group.

The **Mission** of TAURON Capital Group is “To ensure energy supply for our customers based on best practices that guarantee an increase of shareholder value”, and the **Vision** is “To become one of the leading energy companies in the region”.

**The Overall Strategic Objective** of TAURON Capital Group is the continuous value growth ensuring a safe return on the invested capital to the shareholders. The accomplishment of this objective will be measured using basic indicators of value growth, i.e. ROIC and EBITDA increase.

The Company monitors the macroeconomic environment and analyses its impact on the activities of TAURON Capital Group on on-going basis. Due to the significant changes in the market and legal environment of the energy sector, the review of the Corporate Strategy and the investment directions is ongoing.

### 1.3.2. Implementation of the Corporate Strategy

Activities undertaken under the implementation of the Corporate Strategy focus on four main goals which jointly provide for the growth in TAURON Capital Group value:

- 1) growth in the most attractive lines of business,
- 2) OPEX and CAPEX efficiency in line with best practices,
- 3) management of exposure to market and regulatory risks,
- 4) developing an effective organisation.

The key direction of the Corporate Strategy is to focus on growth in areas of operations where the highest potential for achieving high rates of return on investment and diversification of the generation portfolio exists. The goal of continued effectiveness improvement, perceived as the uninterrupted strive for operational excellence and building an effective organization through raising the effectiveness of the TAURON Capital Group operations, has been sustained. The next goal is the management of exposure to market and regulatory risks which, due to the specific nature of TAURON Capital Group activities, continue to be significant.

#### Growth in the most attractive lines of business

The growth will focus on the areas of operations where the highest potential for achieving high rates of return on investments exists. In the Generation, Heat and RES Areas, restoration and increase of the installed generation capacity up to the level of approximately 6 GW in 2023 from the current 5.1 GW, is planned. Important areas of growth also include the Distribution and Sales Segments.

The growth will be associated with the commissioning of new highly efficient coal and gas fired generation units as well as wind farms. In a longer term, extension of the Generation Segment asset portfolio is planned, allowing for the acquisition of energy from the nuclear power plant, through the involvement of TAURON Capital Group in the construction of such a unit, jointly with strategic partners.

Within the planned investment commissioning of new generation capacity at a level of approximately 2,150 MW is assumed, including, in particular:

- 1) approx. 965 MW in coal-based technology (910 MW at Elektrownia Jaworzno III, co-generation capacity: 50 MW in Zakład Wytwarzania Tychy (ZW Tychy)),
- 2) approximately 675 MW in gas technology (225 MW at EC Stalowa Wola and about 400 MW at Elektrownia Łagisza),
- 3) approximately 500 MW in wind farms.

It is planned that in 2023 TAURON Capital Group will hold wind sources with the total capacity of approximately 700 MW which, including biomass, will enable to achieve the target of TAURON Capital Group to hold capacity at a level of 800 MW in new RES sources.

At present, 92% of the generation capacity installed in TAURON Capital Group comes from coal-based technology. The Corporate Strategy assumes that until 2023 the share of capacity based on coal technology will drop to approximately 74%, including 25% to come from modern, high efficiency coal-fired units. The share of low emission technologies, i.e. gas, wind, hydro and biomass, will reach approximately 26%.

In view of the need to develop a diversified generation portfolio which is the consequence of, among others, growing restrictions related to the CO<sub>2</sub> emission, TAURON Capital Group participates in the project on the construction of the first nuclear power plant in Poland.

The planned growth is also associated with the development of a smart grid infrastructure in the Distribution Area, where investment projects will mainly comprise connecting of new consumers and new sources and the associated grid development as well as modernisation and replacement of the existing assets.

The Corporate Strategy puts great emphasis on the development of a model for managing the research and development areas in TAURON Capital Group. The effective management of research and development activities in companies of TAURON Capital Group aims at intensifying the innovation activities and maximising the benefits derived from the access to knowledge and experience gained while implementing such undertakings.

In the scope of implementation of investment tasks, in 2015 activities associated with the execution of the following strategic projects were continued:

- 1) in the Generation Area – the construction of the power unit with the capacity of 910 MW<sub>e</sub> at Elektrownia Jaworzno III, the construction of the CCGT unit with the capacity of 449 MW<sub>e</sub>, including the heat generation component with the heat capacity of 240 MW<sub>t</sub> at EC Stalowa Wola, preparation to the commencement of the construction of the CCGT unit with the capacity of 413 MW<sub>e</sub> at Łagisza Power Plant,
- 2) in the Mining Area – the construction of “Grzegorz” shaft, including the infrastructure, and the construction of the 800 m level, at Zakład Górniczy Janina,
- 3) in the Heat Area – the construction of a new 50 MW capacity unit at ZW Tychy,
- 4) in the RES Area – the construction of the 18 MW Marszewo Wind Farm, constituting the 2nd stage of construction of the wind farm with the total capacity of 100 MW at Marszewo location.

In 2015, works were continued, aimed at implementation of the joint investment project by PGE Polska Grupa Energetyczna S.A. (PGE), TAURON, KGHM Polska Miedź S.A. (KGHM) and ENEA S.A. (ENEA), comprising the construction and exploitation of the first Polish nuclear power plant with the capacity of approximately 3 thousand MW<sub>e</sub>.

### **Operating and investment effectiveness at the level of best practice**

While implementing the Corporate Strategy stipulating further improvement of operating and investment effectiveness, in 2015 the restructuring activities were continued through the improvement of governance processes, integration of companies and integration of the support functions. It also comprises limiting of non-core activities, outsourcing of areas which are not directly associated with the core activity of TAURON Capital Group, as well as pursuing of the common procurement policy in the scope of consolidated and strategic purchases.

Treating budgetary discipline in the scope of investment expenditure and operating costs as a priority applies in each Business Area.

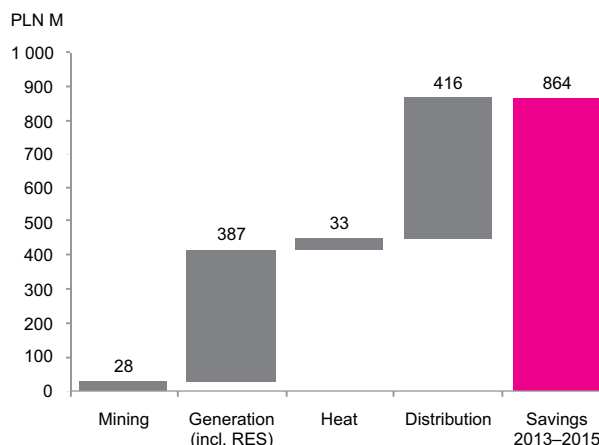
In 2015 the OPEX Effectiveness Improvement Programme in TAURON Capital Group for 2013–2015 was continued, adopted by the Management Board of TAURON on 15 January 2013. The Programme was prepared and implemented with the underlying goal to ensure the growth in TAURON Capital Group value.

The assumed targets related to the improvement of cost effectiveness have been achieved, mainly through the restructuring programmes conducted in the Generation Area (in companies of TAURON Wytwarzanie S.A. (TAURON Wytwarzanie) and TAURON Ciepło sp. z o.o. (TAURON Ciepło)) as well as in the Distribution Area. TAURON Capital Group took measures aimed at enhancement of the organisational effectiveness, by continuing the process of building the target business model and integrating companies of TAURON Capital Group.

The consolidation and restructuring projects had been prepared, the execution of which resulted in cost reduction at a level of approximately PLN 1,198 million in 2013–2015 (the total amount for the entire 3-year period), against the initially planned PLN 864 million. According to the assessment of the Company, the accomplishment of the target enables strengthening of the competitive position due to the limitation of the cost base of TAURON Capital Group. The OPEX reduction programme is one of the pillars for maintaining the high competitive position.

The figure below presents the Effectiveness Improvement Programme for 2013–2015.

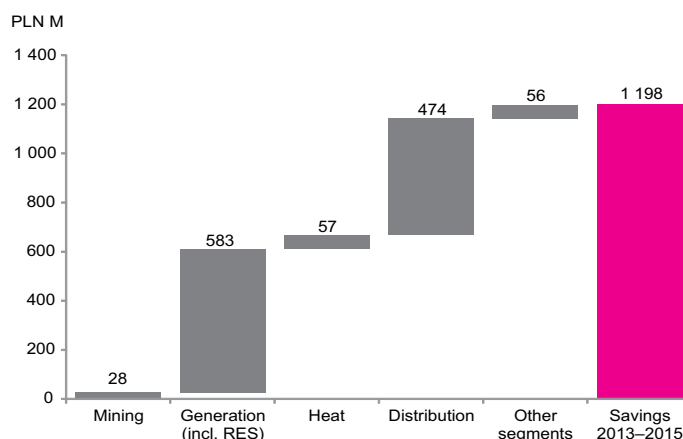
**Figure no. 4 Effectiveness Improvement Programme for 2013–2015 – plan**



In 2013–2015, savings at a level of approximately PLN 1,198 million were accomplished.

The figure below presents the implementation of the Effectiveness Improvement Programme for 2013–2015.

**Figure no. 5 Implementation of the Effectiveness Improvement Programme for 2013–2015**



### Management of exposure to market and regulatory risks

Due to the specific nature of TAURON Capital Group operations and the strong exposure to any amendments to the regulations of the national and the EU law, the management of market and regulatory risk is one of the key elements of the Corporate Strategy implementation based, among others, on the continuous monitoring of the legislative activity related to the energy market at the EU level and in Poland. Market risk management takes place in all Business Areas (in particular, in regulated areas, such as Distribution and Heat), and it is coordinated by TAURON. In the scope of market risk, it focuses mainly on energy trading.

In order to optimise market and regulatory risk and maximise rates of return on equity, TAURON Capital Group diversifies the generation portfolio by appropriate adjustment of individual types of technology (limitation of long-term risk arising from investment decisions) as well as develops the effective hedging policy, including securing energy supplies (limitation of medium- and short-term risk resulting from the trading activity). This policy enables to reduce the volatility of result in TAURON Capital Group through asset portfolio management and control of risk limits.

The effective strategy of securities will cover the overall measures within the value chain of TAURON Capital Group, starting from securing of the assumed volume of fuel supply from the sources held, ending up with covering of the specific volume of electricity sold to end customers from own generation units. The pursued policy guarantees the secure functioning of assets held in the Generation Area through provision of fuel supplies and maintaining its price at an acceptable level.

The detailed description of the risk management process in TAURON Capital Group is presented in subsection 3 of this report.



In 2015 the Company continued its activity in the scope of promotion and development of strategic energy technology and preparation of nuclear energy development. In this area, activities took place associated with the involvement of the Company in research and development projects, co-financed both from national sources (e.g. through the National Centre of Research and Development (NCBiR)) and from international sources (e.g. the Community of Knowledge and Innovation – KIC InnoEnergy (KIC InnoEnergy) and Horizon 2020).

The description of research tasks co-financed from external sources and other important research and development achievements is presented in subsection 7.2. hereof.

### **Building an effective organisation**

Within implementation of this goal, TAURON Capital Group has focused its activities on the organisation effectiveness improvement in each Business Area, including raising of the quality of the services offered as well as on centralisation of the support function and providing tools for human capital management. Building an effective organisation is associated with ensuring the appropriate employment structure, growth of employees' competence through the implementation of the relevant processes associated with human capital development, including managing through objectives, which affects building of an organisation oriented towards an external and internal client.

The activities performed in 2015 comprised, inter alia, finalising of the centralisation of billing systems for mass clients, where migration of clients' data was completed by the end of 2015, which will enable to improve the quality of the service and standardisation of business processes as well as enhance the effectiveness of those processes. The integration of the accounting function was finalised, which will foster growth of effectiveness and optimisation of activities in this area. The project associated with consolidation of data processing centres was completed, aimed at increasing the security of data processes in IT systems in the context of their availability and confidentiality as well as reduction of costs of the operated IT infrastructure of business applications. In areas responsible for sales and customer service, numerous activities were carried out with the aim of improvement of the quality and growth of client satisfaction level.

The measures under implementation represent an essential element of the Corporate Strategy implementation in the overall value chain, contributing to the strengthening of TAURON Capital Group competitive position among the leading energy companies in the region.

#### **1.3.3. Assessment of implementation capacity of investment projects**

Strategic investment as well as its financing is managed centrally at the level of the Company. At present, works on the new strategy of TAURON Capital Group are carried out, with the investment programme of TAURON Capital Group representing its significant element. While preparing the new strategy, the Management Board of the Company analyses the capacity of TAURON Capital Group to finance the current and planned investment projects to the extent enabling their implementation, from funds generated from operating activities and by acquisition of debt financing.

#### **1.3.4. Purchase of equity securities**

The main investments of the Company in equity securities, performed by the Company in 2015 and until the day of drawing up this report included:

##### ***Purchase of shares in Biomasa Grupa TAURON Sp. z o.o. (Biomasa GT)***

On 14 January 2015, TAURON purchased 4,267 shares of Biomasa GT company, with the total nominal value of PLN 237,885.25, representing 100% of share in the share capital, from its subsidiary, TAURON Wytwarzanie, at a price of PLN 1,224 thousand. The transfer of ownership of Biomasa GT shares took place through *datio in solutum*, under the agreement concluded between TAURON and TAURON Wytwarzanie in exchange for the waiver of TAURON Wytwarzanie obligations towards TAURON due to the partial redemption of bonds with the value of PLN 1,230 thousand. The remaining part of the liability in the amount of PLN 6 thousand was paid in cash.

The purpose of the above transaction was to gain 100% direct interest in the share capital of Biomasa GT by TAURON, in order to incorporate it in the Tax Capital Group.

##### ***Purchase of shares in PGE EJ 1 sp. z o.o. company (PGE EJ 1)***

On 15 April 2015 TAURON and PGE, KGHM and ENEA concluded the agreement for the purchase of shares in PGE EJ1 – a special purpose vehicle responsible for the preparation and execution of the investment comprising the construction and operation of the first Polish nuclear power plant with the capacity of approximately 3 thousand MW<sub>e</sub>. TAURON, KGHM and ENEA purchased from PGE 10% of shares each (30% of shares in total) in PGE EJ 1. The price for the shares purchased by TAURON amounted to PLN 16,044 thousand.

In accordance with the Shareholders' Agreement of 3 September last year, the parties will jointly, proportionally to the shares held, finance the 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 suppliers 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 SM of PGE EJ 1 company 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 with the total nominal value of PLN 6,999,945, which it covered by the cash contribution at a level of PLN 6,999,945. Other shareholders of PGE EJ 1 also participated in the increase of the share capital, accordingly, after the increase, the interest of TAURON in the share capital of the special purpose vehicle did not change, amounting to 10% as at the day of drawing up of this report.

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.

#### ***Taking up shares in the newly established company – R S G***

On 5 August 2015 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on registering in the Register of Entrepreneurs of a company: R S G sp. z o.o., with its registered office in Katowice (R S G), established on 31 July 2015 by TAURON, which, as the sole shareholder of the aforementioned company, took over all 1,000 shares with the nominal value of PLN 100 per share, i.e. with the total nominal value of PLN 100,000 thousand.

On 8 October 2015 the Extraordinary Meeting of Shareholders (SM) of the R S G company adopted the resolution concerning the amendment to the company Memorandum of Association, consisting in the change of the company enterprise name to "Nowe Brzeszcze Grupa TAURON sp. z o.o." The change was registered in the National Court Register on 20 October 2015.

The company was established in order to acquire assets of a designated part of the Mining Plant in Brzeszcze, as an organised part of the enterprise.

#### ***Taking up new shares of TAURON Sweden Energy AB (publ)***

On 13 July 2015 the Extraordinary Shareholders' Meeting of TAURON Sweden Energy AB (publ) (TAURON Sweden Energy) company adopted the resolution concerning the increase in the share capital of this company from the amount of EUR 55,000 to the amount of EUR 6,700,000, i.e. by the amount of EUR 6,645,000, through the issue of 6,645,000 new shares with the total nominal value of EUR 6,645,000, which were taken up by the sole shareholder of this company – TAURON. On 8 September 2015, the increase of the share capital was registered by the Swedish Companies Registration Office.

The increase in the share capital of TAURON Sweden Energy company is associated with the process implemented by the company, related to fund raising for TAURON Capital Group in the German market.

#### ***Taking up new shares of Nowe Brzeszcze GT***

On 1 December 2015 the Extraordinary SM of Nowe Brzeszcze GT company adopted the resolution concerning the increase in the share capital of this company from the amount of PLN 100,000 to the amount of PLN 2,100,000, i.e. by the amount of PLN 2,000,000, through establishing of 20,000 new shares with the nominal value of PLN 100 per share and with the total nominal value of PLN 2,000,000, which were taken up by TAURON in exchange for the cash contribution in the amount of PLN 2,000,000. All new shares were taken up by TAURON at a purchase price equal to their nominal value.

The increase in the share capital of Nowe Brzeszcze GT was registered in the National Court Register on 31 December 2015.

On 31 December 2015 the Extraordinary SM of Nowe Brzeszcze GT company adopted the resolution concerning the increase in the share capital of this company from the amount of PLN 2,100,000 to the amount of PLN 5,000,000, i.e. by the amount of PLN 2,900,000, through establishing of 29,000 new shares with the nominal value of PLN 100 per share and with the total nominal value of PLN 2,900,000, which were taken up by TAURON, as the former sole shareholder of the company, in exchange for the cash contribution at a price of PLN 1,000 per share, i.e. for the total amount of PLN 29,000,000.

The surplus of the price of taking up each new share in the increased share capital over its nominal value, in the total amount of PLN 26,100,000 was transferred to the share capital of the company which had been established under the aforementioned resolution. The share capital of the company, increased to the amount of PLN 5,000,000, is divided into 50,000 shares with the nominal value of PLN 100 per share and the total nominal value of PLN 5,000,000.

The increase in the share capital of Nowe Brzeszcze GT was registered in the National Court Register on 29 January 2016.

#### **1.4. The management concept of the Company and TAURON Capital Group**

##### **1.4.1. The management rules of the Company and TAURON Capital Group**

###### **Management Rules of the Company**

In accordance with the provisions of the *By-laws of the Management Board of TAURON Polska Energia Spółka Akcyjna with its seat in Katowice*, the Management Board conducts all issues of the Company and represents it in all judicial and extra-judicial proceedings. All issues connected with managing the Company, which are not restricted by legal regulations and provisions of the Company Articles of Association to the competence of the GM or the Supervisory Board lie within the competences of the Company Management Board. Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for submitting statements on behalf of the Company.

Issues covered by competences of the Management Board as a collective body are described in detail in subsection 6.8.1. of this report.

The management rules of the Company are also specified in the *Organisational Regulations of TAURON Polska Energia S.A.* (Organisational Regulations), pursuant to which the Company is managed by directly by the Management Board and through proxies, Directors of Departments and plenipotentiaries.

The President of the Board – Chief Executive Officer, manages business as usual of the Company and takes decisions on all issues concerning the Company, which are not subject to decisions of the Management Board or other governing bodies of the Company, and supervises the performance of the division which reports to him directly.

###### **The President of the Board:**

- 1) manages the internal business of the Company and represents it within the external contacts,
- 2) coordinates all the issues connected with the performance of the Company Management Board,
- 3) performs actions in the scope of labour law on behalf of the Company (the employer),
- 4) supervises the performance of the division which reports to him directly,
- 5) issues the internal regulatory acts and intra-corporate regulatory acts in accordance with the binding regulations,
- 6) takes decisions related to managing of the Company business as usual,
- 7) performs all the real functions and legal acts, taking into consideration implementation of the Company's goals and targets,
- 8) undertakes any other activities providing for effective and efficient performance of the Company.

###### **Vice-Presidents of the Management Board:**

- 1) manage the internal business of the Company and represent it within the external contacts,
- 2) manage the current business operations of the Company within the scope delegated as well as supervise the performance of the divisions which report to them directly,
- 3) take decisions on issues which are not subject to decisions of the Management Board, within the scope of functions delegated to the subordinated business units as well as other decisions within the powers of attorney and authorisations granted to them by the Management Board or the President of the Board,
- 4) perform all the real functions and legal acts, taking into consideration implementation of the Company's goals and targets,
- 5) undertake any other activities providing for effective and efficient performance of the Company.

###### **Directors of Departments:**

- 1) manage the departments which report to them, being responsible for their performance results,
- 2) determine the goals, targets and tasks of individual business units included in the department they manage, within their subjective competence,
- 3) coordinate the structures subordinated to them, in accordance with the Company's interest and in compliance with the legal regulations,

- 4) implement the guidelines and recommendations of the Management Board Members and keep them informed of the performance of the subordinated department,
- 5) undertake any other necessary activities providing for effective and efficient performance of the subordinated department.

Business relations in the Company are based on the principle of a single person management which means that each employee has one direct supervisor from whom he/she receives instructions and tasks and towards whom he/she is responsible for execution of these instructions and tasks.

An exception to this rule is the so-called project reporting which is of temporary nature and based on a matrix. Such reporting system exists in relations among employees of the Company or the employees of the Company and companies of TAURON Capital Group, and it refers to persons who are members of project teams.

### **Management rules of “TAURON Group”**

“TAURON Group” comprises companies of TAURON Capital Group, selected by the Management Board, managed jointly as a consistent economic body consisting of autonomous commercial law companies, led by the Company, as the parent entity.

The main internal 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 the special tailored solutions in the area of managing “TAURON Group” entities, including, in particular, determining companies’ operating objectives, enabling the achievement of the effects assumed in the Corporate Strategy.

In 2015 the improvement of TAURON Capital Group management process was continued. Considering the changes occurring in the organisation of the TAURON Capital Group, the Management Board of the Company updated the allocation of membership of the companies to “TAURON Group”.

Within “TAURON Group”, Business Areas operate, established by the Company Management Board, comprising the companies of “TAURON Group” as well as the established Management Areas within which the relevant cooperation rules apply. In addition, within “TAURON Group” permanent committees of “TAURON Group” operate:

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

The aforementioned Committees were established in order to enable the performance of activities in accordance with the principles of operational consistence of the “TAURON Group”, in compliance with the law and the interests of “TAURON Group” and its stakeholders.

The Committees fulfil the following functions:

- 1) opinion-making function for the Company Management Board,
- 2) decision-making function,
- 3) supervisory function for the management boards of TAURON subsidiaries.

The core task of the Committees is to provide surveillance over implementation of the consistent actions by all the participants of the “TAURON Group”, compliant with the *TAURON Group Code* and to the benefit of “TAURON Group” interests. The specific functions of the Committees are provided in detail in the by-laws of their operations adopted by the Company Management Board.

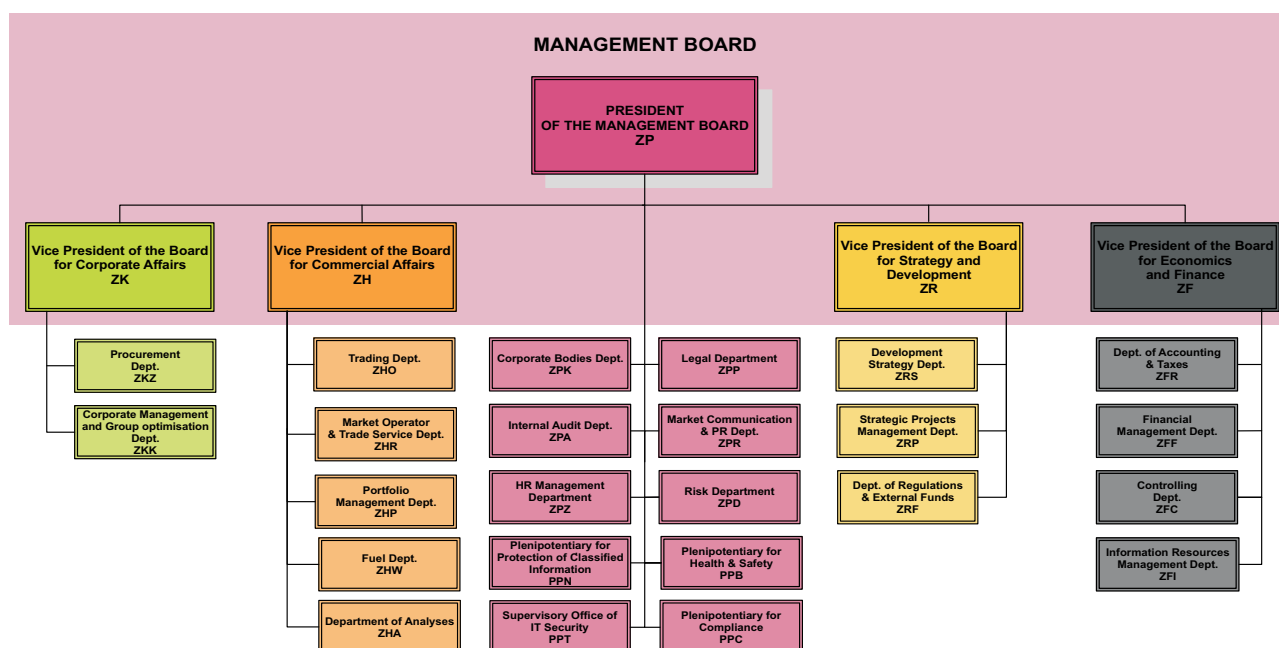
### **1.4.2. Changes in the management rules of the Company and TAURON Capital Group**

#### **Changes in the management rules of the Company**

In 2015, no significant changes in the Company management rules were introduced. On the other hand, changes made in the Company organisational structure were associated with the current needs and were aimed at improvement and harmonisation of processes as well as increasing of the effectiveness and transparency of the organisation.

The figure below presents the structure of divisions reporting to individual Board Members of the Company, to the level of business units reporting directly to the Members of the Management Board, according to the status as at completion of this report.

Figure no. 6 Organisational chart of TAURON Polska Energia S.A. as at the day of drawing up this report



### Changes in the management rules of “TAURON Group”

In 2015, a new *Business Model of TAURON Group* was adopted and, as a consequence, the Rules of Cooperation in Governance Areas were updated. Changes in the scope of allocation of companies to Business Areas were also performed.

The update in the scope of defining the allocation of “TAURON Group” companies to the specific Business Area or Business Areas resulted from the processes taking place in the structure of TAURON Capital Group.

### 1.5. Organisational or capital links

The table below presents the list of significant direct and indirect subsidiaries, subject to consolidation, in which the Company held shares and stocks according to the status as at 31 December 2015

**Table no 2. Specification of significant subsidiaries covered by consolidation as at 31 December 2015 in which the Company holds direct and indirect share**

No.	Company name	Registered Office	Core business area	TAURON share in the company capital and governing body
1.	TAURON Wydobycie	Jaworzno	Hard coal mining	100.00%
2.	TAURON Wytwarzanie	Jaworzno	Generation, transmission and distribution of electricity and heat	100.00%
3.	TAURON EKOENERGIA	Jelenia Góra	Electricity generation and trade in electricity	100.00%
4.	TAURON Dystrybucja	Kraków	Distribution of electricity	99.72%
5.	TAURON Dystrybucja Serwis*	Wrocław	Services	99.72%
6.	TAURON Dystrybucja Pomiary*	Tarnów	Services	99.72%
7.	TAURON Sprzedaż	Kraków	Trade in electricity	100.00%
8.	TAURON Sprzedaż GZE	Gliwice	Trade in electricity	100.00%
9.	TAURON Czech Energy	Ostrava (Czech Republic)	Trade in electricity	100.00%
10.	TAURON Ciepło	Katowice	Production and distribution of heat	100.00%
11.	TAURON Obsługa Klienta	Wrocław	Services	100.00%
12.	KW Czatkowice	Krzeszowice	Mining, crushing and grinding of limestone rocks and stone extraction	100.00%

No.	Company name	Registered Office	Core business area	TAURON share in the company capital and governing body
13.	PEPKH in liquidation	Warszawa	Trade in electricity	100.00%
14.	TAURON Sweden Energy	Stockholm (Sweden)	Services	100.00%
15.	Biomasa GT**	Stalowa Wola	Biomass sourcing and trading	100.00%

\* The share in TAURON Dystrybucja Serwis and TAURON Dystrybucja Pomiary is held by TAURON indirectly, through its subsidiary, TAURON Dystrybucja. In addition, TAURON is the user of shares/stocks held by TAURON Dystrybucja.

\*\* On 1 July 2015 the merger of Energopower sp. z o.o. and Biomasa GT companies was registered.

The table below presents the list of significant co-subsiaries in which the Company held direct and indirect share, according to the status as at 31 December 2015.

**Table no 3. Specification of significant co-subsiaries as at 31 December 2015 in which the Company holds direct and indirect share**

No.	Company name	Registered Office	Core business area	TAURON share in the company capital and governing body
1.	EC Stalowa Wola*	Stalowa Wola	Generation, transmission, distribution and trade in electricity	50.00%
2.	Elektrownia Blachownia Nowa*	Kędzierzyn Koźle	Electricity generation	50.00%
3.	TAMEH HOLDING**	Dąbrowa Górnicza	Activities of central companies and holdings	50.00%
4.	TAMEH POLSKA**	Dąbrowa Górnicza	Generation, transmission, distribution and trade in electricity and heat	50.00%
5.	TAMEH Czech**	Ostrava (Czech Republic)	Production, trade, services	50.00%

\* The share in EC Stalowa Wola and in Elektrownia Blachownia Nowa is held by TAURON indirectly, through the subsidiary, TAURON Wytwarzanie.

\*\* The Companies create a capital group. TAURON holds a direct share in the capital and the governing body of TAMEH HOLDING, which, in turn, holds a 100% share in the capital and the governing body of TAMEH POLSKA and TAMEH Czech.

## **2. OPERATIONS OF TAURON POLSKA ENERGIA S.A.**

### **2.1. Factors essential for development**

The operations of the Company shall be most significantly affected, as in the past, by the such factors as:

- 1) the macroeconomic situation, especially in Poland, and the economic situation in the area of TAURON and TAURON Capital Group operations, as well as at the level of the European Union and global economy, including volatility of interest rates and currency rates, etc., influencing the valuation of assets and liabilities recognised by the Company in the statement of financial situation,
- 2) political environment, especially in Poland as well as at the EU level, including the positions and decisions of public administration institutions and bodies, e.g.: Office for Competition and Consumer Protection (UOKiK), Energy Regulatory Office (ERO) and the EC,
- 3) changes in the regulations related to the energy sector, as well as changes in the legal environment, including: tax law, commercial law, environmental protection law,
- 4) situation in electricity sector, including the activity and measures undertaken by competition in the energy market,
- 5) the support system of electricity generation in high performance co-generation ("red" and "yellow" certificates),
- 6) geological and mining conditions of extraction,
- 7) number of CO<sub>2</sub> emission allowances allocated free of charge after 2013, and prices of the allowances acquired,
- 8) prices of electricity and fuel,
- 9) environmental protection requirements,
- 10) research and technical progress,
- 11) demand for electricity and other products of the energy market, considering the changes arising from seasonality and weather conditions.

### **2.2. Factors and unusual events significantly affecting the financial result achieved**

#### **2.2.1. Internal factors and their assessment**

In 2015, no material internal factors occurred which would have a significant impact on the financial result achieved.

#### **2.2.2. External factors and their assessment**

##### **2.2.2.1. Macroeconomic environment**

The basic area of TAURON operations is the Polish market within which the Company uses positive trends occurring in it as well as is affected by such changes. The macroeconomic situation, both in individual sectors of economy and in financial markets, is a significant factor affecting the results achieved by the Company.

The condition of the Polish economy is considerably associated with the economic trends in the EU and in international markets. According to the EC forecasts of November 2015, the EU economic growth rate for 2015 is estimated at 1.9%, for the euro area this value amounts to 1.6%, and the estimated inflation rate amounts to 0.0% and 0.1%, respectively. In case of many countries: Greece, Spain, Lithuania, Slovenia, Slovakia, Finland, Bulgaria, Croatia, Poland and Romania, inflation estimated for 2015 takes a negative value. At the same time, the EC forecast indicates a modest improvement of the EU economic situation in 2015 and a positive outlook for 2016–2017.

Positive factors influencing the European economy in 2015 included low prices of crude oil and other energy commodities, the relative weakness of EUR and the growth-oriented monetary policy of the European Central Bank. In 2015, a slight decline in the unemployment rate occurred, i.e. To the level of 9.5% across the EU and 11.0% in the euro area (respectively, against the levels of 10/2% and 11.6% for 2014).

Compared to the EU, the economic situation in Poland seems quite favourable. Since the 2<sup>nd</sup> quarter of 2013 Polish economy has been following a growth path. In 2015 the GDP growth appeared the fastest for the last 4 years, reaching 3.90% YoY at the end of the 4<sup>th</sup> quarter of 2015. The Central Statistical Office (GUS) reported that GDP calculated according to fixed prices of the previous year increased by 3.6% in real terms last year, against the growth by 3.3% in 2014. The domestic demand was the main factor of the economic growth. The growth in demand was fostered by the favourable situation in the labour market, positive consumer sentiment as well as good financial standing of companies. On the other hand, the uncertainty related to the economic growth outlook abroad was an adverse factor, limiting the demand growth.

Maintaining of the stable pace of economic growth is supported by growing investment – according to GUS data, the capital expenditure index for three quarters of 2015 increased by 1.5% in relation to three quarters of 2014. Interest rates represented another pro-development factor – the basic NBP rates applicable since March 2015 represent the lowest values recorded since 1998. In terms of the labour market, 2015 was a period of a very fast decline in unemployment. At the end of 2015 the unemployment rate dropped to its lowest level since 2008, reaching 9.80% at the end of December 2015, against 11.4% at the end of 2014.

The deflation persisting for several months is still a negative factor. At the end of 2015 the inflation rate reached -0.50% YoY whereas the average annual inflation in the previous year amounted to -0.9% and was lower than the level assumed in the budgetary act by 2.1%. The inflation rate remaining below zero encouraged the Monetary Policy Council to resume a cycle of cuts in interest rates. Thus, the average value of the reference rate in 2015 reached 1.6%. It is expected that clearly positive inflation values should appear at the end of 2016.

Throughout 2015 the industrial output increased, on average, by 6.70% YoY. It was fostered by the persisting upward trend in exports and a high competitiveness of Polish enterprises. Throughout 2015, political and economic events on the local arena, as well as global transformations, affected the exchange rate of PLN against other currencies. Important national events included cuts in interest rates and elections (both presidential and parliamentary). On the other hand, factors in the European scale influencing foreign currency exchange rates in 2015 included the military conflict in Ukraine, the Greek financial crisis as well as the QE programme representing an attempt aimed at overcoming the deflation, and changes in the monetary policy.

Summing up, it should be stated that in economic terms, the past year was definitely good. Justifying the positive assessment of the overall economy the aforementioned factors should be stressed, such as the stable economic growth and the decline in unemployment. Results achieved by the Polish economy in 2015, in conjunction with NBP data concerning the historically low imbalance of the current account balance, should be perceived as a good starting point for the Polish economy in 2016.

The growth in GDP and industrial output sold (according to GUS forecasts, in 2015 this output increased by 4.8%) remain the major factors affecting the growth in the domestic electricity consumption (KZEE). The demand for electricity and heat are the key factors affecting the results of TAURON Capital Group.

According to the data of Polskie Sieci Elektroenergetyczne S.A. (PSE), in 2015 a significant growth (1.7% YoY) in the domestic gross electricity consumption occurred, with the simultaneous growth of production in domestic power plants (3.3% YoY). Contrary to 2014, the balance of interconnector exchange was exports-based and amounted to 0.3 TWh. In 2015, wind energy remained the most dynamic area of power engineering, where the growth in the capacity installed by approximately 1.3 GW translated into the output in the range of 10.0 TWh (growth in production by 39.8% YoY). A significant growth in production (by approximately 28.1%) was also recorded in case of gas energy – in 2015 this area generated the total of 4.2 TWh. Production in coal-fired power plants – using the basic fuel of TAURON Capital Group – amounted to 81.9 TWh at the national level and in 2015 it increased by 2.0% against 2014, whereas lignite-fired sources produced 53.6 TWh in 2015, which makes a decline by 1.2%.

Simultaneously, heat production increased at the national level – according to the ARE data for three quarters of 2015, the total of 181.6 PJ of heat was produced, against 174.0 PJ in the corresponding period of 2014.

**Figure no. 7 Growth of GDP, industrial output sold and change in domestic electricity consumption (KZEE)**





## 2.2.2.2. Market environment

### Prices of electricity and related products

In 2015 wholesale prices of energy in Poland recorded levels lower than in 2014. The average price on the Day-Ahead Market (RDN) of Towarowa Giełda Energii S.A. (TGE) for 2015 amounted to PLN 156.95/MWh, whereas the so-called CRO price on the balancing market (RB) reached PLN 157.25/MWh. The aforementioned electricity prices in relation to 2014 were lower, respectively, by PLN 22.91/MWh and 27.57/MWh. The lower price level as compared to 2014 was driven by persistently relatively lower hard coal prices – the average value of the PSCMI\_1 (Polish Index of Steam Coal Market) index for 2015 amounted to PLN 9.76/GJ against PLN 10.55/GJ for 2014. In addition, the volume of electricity from wind farms had an impact on reduction of RDN and RB prices – in 2015 they produced the total of 10 TWh as compared to 7.2 TWh for 2014.

The significant decline in prices of steam coal (CIF ARA index), crude oil and natural gas in the global markets as well as the growing supply of energy from renewable sources, contributed to the continued decline in electricity prices in the remaining countries of Europe, which was visible in case of SPOT market prices and forward market in Germany. The average price for Germany for 2015 (EPEX exchange) amounted to EUR 31.63/MWh against EUR 32.76/MWh for 2014, whereas the average rate of Phelix BASE Y-16 contract quoted in 2015 amounted to EUR 30.96/MWh against EUR 35.09/MWh in case of Phelix BASE Y-15 contract quoted in 2014. In Germany, renewable energy sources (water, wind, biomass, photovoltaic, waste and other sources) generated the total of 220.1 TWh of gross electricity in 2015, against 183.6 TWh for 2014, covering 36.9% of the demand which increased by 0.8% YoY to the level of 597 TWh gross.

The aforementioned downward corrections in commodity markets resulted, inter alia, from OPEC decision on discontinuation of control over the volume of oil extracted. Moreover, this trend was also a consequence of the so-called shale revolution in the USA resulting in the surplus of commodity in oil markets. It amounted to 0.81 mbpd in 2014 and as much as 1.71 in 2015. Accordingly, in the previous year, decline in prices initiated in 2014 continued. Brent oil traded on the London ICE exchange was quoted at USD 58.02/bbl in January 2015, whereas in May its price increased to the level above USD 67/bbl. At the end of the previous year a barrel of Brent oil was quoted at only USD 37.28/bbl. It means that the price of oil dropped by 36% in relation to the price at the beginning of the year and by 45% in relation to the maximum price. In December 2015, in the USA the historic ban on exports of oil effective over the last 40 years was waived. Moreover, sanctions imposed on Iran were also lifted, which means that one of the major producers is returning to the oil market. The above mentioned factors cause that in 2016 the surplus of oil will most probably continue.

In the steam coal market declines could have been also observed. The demand for coal has significantly decreased, mainly from the major consumer of this commodity, i.e. China. At the end of December 2015, annual CIF ARA Y-16 contracts dropped to USD 44.15/Mg in relation to prices at the beginning of 2015 which stayed at the level of USD 67.28/Mg. It means that their decline reached 34% throughout the year.

### Balance of the National Power System and prices in the Balancing Market

In 2015, a noticeable growth in the domestic electricity consumption (KZEE) was recorded. According to the PSE data, the volume of KZEE in Poland in 2015 reached 161.4 TWh and it was higher by 1.7% than in 2014. At the same time, growth in the volume of electricity production in domestic power plants was noted (161.8 TWh against 156.6 TWh in 2014), and Poland recorded a minor exports balance (0.3 TWh) in foreign electricity trade.

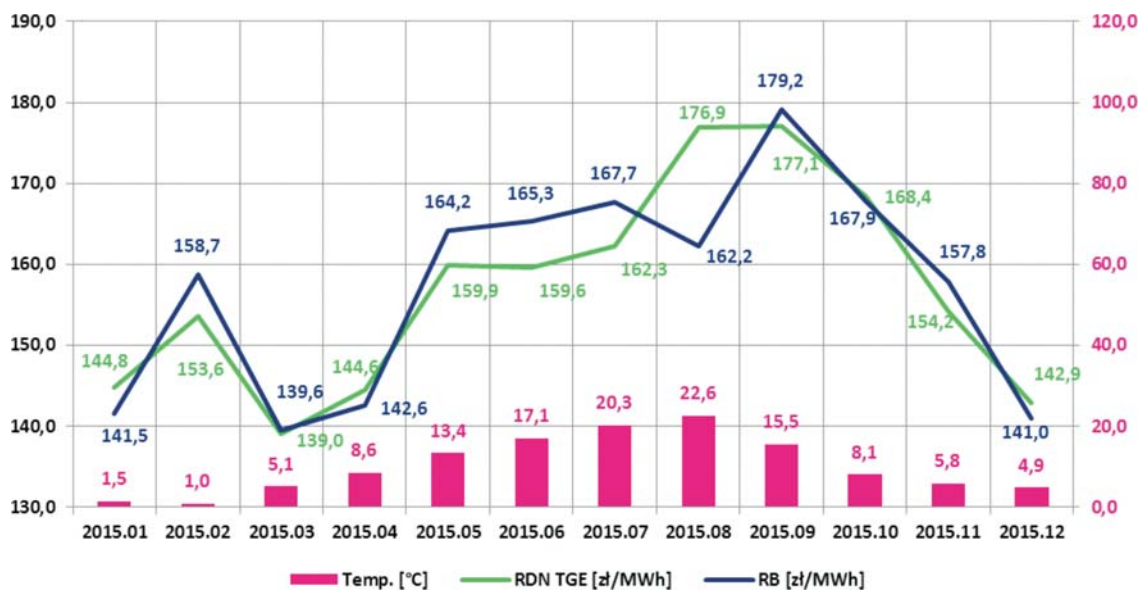
W 2015, growth of electricity production in coal-fired power plants occurred (from the level of 80.3 TWh in 2014 to the level of 81.9 TWh in 2015), with the simultaneous decline in electricity production in lignite-fired power plants (from the level of 54.2 TWh in 2014 to the level of 53.6 TWh in 2015). The volume of electricity produced in gas-fired power plants increased by approximately 28.1% (from the level of 3.3 TWh in 2014 to the level of 4.2 TWh in 2015).

2015 was a period of significant growth of capacity installed in wind farms – according to the PSE data, the capacity of wind farms as at the end of December 2015 amounted to 5.0 GW against 3.7 GW at the end of December 2014, which means the raise by 34.6%. Throughout 2014 the growth reached only 10.2%, from the level of 3.4 GW in December 2013 to 3.7 GW in December 2014.

A significant event was the introduction of power supply levels by PSE in August 2015, which was associated with the deterioration of operation conditions within the National Power System, reflected by growing power depletion in face of the increased electricity demand resulting from high temperatures and unfavourable hydrological situation in the country. In connection with the continuing threat for the security of electricity supplies, on 11 August 2015 the Council of Ministers issued the regulation pursuant to which curtailments in electricity supplies and consumption were introduced from 11 August 2015 at 00:00 hrs to 31 August 2015 at 00:00 hrs on the territory of the Republic of Poland for electricity consumers with the contractual power supply over 300 kW. As a result of the aforementioned curtailments, hourly prices in the RDN and RB markets increased to levels exceeding PLN 250/MWh.

The figure below presents the average monthly electricity prices on the SPOT and RB markets and the average temperatures.

**Figure no. 8 Average monthly energy prices on the SPOT and RB markets and the average temperatures**



On the forward market of electricity a clear downward trend of prices could have been observed in the period from January to September 2015. The price for BASE Y-16 contract dropped from the level of PLN 181/MWh as at 2 January 2015, reaching its record low of PLN 154.00/MWh on 28 September 2015. In the period from October to December 2015 the price recovered, leading to quotations closed at a level of PLN 167.50/MWh.

It should be stressed that in 2015, the average volume-weighted price for this product amounted to PLN 164.41/MWh, whereas almost 123 TWh was sold in total. The share of the volume sold with the participation of TGE in the overall pool, reached 80% (99 TWh), and 20% (24 TWh) for broker platforms. The average volume-weighted prices obtained in 2015 for the exchange segment and brokers reached, respectively, PLN 164.27/MWh and PLN 165/MWh.

In case of PEAK Y-16 contract, the quotations were equivalent. The peak of quotations in 2015 occurred on 16 January 2015, reaching PLN 235.06/MWh, whereas the minimum level was recorded on 6 October 2015, amounting to PLN 195.90/MWh. The total trading volume recorded in 2015 for this product reached 16.5 TWh, including 87% (14.3 TWh) in the exchange segment, at the average price of PLN 211.55/MWh, and the share of brokers amounted to 13% (2.2 TWh), with the average price of PLN 207.11/MWh.

The growth in prices on the market of forward transactions was affected by fees for maintaining the OPR (Operating Power Reserve), paid only during peak hours (PEAK).

The figures below show the results of trading in Base Y-16 and PEAK Y-16 contracts.

**Figure no. 9 Trading in BASE and PEAK Y-16 contracts**





In 2015, the persistently low oil prices represented the major factor affecting the global price of natural gas. Prices of blue fuel worldwide, both in traditional and in liquefied form (LNG) dropped by several dozen per cent during the year. The global decline in prices of other energy commodities, driven, inter alia, by a weaker condition of the Chinese economy and the absence of frosty winter on the European continent was also not negligible.

On the TGE the average volume-weighted SPOT gas price in 2015 reached PLN 87.46/MWh. As compared to 2014, the decline of over 17% took place. On the other hand, the trading volume increased, reaching 10.5 TWh in the analysed period, which was the result over 94% better than in 2014. Temperatures persisting in the winter period, higher than the average, represented one of the main reasons causing that the seasonality characteristic for this market became blurred. Prices of gas in the 2<sup>nd</sup> and 3<sup>rd</sup> quarter, i.e. in the gas summer season, were higher by more than ten zlotys than in the 4<sup>th</sup> quarter.

The maximum price on the RDN (Day-ahead market) for gas was reached immediately on 1 January 2015, amounting to PLN 116.82/MWh. Following the relatively high volatility in the 1<sup>st</sup> quarter and at the beginning of the 2<sup>nd</sup> quarter, SPOT prices followed the lateral trend and their significant smoothing occurred. In the 4<sup>th</sup> quarter, following the gradual declines, in the last days of December, the minimum level of PLN 57.08/MWh was reached. It is worth highlighting that it was the record low since the beginning of trading in gas on the TGE.

In the neighbouring countries, the average SPOT price of gas for 2015 ranged around PLN 84.00/MWh (~EUR 20/MWh). In the German gas hub, Gaspool, acting as a benchmark for the Polish exchange, this price amounted to PLN 83.94/MWh, in the other German hub, New Connect Germany – to PLN 84.31/MWh, whereas on the Czech OTE exchange, it reached PLN 84.19/MWh.

The TGE forward market in 2015 demonstrated a strong downward trend. The reference annual contract with the delivery in 2016, similar to SPOT price, reached its maximum at the beginning of the year (PLN 110.60/MWh). Since the beginning of March the Polish market remained strongly correlated with the above mentioned German gas hub – Gaspool. The spread between the aforementioned markets ranged from PLN 5–10/MWh practically all over the year.

In accordance with the worldwide tendency, prices of all forward contracts strongly declined, only accelerating the dynamics of the falls in the consecutive quarters. The minimum for the annual contract on TGE was reached on 23 December 2015, amounting to PLN 70.00/MWh. The average volume-weighted price for the product for 2016 for the overall period analysed amounted to PLN 95.35/MWh and was lower in relation to the corresponding price of the contract for 2015 by PLN 15.11/MWh. The trading volume for the whole forward market approached 93 TWh. As compared to the previous year, a decline of over 11% took place.

The figure below presents the average monthly SPOT prices and prices for Y-16 contract in 2015 on the TGE.

Figure no. 10 Average monthly SPOT prices and Y-16 contract prices in 2015 on the TGE



In 2015, on the market of CO<sub>2</sub> emission allowances the upward trend initiated already in 2014 was continued. Factors affecting the growth in EUA prices included political events and EC legislative work related to the reform of the European Union Emission Trading System (EU ETS).

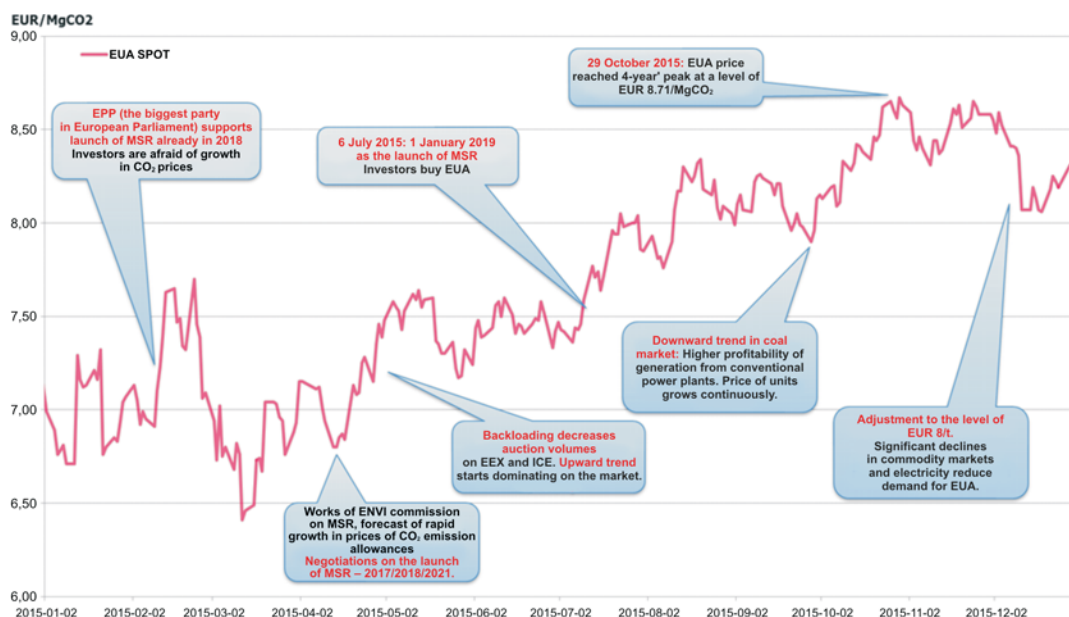
In 2015, EUA price on the SPOT market increased by approximately 30%, from the level of EUR 6.60/MgCO<sub>2</sub> at the beginning of January to the level of EUR 8.66/MgCO<sub>2</sub>, which was reached at the end of November.

The declining steam coal price with the delivery at ARA ports has also contributed to the growth in prices of allowances. The low price of the commodity fostered contracting of electricity generated in conventional sources. It triggered the demand for allowances and growth in their prices. This situation was also not inhibited by information on verified emission levels in the EU ETS for 2014 which, in accordance with the EC data, dropped by over 4.5% YoY. In addition, it has turned out that the target of CO<sub>2</sub> emission reduction in the EU up to 2020 was already reached in 2014.

At the end of 2015 the 21<sup>st</sup> climate summit was held in Paris, whose conclusions resulted in the recovery of prices for the CO<sub>2</sub> emission allowances to the level of EUR 8/MgCO<sub>2</sub>. During the aforementioned summit, the agreement was adopted, mainly aimed at maintaining the growth of global average temperatures markedly below 2 degrees Celsius above the pre-industrial level and the continuation of efforts oriented towards reducing temperature growth to 1.5 degrees.

The figure below presents the impact of political events and the environment on quotations of the forward product, EUA SPOT in 2015.

Figure no. 11 Impact of political events and the environment on quotations of the EUA SPOT product in 2015.



2015 brought significant changes in the market of property rights, associated mainly with the amendments to the legal regulations. In the RES area, a new RES Act was adopted in February last year, changing the model of RES system support in Poland, by replacing the so-called “green” certificates system with the auction model based on reference prices. The Act entered into force on 4 May 2015, whereas its main elements related to the introduction of the auction system were to enter into force as of the beginning of 2016. However, the amendment to the Act of 22 December 2015 postponed the deadline for introduction of the auction system by half a year, due to the required finalisation of investment cycles in the RES sub-sector, simultaneously offering choice between the old and new RES support system for the investment under completion.

The continuing oversupply of PMOZE\_A property rights on the market made average values of the OZEX\_A index fall successively from January to July 2015, from the level of PLN 157.42/MWh in January to the level of PLN 105.17/MWh in July. In the corresponding period, the surplus on the PMOZE\_A register increased to 21.3 TWh, confirming the inefficiency of the old RES support system which is unable to generate the adequate price signals to provide for the sustainable development of the sector. Starting from August 2015 the prices started to recover slowly, however the scale of growth was symbolic, and at the end of the year prices reached the level of PLN 115.60/MWh. As compared to 2014, the average value of the OZEX\_A index dropped by almost PLN 63/MWh, amounting to PLN 123.61/MWh, whereas the value of PMOZE\_A register balance increased throughout 2015 by 14.3 TWh to the level of 27.3 TWh which, considering the rights blocked for redemption, amounts to the value of over 17 TWh at the end of 2015.

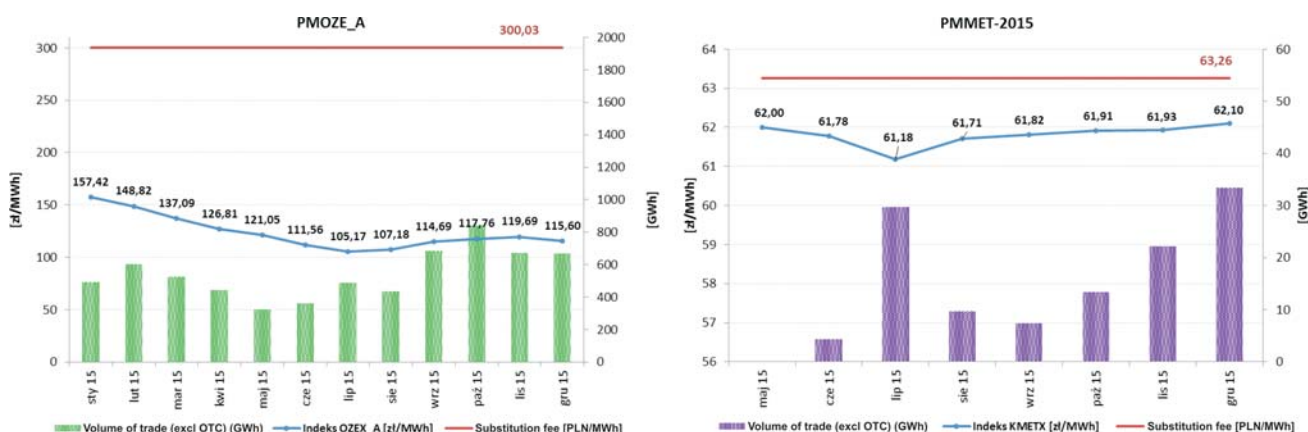
In the area of support to energy produced in high efficiency cogeneration, in 2015 a system introduced (in fact, extended) under the amendment to the *Act on Energy Law* back in 2014 was applicable. Due to the deadline for the fulfilment of cogeneration obligations, in commercial terms, 2015 was divided into two halves. Until the end of June 2015 trading in PMEC-2014 product was carried out, whose quotations were contained within a limited range, from PLN 10.59/MWh in January to PLN 10.35/MWh in. On the other hand, at the beginning of June 2015, quotations of the PMEC-2015 product started on the TGE, with the opening at a level of PLN 10.72/MWh. Until the end of 2015 also in case of this product, the volatility of the KECX index was symbolic, reaching only PLN 0.19/MWh in relation to monthly values, to conclude its quotations with the value of PLN 10.78/MWh at the end 2015. The level of market prices ranges slightly below the substitution fee determined in 2015 at a level of PLN 11/MWh.

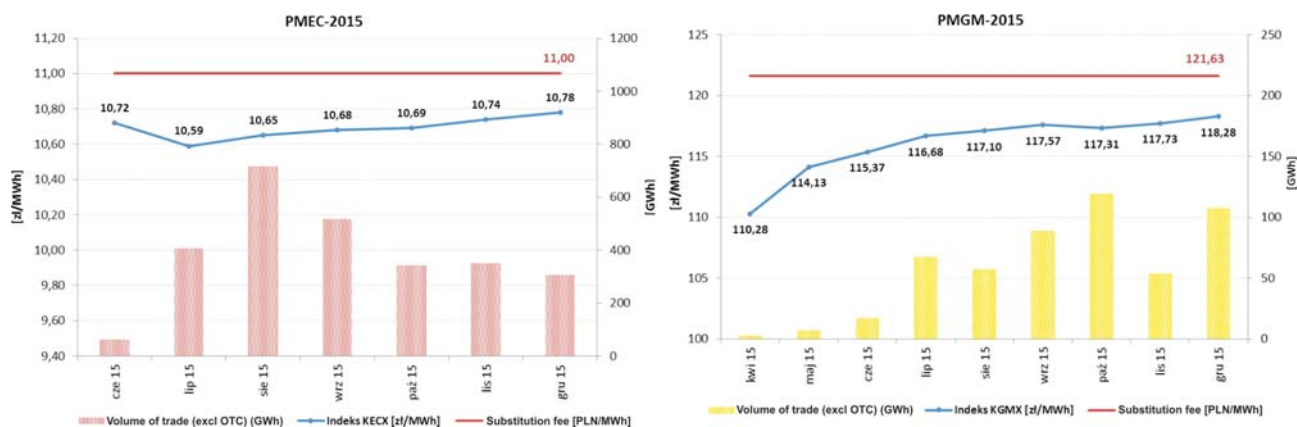
In the area of gas cogeneration the situation was similar. Until the end of June 2015, the PMGM-2014 product was still quoted which closed at a level of PLN 106.69/MWh. This level, similar to coal cogeneration, was determined by the substitution fee which was determined at a level of PLN 110/MWh for 2014. The PMGM-2015 product related to production of 2015, was already quoted in April 2015, when the average KGMX index amounted to PLN 110.28/MWh. Until the end of 2015 its value increased month by month, reaching the level of PLN 118.23/MWh in December. The average of 2015 quotations for the PMGM-2015 product reached PLN 118.35/MWh and it was only higher by approximately PLN 4.30/MWh than the substitution fee which increased to PLN 121.63/MWh for 2015.

The situation on the market of property rights confirming energy production during methane combustion – PMMET, developed analogically to the high efficiency cogeneration. Until the end of June 2015, the PMMET-2014 product was still quoted, for which the average value of the KMETX index reached a level of PLN 61.84/MWh. The identical level of the substitution fee in 2014–2015, amounting to PLN 63.26/MWh determines the level of market prices. The PMMET-2015 product for last year production was quoted, on average, at PLN 61.76/MWh.

The figure below shows indices of property rights, the so-called “green”, “violet”, “red” and “yellow” certificates.

Figure no. 12 Indices of property rights





### 2.2.2.3. Regulatory environment

#### Changes in the regulations of the energy sector

In 2015 the President of ERO maintained the obligation to submit tariffs for households for approval. Accordingly, the trading enterprises had a limited influence on the margin generated in this sales segment (G tariff).

#### Arrangements in the scope of CO<sub>2</sub> emission allowances

At present, Phase III of the European Union Emission Trading System is effective, lasting from 2013, to end in 2020. Contrary to Phase II, a possibility exists to transfer the surplus of allowances from the previous phase. The surplus transferred from Phase II, triggered mainly by the economic crisis and the reduced demand for EUA, has significantly decreased the price of units to the level below EUR 3/MgCO<sub>2</sub>. In order to reduce the oversupply of allowances and increase their price, in 2014 the EC introduced the backloading mechanism to withdraw, respectively, 400, 300 and 200 million of allowances in the years 2014–2016 through reduced auction volumes. The backloading tool turned out insufficient in combating the oversupply. With the aim of further increase of CO<sub>2</sub> emission allowance prices, the EC proposed establishing of the stabilisation reserve on the market of property rights (MSR). The main role of this mechanism will focus on smooth regulation of the quantity of allowances in the market. The allowances will be withdrawn through annual transfers of maximum 12% of the surplus of allowances from n-2 year to the reserve. Once the surplus falls below 833 million, the mechanism will suspend the backloading of units. Should the quantity of allowances in the system be lower than 400 million, the stabilisation reserve will introduce additional 100 million of allowances to the market during a given year. The EC proposed that 2021 should be the first year in which the stabilisation reserve starts its functioning. Strong pressure of such countries as Germany, France and United Kingdom resulted in acceleration of the mechanism launch by two years, with the ultimate deadline set on 1 January 2019. During the plenary voting on 8 July 2015 it was additionally determined that the whole backloading volume of 900 million allowances would be transferred to the stabilisation reserve, including any allowances not allocated to this period, estimated at the total level of 700 million units. In accordance with the preliminary estimates, the stabilisation reserve will contain over 3 billion allowances. At the moment, the EC has no plans regarding any other intervention in the European Union Emission Trading System.

#### Entry into force of the Act on Renewable Energy Sources

On 4 May 2015 the *Act on Renewable Energy Sources of 20 February 2015* entered into force, excluding chapter 4, defining new rules of support for RES installations, envisaged to enter into force as of 1 January 2016. On 29 December 2015 the President of the Republic of Poland signed the *Act on the amendment to the Act on Renewable Energy Sources and the Act on Energy Law*, which, inter alia, postponed the date of entry into force of the provisions of chapter 4 to 1 July 2016.

The objective of the Act is to ensure the sustainable development of economy, with the simultaneous enhancement of energy security and environmental protection. The majority of the provisions of the Act refers to new forms of support for generators of energy from RES. One of the key changes in relation to the previously applicable regulations concerning RES support schemes is the replacement of the system based on energy certificates of origin with the auction system accessible for newly constructed RES installations. Installations which started energy production before 1 July 2016 will be entitled to continue using of the certificate system, or to transfer to the auction system. The duration of the support in both cases has been limited to the period of 15 years following the first production of electricity in RES, for which the aid was received. In addition, the RES Act introduced the support system for the smallest RES micro-installations (up to 10 kW) in the form of feed-in tariffs. In accordance with the Act, the government will decide on the quantity of renewable energy it needs. Subsequently, the ERO will announce

auctions to be won by bidders offering the lowest price. Power plants winning the auctions will be subject to support. The support period will last 15 years.

The Act also introduces the so-called RES fee. In accordance with the Act, costs of subsidies to green energy production will be transferred to end consumers and added to electricity bills.

The RES Act has also verified the former rules concerning the acquisition of certificates of origin, which will result in the acquisition of lower volumes of property rights by energy generators (including TAURON Capital Group). The new Act has eliminated the support for hydroelectric power plants with the installed capacity over 5 MW. The support for multi-fuel combustion installations has been also limited. Such installations may acquire certificates of origin in the amount constituting the average quantity of electricity generated in the years 2011–2013, and installations commissioned after 31 December 2013 may acquire certificates of origin at a quantity not higher than the average annual quantity of energy generated in the period from 1 January 2014 to the day of entry into force of chapter 4. In addition, the certificates of origin issued to such installations will be adjusted by applying the 0.5 coefficient. The aforementioned provisions may result in significant decline of energy production based on co-firing. At the same time, due to the introduction of the lower redemption obligation for industrial consumers, the demand for property rights redeemed by sales companies in TAURON Capital Group will decrease.

### **Energy Law – the obligation of redemption of property rights from cogeneration**

The support system for high efficiency coal cogeneration, gas cogeneration and methane cogeneration for the years 2014–2018 has been maintained. The respective levels of the obligation are as follows:

- 1) for “red” certificates the obligation amounts to 23.2% of the volume of energy sold in each year of the period 2014–2018,
- 2) for “yellow” certificates, this obligation shall increase from 3.9% in 2014 to 8% in 2018, which should contribute to the development of the cogeneration sources operating based on gas fuel,
- 3) for “violet” certificates the obligation shall grow from 1.1% in 2014 to 2.3% in 2018.

Certificates originating from production in cogeneration may be redeemed in individual years only within the settlement for a given year, i.e. until June of the following year. Certificates which are not redeemed shall become invalid.

The impact of this regulation on TAURON Capital Group occurs in various Areas and it is subject to partial set-off. In the Generation Area revenues from sales of “red” and “yellow” certificates arise, whereas in the Sales Area the need to purchase those certificates appears for the purpose of their redemption.

### **Change of conditions in the distribution sector**

2015 was the last year of the period of regulation of five biggest Distribution System Operators (DSOs), since the President of ERO made the decision of introducing qualitative regulation elements. The introduction of qualitative regulation is aimed at improvement of the quality of distribution services provided to consumers, inter alia, through the improvement in quality and reliability of electricity supplies, improvement of customer service quality and ensuring the optimum level of effectiveness of the investment implemented.

The qualitative regulation will refer to five biggest DSOs and it will cover the years from 2016–2020, while in 2017 the verification of the applied assumptions and methods for the consecutive years, i.e. 2018–2020 will be performed. The indicators directly affecting DSO revenue will include indices of electricity supply interruption (SAIDI, SAIFI), appropriately adapted to the needs of the qualitative regulation and the indicator reflecting the implementation time of connection for consumers from connection group IV and V.

### **Amendments to the Act on Public Procurement Law**

The Act on Renewable Energy Sources of 20 February 2015 has also introduced the amendment to the Act of 29 January 2004 on Public Procurement Law, allowing entities involved in sectoral activity to waive the application of the provisions of the Act on Public Procurement Law to award sectoral contracts for the delivery of certificates of origin, certificates of origin of agricultural biogas and certificates of origin from co-generation in order to fulfil the obligation of their redemption.

### **Implementation of the service of Operational Power Reserve (OPR)**

2015 was the second consecutive period of operation of the payment mechanism due to ORM. The OPR refers to the generation capacity of active, centrally dispatched generation units, and its settlement is performed exclusively for the peak hours of demand, i.e. between 7:00 a.m. and 10:00 p.m. on all business days. Whereas in 2014 the growth in the level of SPOT prices was attributed to the fact of introduction of this mechanism, throughout 2015 the impact of ORM on the growth of electricity prices on SPOT and RB markets for peak hours was definitely lower.

### **Modification of OPR settlement rules**

On 6 November 2014, with the effectiveness as of 1 January 2015, the ERO President approved the update card of the Instructions of transmission grid operation and maintenance (IRiESP) – Balancing of the system and management of system congestions, constituting the modification of the OPR settlement rules. The basic element of this modification is the adjustment of the method of developing the price for OPR (introduction of the hourly budget, the so-called BGOR), which should ensure the stability of accomplishment of OPR mechanism budget in the period of effectiveness of the TSO tariff and mitigation of external factors' impact on the performance of this mechanism. This change affected the decline of revenue due to OPR gained by the Generation Area in 2015.

On 15 December 2015 the President of ERO approved the consecutive IRiESP update card – Balancing of the system and management of system congestions, with the effectiveness as of 1 January 2016, constituting the next modification of the OPR settlement. The objective of this change is, inter alia, to ensure that the whole budget envisaged for the OPR service will be practically paid to generators providing this service. Along the growth of the budget for the OPR service, this change should definitely increase the revenue of the Generation Area in 2016.

### **Obligation of public sales of electricity by generators**

In 2015, the so-called “exchange obligation” was still applicable, according to which the generating enterprises were obliged to sell the obligatory volume at TGE. In 2015, companies of TAURON Capital Group were covered, in accordance with provisions of Article 49a of the *Act of 10 April 1997 on Energy Law*, by the obligation to sell not less than 15% of electricity generated in a particular year on the commodity exchange (within the meaning of the *Act of 26 October 2000 on commodity exchanges*), or on the market organised by an entity operating a regulated market on the territory of the Republic of Poland. It means that sales of electricity produced by the generation companies of TAURON Capital Group, for the needs of securing the sales position of TAURON Capital Group, may be conducted on the OTC market.

### **Implementation of the provisions of the Network Code on Gas Balancing of Transmission Networks**

In accordance with the Commission Regulation (EU) (BAL NC), TSOs in the EU, including GAZ-SYSTEM, have been committed to adjust the gas balancing rules in transmission networks to the target model presented in the Regulation by 1 October 2015. The model assumed, inter alia, zero tolerance for imbalance of the fuel. GAZ-SYSTEM used a possibility to introduce the so-called temporary measures (permissible and transitional derogations from the rules of the Regulation), due to which the tolerance of imbalance was maintained at a level of 5% at least for the nearest gas year, maximum up to 2019. The provisions of the Regulation were adopted in case of the temporary fee for imbalance which, as of 1 October 2015 has been determined based on the system of marginal prices where the purchase price and the sales price are calculated based on transaction data derived from the Interday Market of gas on the TGE.

The overriding goal underlying the introduction of the aforementioned regulation is to accelerate the development of short-term gas fuel wholesale markets and closer integration of the UE gas market through the provision of coherence in transmission system balancing rules within the EU states.

### **Entry into force of the Act on the greenhouse gas emission allowance trading scheme**

On 9 September 2015 the *Act on the greenhouse gas emission allowance trading scheme of 12 June 2015* entered into force. It introduced the provisions of the European Union Directive 2009/29/EC into the Polish law; the objective of the Directive is to improve and extend the European Union Emission Trading System. The Act enables the appropriate operation of the system in Poland in 2013–2020, i.e. during the so-called third stage of the ETS (the first stage covered the period 2005–2007, the second – 2008–2012). The third stage of the ETS stipulates establishing of a single pool of allowances for emission for the entire EU. Until 2020 it should decrease by 1.74% on an annual basis. This should enable CO<sub>2</sub> emission reduction in the EU by 20% by 2020.

The Act stipulates the gradual withdrawal from the free-of-charge allocation of greenhouse gas emission allowances in favour of the auction system. Among others, a possibility to sell greenhouse gas emission allowances through the domestic auction platform is introduced. In the Act, two exceptions from the auction system are envisaged: the “derogations for the energy sector” and the “domestic implementing measures”. The objective of the first derogation is to enable entities operating installations generating electricity to obtain the specific number of free emission allowances. On the other hand, within domestic implementing measures it will be possible to apply for allocation of free emission allowances for production other than electricity production (e.g. cement plants, metallurgy). In both cases, installation operators will have to fulfil specific requirements, e.g. the annual settlement of investment tasks related, inter alia, to the modernisation of the existing energy infrastructure.

### **Amendment to the Act on Energy Law (application of the REMIT Regulation)**

On 30 October 2015 the *Act on the amendment to the Act on Energy Law and certain other acts of 11 September 2015* enter into force, to ensure the application of the *Regulation of the European Parliament and the Council*



no. 1227/2011 of 25 October 2011 on wholesale energy market integrity and transparency (the so-called REMIT Regulation). The main objective of the REMIT Regulation is the monitoring of wholesale markets of energy and gas, detecting manipulation on the market and combating market abuse consisting in inappropriate use of inside information. The solutions introduced will foster elimination of unfair exchange practices from the market and manipulation of wholesale prices of energy products. In particular, the competence of the ERO President was extended and the foundations for cooperation with ERO with other regulatory entities were created in the scope of compliance with the REMIT Regulation requirements. Moreover, the ERO President has been committed to submit information to the Agency for the Cooperation of Energy Regulators concerning the suspected energy market manipulation; it will also be able to impose financial penalties for the infringement of the provisions of REMIT Regulation. The Act also contains the amendments to Article 44 of the *Act on Energy Law*, referring to the methods of drawing up and storage of financial statements of electricity undertakings and aims at reducing the reporting obligations imposed on some electricity undertakings.

### Draft Act on Energy Efficiency

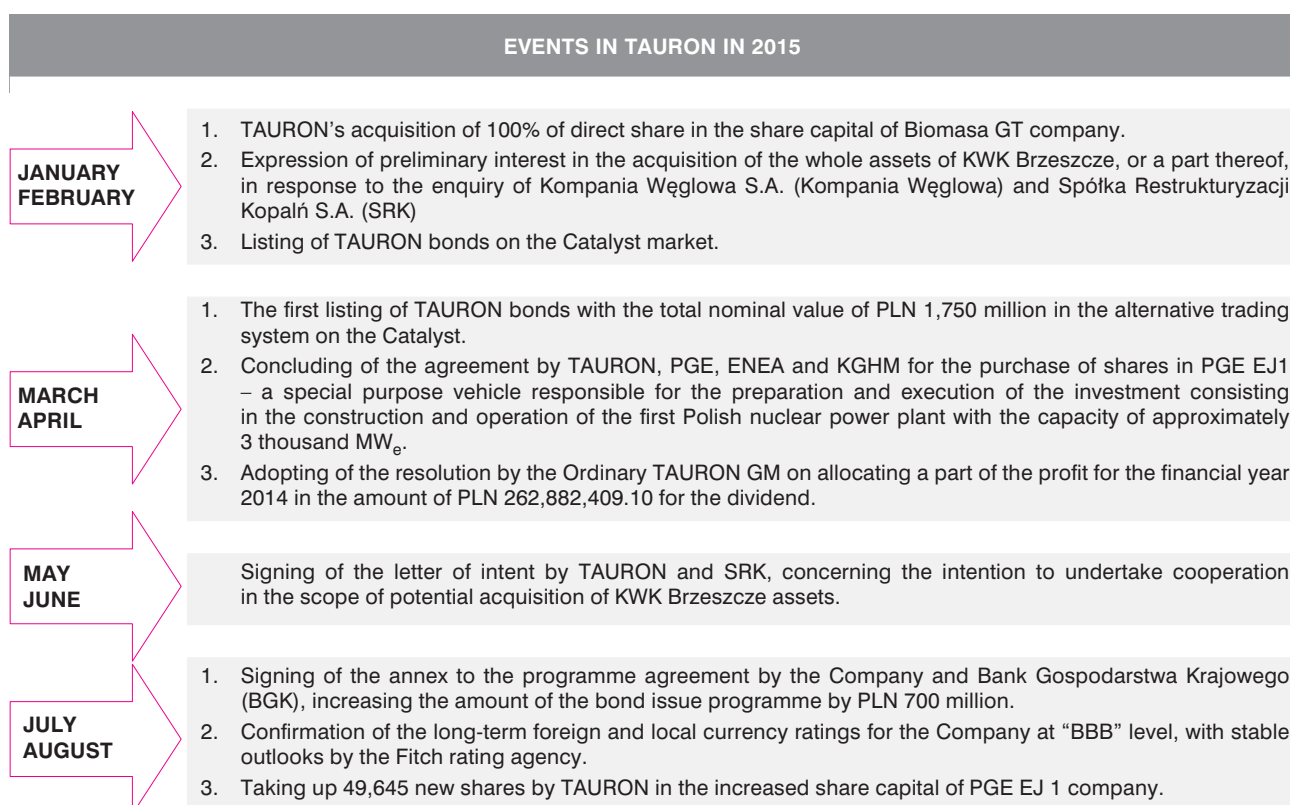
In 2015 works concerning the draft to replace the applicable *Act of 15 April 2011 on energy efficiency* were continued. The aim of the draft is to maintain legal framework for the measures to improve energy efficiency of economy, defined by Directive 2006/32/EC of the European Parliament and the Council of 5 April 2006 *on energy end-use efficiency and energy services* and to create basis in the national legislation for new solutions envisaged in the new Directive 2012/27/EU *on energy efficiency*. The provisions of the new draft envisage measures in areas of increasing energy savings by end users and increasing energy savings in the scope of energy generation, transmission and distribution. Works on the draft are still continued as well as consultations of industry environments concerning individual provisions of the draft.

On 30 December 2015 the President of the Republic of Poland signed the *Act of 29 December 2015 on the amendment to the Act on Energy Efficiency*, aimed at extending the operation of the current support system for the pro-efficiency measures by one year.

### 2.3. Timeline of key events

The following table presents the timeline of selected events associated with the operations of the Company which occurred in 2015.

Figure no. 13 Timeline of key events



SEPTEMBER  
OCTOBER

1. Submission of the bid by R S G special purpose vehicle for the purchase of a part of KWK Brzeszcze assets in the proceedings announced by SRK.
2. Changes in the composition of the TAURON Management Board.
3. Convening of the Extraordinary GM of TAURON with the purpose of increasing the share capital of the Company.
4. Concluding of the preliminary conditional agreement for sales of the designated part of KWK Brzeszcze between the subsidiary, R S G and SRK.
5. Registration of the change in the enterprise name of the special purpose vehicle "R S G sp. z o.o." to "Nowe Brzeszcze Grupa TAURON sp. z o.o."
6. Confirmation of the long-term foreign and local currency ratings for the Company at BBB level, and the change of the outlook from stable to negative by the Fitch rating agency.
7. Granting the main award for *The Best Annual Report* to TAURON, for the best annual report for 2014.

 NOVEMBER  
DECEMBER

1. Signing of agreements between the Company and selected banks concerning the bond issue programme at the total value of PLN 6.27 billion.
2. Issuance of the unconditional approval by the President of UOKiK (Office for Competition and Consumer Protection) for concentration consisting in the purchase of a part of KWK Brzeszcze assets by Nowe Brzeszcze GT.
3. Adopting the *Corporate Strategy for 2016–2018 with an outlook until 2020*.
4. Failure of the Extraordinary SM of TAURON to adopt the resolution concerning adopting of TAURON share capital.
5. Changes in the composition of the TAURON Management Board.
6. Concluding of the agreement by Nowe Brzeszcze GT and SRK for the sales of a part of KWK Brzeszcze assets.

## 2.4. Basic products, goods, services

The table below shows the statement of comprehensive income for the financial year 2015, divided into basic segments of activities, as compared to 2014.

**Table no 4. Statement of comprehensive income for the financial year 2015, divided into segments of activities (data in PLN thousand)**

Specification	Financial year ended 31 December 2015				Financial year ended 31 December 2014 (data converted)			
	Total activities	Sales	Holding activities	Unallocated items	Total activities	Sales	Holding activities	Unallocated items
<b>Revenues</b>								
Revenue on sales outside the Group	2,180,673	2,180,673	–	–	2,767,694	2,767,694	–	–
Revenue on sales in the Group	6,992,357	6,992,357	–	–	5,922,105	5,922,105	–	–
<b>Total revenue of the segment</b>	<b>9,173,030</b>	<b>9,173,030</b>	–	–	<b>8,689,799</b>	<b>8,689,799</b>	–	–
<b>Profit/(loss) of the segment</b>	<b>(27,951)</b>	<b>(27,951)</b>	–	–	<b>139,017</b>	<b>139,017</b>	–	–
Unallocated costs	(96,341)	–	–	(96,341)	(80,365)	–	–	(80,365)
<b>EBIT</b>	<b>(124,292)</b>	<b>(27,951)</b>	–	<b>(96,341)</b>	<b>58,652</b>	<b>139,017</b>	–	<b>(80,365)</b>
Net financial revenues (costs)	(3,326,502)	–	(3,348,322)	21,820	1 113 875	–	1,151,962	(38,087)
<b>Profit/(loss) before tax</b>	<b>(3,450,794)</b>	<b>(27,951)</b>	<b>(3,348,322)</b>	<b>(74,521)</b>	<b>1,172,527</b>	<b>139,017</b>	<b>1,151,962</b>	<b>(118,452)</b>
Income tax	(3,114)	–	–	(3,114)	(26,084)	–	–	(26,084)
<b>Net profit/(loss)</b>	<b>(3,453,908)</b>	<b>(27,951)</b>	<b>(3,348,322)</b>	<b>(77,635)</b>	<b>1,146,443</b>	<b>139,017</b>	<b>1,151,962</b>	<b>(144,536)</b>
<b>EBITDA</b>	<b>(115,781)</b>	<b>(19,440)</b>	–	<b>(96,341)</b>	<b>78,146</b>	<b>158,511</b>	–	<b>(80,365)</b>

Activities of the Company are recognised in two segments: "Sales of electricity and other products of the energy market" and "Holding operations".

The financial revenues and costs cover revenues due to dividend as well as net interest rate revenues and costs gained and incurred by Company due to operation of the central financing model in TAURON Capital Group. In financial costs, impairment write offs on the value of shares and stocks are also recognised.

The unallocated items cover the overhead costs of the Company, as they are incurred for the benefit of the whole TAURON Capital Group, thus, they cannot be directly allocated to the operating segment.

As the parent entity TAURON fulfils the consolidating and governing function in TAURON Capital Group.

As a result of implementation of the business model and centralisation of functions, TAURON concentrated many competences related to the functioning of companies of TAURON Capital Group and it currently carries out operations, among others, in the following areas:

- 1) wholesale trading in electricity and related products, in particular, in the scope of commercial service provided to companies, securing the needs in the area of fuels, CO<sub>2</sub> emission allowances and certificates of energy origin,
- 2) procurement management,
- 3) financial management,
- 4) corporate risk management,
- 5) management of IT model functioning,
- 6) coordination of research and development works carried out in TAURON Capital Group,
- 7) advisory services in the scope of accounting and taxes,
- 8) legal service,
- 9) audit.

The above functions are gradually limited in the companies of TAURON Capital Group. Such centralisation is aimed at improvement of effectiveness in TAURON Capital Group.

The basic operations of the Company, besides managing TAURON Capital Group, include wholesale electricity trading on the territory of the Republic of Poland, based on the concession on electricity trading issued by the ERO President for the period from 1 June 2008 until 31 May 2018.

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. Sales of electricity performed by the Company in the financial year 2015 was mainly addressed to the following companies: TAURON Sprzedaż and TAURON Sprzedaż GZE.

The competence of the Company also includes management of certificates of origin for the needs of the TAURON Capital Group, representing the confirmation of electricity generation in renewable sources, in high-performance co-generation, in gas-fired co-generation, in mining methane-fired or biomass burning co-generation, from sources using agricultural biogas.

The Company also acts as the competence centre in the area of management and trade of CO<sub>2</sub> emission allowances for the companies of the TAURON Capital Group. Due to centralisation of emission trading, the synergy effect was obtained, consisting in optimisation of available resources of the entities included in TAURON Capital Group. Along the centralisation of this function in TAURON, the Company is responsible for settlements of CO<sub>2</sub> emission allowances, securing of emission demand of the subsidiaries, taking into consideration the allowances allocated and the support in the process of acquisition of allowances limits for the following periods. While implementing the aforementioned goals, the Company is the active participant of trade of CO<sub>2</sub> 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. These functions are carried out on the basis of the transmission Agreement of 21 June 2012 concluded with the TSO – PSE. The Company currently holds exclusive generation capacity in the trade and technical scope, it is responsible for optimisation of generation, i.e. selection of generation units for operation as well as relevant distribution of loads in order to execute the contracts concluded, taking into consideration technical conditions of the generation units, network constraints and other factors, in various horizons. Within the services provided to the Generation Area, the Company participates in preparation of repair plans, plans of available capacity as well as production plans for generation units, in various time horizons, as well as in their settlement with the relevant grid operator.

In accordance with the adopted business model, TAURON fulfils governing functions in the scope of production fuel procurement management for the needs of the generating entities included in TAURON Capital Group.

In addition, on 15 January 2014 the company launched commercial activities for the new product – Gasoil Futures contracts, based on the valuation of diesel oil. The product is available on the ICE Futures Europe platform TAURON has been the member of since 2012. Gasoil contracts may be used by market participants both as a hedging instrument and as a commercial tool. TAURON uses trading of Gasoil contracts as a commercial tool in order to accomplish additional margin mass. Gasoil products demonstrate high liquidity and prices of contracts refer to prices for all trade distillates in Europe and outside.

## 2.5. Sales markets and sources of supply

### Wholesale trade

TAURON conducts wholesale electricity and gas trading for the needs of securing the purchase and sales positions of entities from TAURON Capital Group. The Company also deals with *proprietary trading* activities, i.e. trading of electricity, natural gas, CO<sub>2</sub> emission allowances and related products, with the purpose of generating profits on volatility of prices over time. The activity of the Company comprises wholesale markets both in the country and abroad, and it is conducted on the SPOT market and forward market. In Poland, TAURON is an active participant of TGE and OTC platforms conducted by the London energy broker – Tradition Financial Services. On 30 January 2015 TAURON signed the agreement with TGE on the fulfilment of the function of market maker on the Commodity Market. In accordance with the aforementioned agreement TAURON ensures not only the liquidity of products defined in the agreement, through issuance of purchase and sales orders during the session but also animates the market through increasing own transactions implemented on the market. Accordingly, after exceeding of the specific level of market share of TAURON transactions, TAURON acquires benefits in the form of preferential clearing rates. TAURON actively participates in auctions of the cross-border exchange of energy transmission capacity on the Polish-Czech, Polish-German and Polish-Slovakian border, managed by the CAO auction office. Trade in the German market in the scope of trading in financial instruments such as futures, is mainly carried out through EPEX Spot SE and EEX exchanges. On the other hand, in the Czech and Slovakian markets trade is performed through the subsidiary – TAURON Czech Energy s.r.o (TAURON Czech Energy). Moreover, the Company operates on the Prague exchange, PXE a.s., comprising the Czech, Slovakian and Hungarian markets as well as on OTE a.s. (Czech Republic) and OKTE a.s. (Slovakia) exchanges.

TAURON has been successively building its competence in the scope of gas fuel wholesale. The Company is an active participant in the gas market operated by TGE, executes transactions on the SPOT market as well as in products of the forward market. It is involved in proprietary trading activity on an international gas exchange – POWERNEXT Pegas. The volume of OTC transactions concluded by the Company is successively increasing. While operating in the gas market, the Company secures the commodity supplies for entities of TAURON Capital Group; moreover, on the forward market the prop trading activity is carried out, using the volatility of gas prices for generation of additional margins. While developing the scale of operations in the gas market, TAURON is increasing its presence in foreign markets. Agreements concluded by the Company with German transmission system operators: GASCADE Gastransport and ONTRAS Gastransport GmbH, enable the purchase and import of gas from the area of the German gas hub- GASPOOL. The capacity reserved in 2015 on interconnectors between Poland and Germany enabled gas purchase in the German market and import of the commodity to Poland. TAURON is the participant of the European capacity trading platform, PRISMA European Capacity Platform GmbH, where it purchases interconnector capacity. In the scope of capacity booking in the domestic market, the Company operates as the participant of the auction platform, GSA GAZ-SYSTEM Auctions. Through the TAURON Czech Energy company, gas trading in the Czech market is also carried out as well as interconnector gas exchange between Poland and Czech Republic.

The competence of the Company also includes management of certificates of origin for the needs of TAURON Capital Group, constituting the confirmation of generation of electricity in renewable sources, in high-performance co-generation, in gas fuel fired co-generation, in mining methane fired or biomass burning co-generation, from sources using agricultural biogas and certificates of energy effectiveness and guarantees of origin. This activity involves active monitoring of energy production for which property rights are issued and analyses the demand for certificates in companies of TAURON Capital Group. The Company provides operating supervision over purchases of property rights allocated for the fulfilment of the statutory obligation of companies of TAURON Capital Group to redeem those rights and over sales of property rights acquired from production of companies of TAURON Capital Group.

The Company also acts as the competence centre in the area of CO<sub>2</sub> emission allowances for the companies of the TAURON Capital Group and the external customers. The management of CO<sub>2</sub> emission allowances is based on defining the demand for CO<sub>2</sub> emission allowances for facilities from TAURON Capital Group, defining the strategy of commercial activities in the procedure in case of deficit or surplus of allowances, implementation of EUA exchange to CER/ERU and active management of free allowances pool, in order to generate additional benefits. While fulfilling the role of administrator of facilities in TAURON Capital Group, the Company is also responsible for CO<sub>2</sub> emission settlements of individual facilities through the redemption of allowances in the European Register of Allowances. In the framework of the aforementioned activities, TAURON concludes sales agreements on behalf of TAURON Capital Group companies and administers the account in the European Register of Allowances. On behalf of TAURON Capital Group, TAURON actively participates in consultations of legal acts on the national and European level, as well as supports companies of the Generation Area in the process of acquiring free allowances for the third settlement period and in the process of acquiring units from projects reducing CO<sub>2</sub> emission. While implementing the above goals in the area of CO<sub>2</sub> emission allowances trading, the Company actively participates in trading on the European Climate Exchange (the ICE), the EEX exchange in Leipzig and the OTC market.

Within the extension of its activity by new markets and products offered by ICE Futures Europe platform, in 2014 TAURON extended its operations by Gasoil Futures contracts based on diesel oil valuation. Prices of Gasoil contracts represent a benchmark for prices of all distillates trades in Europe and outside Europe. In 2015, trade in consecutive products of crude oil market was commenced – Brent Crude, WTI Crude, whose valuation is associated with oil prices, and Heating Oil – a product measured based on heating oil quotations. Within the aforementioned products, trade concentrates not only on trading in individual contracts (outright) but mainly on trading in spreads created both between specific products and calendar spreads, corresponding to terms of settlement of individual contracts. The new markets and products introduced by TAURON demonstrate high liquidity since they are used by market participants not only as a hedging instrument, but also as an effective trading tool allowing for accomplishment of an additional margin mass.

### Electricity

Within the framework of trading in electricity, in 2015 the Company did not conduct direct sales of electricity to strategic clients. Within retail sales the Company provided service to one client, as a continuation of the tender won.

The table below shows the volume of electricity sales by TAURON.

**Table no 5. Volume of electricity sales**

No.	Specification	Unit	2015	2014	2013	Dynamics (2015/2014)
1.	Total electricity sales, including:	TWh	<b>49.5</b>	47.1	50.9	105%
2.	Wholesale	TWh	<b>46.3</b>	36.6	37.6	126%
3.	Retail sales, including:	TWh	<b>1.7</b>	9.0	11.6	19%
4.	Sales on the balancing market	TWh	<b>1.5</b>	1.5	1.7	103%

### Fuels

With the purpose of implementing the tasks in the scope of fuel trading (biomass, coal and gas), in 2015 the Company continued fuel supplies for TAURON Wytwarzanie and TAURON Ciepło. As of 1 September 2015 the overall process associated with the purchase and sales of biomass was taken over by Biomasa GT company.

In 2015, about 42% of the current demand of TAURON Capital Group for fuel required for generation of electricity and heat was satisfied by hard coal coming from own coal mines. The remaining part of the demand was covered from external sources, where Kompania Węglowa had the highest share (about 37.4% of the demand).

### Fuel purchases – coal

In 2015 the Company continued coal purchases for the needs of: TAURON Wytwarzanie, TAURON Ciepło and TAMEH POLSKA, under agreements concluded with:

1. TAURON Wydobycie S.A. (TAURON Wydobycie),
2. Kompania Węglowa,
3. Jastrzębska Spółka Węglowa S.A.,
4. Katowicki Holding Węglowy S.A.,
5. KWK Brzeszcze, SRK,
6. HALDEX S.A.,
7. PPUH B.B. - Pol sp. z o.o.,
8. KWK Kazimierz - Juliusz Sp. z o.o.,

The table below presents the quantity of coal purchased in 2015.

**Table no 6. Quantity of coal purchased in 2015**

No.	Type of Supplier	Unit	Coal quantity	Share (%)
1.	Suppliers outside TAURON Capital Group	Mg	4,981,241	58.3%
2.	Supplier from TAURON Capital Group	Mg	3,563,680	41.7%
<b>Total</b>		<b>Mg</b>	<b>8,544,921</b>	<b>100.0%</b>

**Fuel purchases – biomass**

In order to provide the supply of fuel for the needs of electricity and heat generation by units using biomass as a fuel in the technological process, the Company sourced biomass under the multi-annual and annual agreements and the general agreement concluded with Biomasa GT company for the purchase of biomass from national producers and suppliers. The said agreements effective until 31 August 2015 comprised the purchase of biomass for the co-burning process and for the needs of dedicated units 100% supplied with biomass. As of 1 September 2015 the overall process associated with the purchase and sales of biomass was taken over by Biomasa GT company.

In the period from 1 January to 31 August 2015 TAURON purchased the following quantities of biomass:

- 1) for the co-burning process – 75.2 thousand tonnes; agro biomass constituted the whole quantity,
- 2) for the needs of dedicated RES boilers – 501.8 thousand tonnes, including approximately 108 thousand tonnes of agro biomass, the and remaining 393.8 thousand tonnes – wood biomass.

In the period from 1 January to 31 August 2015, the Company conducted resale of biomass purchased pursuant to the aforementioned agreements to TAURON Wytwarzanie and TAURON Ciepło under separate agreements on biomass sales for the co-burning process and to the dedicated RES units.

**Fuel purchases – Gas**

In 2015 TAURON started high-methane gas purchases to TAURON Wytwarzanie (to Elektrownia Stalowa Wola) and TAURON Ciepło (Zespół Elektrociepłowni Bielsko-Biała EC1) through TAURON Sprzedaż company. The gas supplied was purchased under the complex agreement on gas fuel supply and the Memorandum of Understanding concluded with Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG). In addition, some part of gas came from purchases on TGE. The said gas was purchased by TAURON from ArcelorMittal Poland, Zdzieszowice Branch, under the multiannual agreement for the supply of coke-oven gas. The transmission of the coke-oven gas was conducted within the agreement for provision of transmission services of the coke-oven gas concluded with Polska Spółka Gazownictwa sp. z o.o. Oddział w Zabrze, Zakład w Opolu Zabrze Branch, Plant in Opole.

Sales of the coke-oven gas and the high-methane gas was performed on the basis of the 2nd Tariff for gas fuels and the comprehensive agreements for the supply of the coke-oven gas and the high-methane gas concluded with TAURON Wytwarzanie.

In connection with the separation of Blachownia Power Plant from TAURON Wytwarzanie to TAMEH POLSKA, as of 10 December 2014 supplies of coke-oven gas to Blachownia Power Plant were performed directly by ArcelorMittal.

The table below presents the level of fuel supplies delivered by TAURON in 2015 to entities of TAURON Capital Group.

**Table no 7. Fuel supplies executed by TAURON to entities of TAURON Capital Group**

No.	Fuel type	Unit	TAURON Wytwarzanie	TAURON Ciepło	TAURON Sprzedaż	TAMEH POLSKA
1.	Coal	thous. Mg	6,896	944		14
2.	Biomass	thous. Mg	676	347		
3.	Coke-oven gas	thous. m <sup>3</sup>	366,539			
4.	Natural gas	thous. m <sup>3</sup>	1,356	682	1,003	

**2.6. Material events and achievements of the Company with significant impact on its operations**

The most important events with significant impact on operations of the Company, which occurred in the financial year 2015, as well as those that occurred until the day of this report, included:

## **Important corporate events in 2015**

### ***Payment of Dividend***

On 16 March 2015 the Management Board of the Company made the decision concerning the recommendation to the Company Ordinary GM concerning the level of dividend to be paid to the Company shareholders in the amount of PLN 262,882,409.10, from the net profit gained in 2014, which means the amount of PLN 0.15 per share. At the same time, the Management Board indicated that the recommendation shall be subject to assessment by the Company Supervisory Board. Simultaneously, the Management Board decided to submit the recommendation to the Company Ordinary GM determining:

- 1) 22 July 2015 as the dividend record day,
- 2) 12 August 2015 as the dividend payment day.

The recommendation of the Management Board regarding the amount of dividend to be paid to Company shareholders was prepared after taking into account the current TAURON Capital Group development plan comprising the implementation of the adopted investment programme requiring significant financial resources exceeding the current cash flows from TAURON Group operating activities. The funds to remain in the Company will be used in total for the implementation of investments, at the same time, reducing the demand for further financing and limiting the growth of debt ratio level.

On 23 March 2015 the Supervisory Board positively evaluated the aforementioned recommendation of the Management Board concerning the dividend.

On 23 April 2015 the Ordinary GM of the Company adopted the resolution on profit distribution for the financial year 2014, determining the amount allocated for payment of the dividend to shareholders as well as the dividend record day and the dividend payment day.

In accordance with the aforementioned resolution, the Ordinary GM allocated the amount PLN 262,882,409.10 for the payment of the dividend for shareholders from net profit for the financial year 2014, which means that the amount of the dividend per share is PLN 0.15. Simultaneously, the Ordinary GM determined the dividend record day for 22 July 2015 (dividend record day) and the date of the dividend payment for 12 August 2015 (dividend payment day).

The Company informed of the aforementioned events in current reports no. 6/2015 of 16 March 2015, no. 8/2015 of 23 March 2015, no. 9/2015-10/2015 of 26 March 2015, no. 13/2015 of 23 April 2015 and 14/2015 of 24 April 2015.

### ***Changes in the Management Board composition***

Changes in the personal composition of the Management Board performed in 2015 and until the day of drawing up of this report are described in subsection 6.11.1. hereof.

The Company informed of the changes in the personal composition of the Management Board in current reports no. 27/2015 of 01 October 2015, no. 32/2015 of 10 October 2015, no. 9/201557/2015 of 08 December 2015, no. 2/2016 of 08 January 2016 and 5/2016 of 29 January 2016.

### ***Changes in the Supervisory Board composition***

Changes in the personal composition of the Supervisory Board performed in 2015 are described in subsection 6.11.2. hereof.

The Company informed of the changes in the personal composition of the Supervisory Board in current reports no. 20/2015 and 21/2015 of 7 August 2015, no. 22/2015 and 23/2015 of 12 August 2015, no. 30/2015 of 6 October 2015, no. 51/2015 and 52/2015 of 3 December 2015 and 55/2015 of 8 December 2015.

### ***Convening of the Extraordinary General Meeting (GM) of TAURON concerning the increase in the share capital and extending of the composition of the Supervisory Board***

On 13 October 2015, the Management Board of TAURON, acting pursuant to Article 398, Article 399 § 1 and Article 402<sup>1</sup> of the Code of Commercial Companies (CCC) and § 30 item 1 of the Company Articles of Association, convened the Extraordinary GM of the Company for 9 November 2015.

The agenda of the Extraordinary GM comprised, inter alia, the adoption of the resolution concerning the increase in the share capital of the Company by way of the issuance of non-voting preferred C series shares, the exclusion of all the existing shareholder's pre-emptive rights to all of the C series shares, and the amendment of the Company Articles of Association.

In accordance with the provisions of the draft resolution on the increase of the share capital of the Company by way of the issuance of non-voting preferred C series [...] the share capital of the Company is to be increased by the amount of PLN 400 million, through the issuance of 80 million of new C series shares with a nominal value of PLN 5.00 each, which will be registered non-voting shares (with voting rights excluded) preferred in terms of

the dividend. The issuance of C series shares was to take place in the form of private placement with the meaning of Article 431 §2.1 of the CCC by way of the Company making an offer to one of the shareholders, the State Treasury, to subscribe for the C Series Shares and the State Treasury accepting the offer to subscribe for the C Series Shares. The State Treasury will cover the increased share capital of the Company by way of a non-cash contribution comprising shares of a company publicly traded on the regulated market operated by the Warsaw Stock Exchange (GPW).

In the documentation for the GM, the rationale of the intended transaction was presented, including the justification of the increase in the share capital which was also published in the current report no. 34/2015 of 13 October 2015.

Moreover, in the agenda of the GM the adoption of the resolution concerning determining of the number of members of the Supervisory Board was envisaged as well as the supplementary elections to the Supervisory Board of the Company.

On 22 October 2015 the Management Board of TAURON received a letter from the Ministry of State Treasury saying that on 20 October 2015 the Council of Ministers had accepted the motion of the Minister of State Treasury requesting the Council of Ministers to approve the disposal, under the procedure other than defined in Article 33 item 1 of the *Act of 30 August 1996 on commercialisation and privatisation*, by making an in-kind contribution to TAURON of some shares held by the State Treasury in PKO BP S.A. (PKO BP) constituting up to 1.01% of the share capital, in exchange for taking up shares in the increased share capital of TAURON.

The Company informed of the aforementioned events in current reports: no. 34/2015 of 13 October 2015 and no. 40/2015 of 22 October 2015. The text of draft resolutions of the Extraordinary GM was provided with the current report no. 35/2015 of 13 October 2015. The Company informed of the intended amendments to the Articles of Association in the current report no. 36/2015 of 13 October 2015.

#### ***Failure of the Extraordinary GM of TAURON to adopt the resolution concerning adopting of TAURON share capital***

The Extraordinary GM of the Company, convened on 9 November 2015 and continued on 23 November 2015, after two ordered adjournments of the meeting (until 23 November 2015 and until 8 December 2015), did not adopt the resolution concerning the increase in the share capital of the Company by means of issue of non-voting registered preferential C series shares, divesting the existing shareholders of the overall preemptive rights to C series shares and amendment to the Company Articles of Association. During the GM, none of the shareholders raised any objection to the minutes of the GM.

The Company informed of the aforementioned events in the current reports no. 43/2015 and 44/2015 of 9 November 2015, no. 46/2015 and 47/2015 of 23 November 2015 and no. 53/2015 and 54/2015 of 8 December 2015.

### **Important business events in 2015**

#### ***Purchase of a part of KWK Brzeszcze assets***

On 16 January 2015, in response to the enquiry of Kompania Węglowa and SRK regarding the potential purchase from SRK of all or part of mining assets belonging at that time to Kompania Węglowa, the Management Board of TAURON expressed initial interest in the acquisition of all or part of KWK Brzeszcze assets. It was stressed that the final decision regarding the purchase of all or a part of KWK Brzeszcze mining assets would be made following a detailed analysis, including economic and technical analyses, confirming the possibility of economically viable coal mining.

In March 2015, the team of technical and economic advisers appointed to perform the analysis of the KWK Brzeszcze assets, based on the conducted first stage of analyses, recommended the path for the purchase of those assets, in accordance with the variant assuming their takeover from SRK. The Management Board of TAURON approved the direction of this recommendation.

Until mid-May the works under the second stage of the comprehensive analysis of technical, geological, legal and economic-business aspects were continued. Within the framework of the team's work, the opportunities of potential cooperation with the financial or infrastructural partner were also analysed, including the terms of such cooperation supported by the conducted market research. Moreover, the analysis also focused on the structure of the transaction based on the special purpose vehicle (SPV), assuming the lack of consolidation of assets purchased and, at the same time, the elimination of risk associated with the potential deterioration of financial indicators of TAURON Capital Group, in particular, the net debt to EBIDTA ratio.

On 15 May 2015 TAURON and SRK signed the Letter of Intent concerning the intention of the Parties to start cooperation in the scope of possible purchase of KWK Brzeszcze mine assets.

In accordance with the provisions of the Letter of Intent, the Parties expressed their intention to start works aimed at defining the assets of KWK Brzeszcze that would be the subject of possible purchase by TAURON, followed by possible legal and actual steps the purpose of which would be to prepare and execute the transaction of assets purchase. It should be emphasised that TAURON was interested in purchasing of only those assets that could be used as a basis for the development of a new mining plant capable of running profitable and effective business



in the scope of hard coal and methane extraction from deposits. The Parties declared also that they would start close cooperation on operation of KWK Brzeszcze in the transitional period, i.e. after the transfer of the mine to SRK and before potential purchase of KWK Brzeszcze assets by TAURON.

The prerequisite for TAURON to purchase the KWK Brzeszcze assets was the restructuring of the coal mine by SRK.

The Letter of Intent was signed for a definite period until 31 December 2015 with a possibility of its extension.

On 4 August 2015 the Management Board of TAURON, based on the results of the analyses conducted and the recommendations of the Company advisers, expressed its consent to submit an offer to purchase a part of assets of KWK Brzeszcze belonging to SRK, under a public procurement procedure and the following boundary conditions:

1. due to the risk of potentially having to return prohibited public aid, the offer will be submitted only if the assets are sold by SRK under a public procurement procedure,
2. the purchase price will be a "token sum" of PLN 1,
3. due to the necessity to recognise the assets purchase transaction by the Company as the off-balance sheet transaction, the offer to purchase the assets will be submitted by a Special Purpose Vehicle (SPV) to be established by Partners, including Małopolska Agencja Rozwoju Regionalnego S.A. (MARR),
4. the offer will be submitted provided that the Partners sign the Agreement defining the boundary terms and conditions of joint investment prior to the offer submission and then, before the day of concluding the final asset purchase agreement by the SPV, the partners to the SPV sign an agreement defining, in particular, their mutual obligations,
5. due to the business risk related to operation of the assets and the necessity to ensure profitability of this investment, before signing the final purchase agreement by the SPV, SRK should implement the asset restructuring programme, comprising, in particular:
  - 1) reducing the number of permanent employees to 828 FTEs,
  - 2) employing up to 715 outsourced employees,
  - 3) change of the existing remuneration system to a performance-related remuneration system (approx. PLN 5,000 of fixed remuneration plus variable remuneration depending on financial results),
  - 4) bearing the previously planned – due to the division of assets – required expenditure on the ventilation system.

The basis for filing the offer for the purchase of a part of assets are the opinions and reports prepared by the Company advisers defining the aforementioned underlying requirements for project viability as well as determining the level of capital expenditure for 2016–2018 at a level of PLN 253 million and assuming the target annual output of approximately 1.5 million Mg starting from 2017.

The Company informed of its preliminary interest in the purchase of assets of KWK Brzeszcze in the current report no. 2/2015 of 16 January 2015. The Company informed of the letter of intent with the SRK in the current report no. 16/2015 of 15 May 2015, whereas the issue of defining boundary conditions were communicated by the Company in the current report no. 19/2015 of 4 August 2015.

On 10 September 2015, in connection with the procurement procedure for the sale of a part of KWK Brzeszcze assets announced by SRK and the agreement concluded with MARR and Zespół Elektrowni Wodnych Niedzica S.A. (ZEW Niedzica) concerning defining of the basic boundary conditions of the joint investment, a bid was submitted for purchase of the assets under the public procurement procedure announced by SRK.

The bid was submitted by a special purpose vehicle – R S G sp. z o.o. whose sole partner, at that moment, was TAURON. According to the signed agreement, MARR and ZEW Niedzica undertook to take up shares in R S G so that the shareholding structure in R S G would be as follows: TAURON – 40%, ZEW Niedzica – 40% and MARR – 20% and the share capital of R S G would reach up to PLN 150 million.

The Company informed of submission of the bid in the current report no. 24/2015 of 10 September 2015.

On 24 September 2015, in reference to the agreement signed by TAURON, MARR and ZEW Niedzica an annex was concluded in which the parties agreed that the consecutive partner – FTF Columbus S.A. ("FTF Columbus") may join the R S G company. As a consequence, a new agreement (term sheet) was concluded between TAURON, MARR, ZEW Niedzica and FTF Columbus concerning defining of the basic terms and conditions for the purchase of a part of assets of KWK Brzeszcze from SRK and the joint conducting of economic activity by the special purpose vehicle.

In accordance with the signed Agreement, the parties undertook to increase the share capital of R S G to total amount of PLN 210 million and to take up shares in the increased share capital of R S G, so that the target shareholding structure in R S G would be as follows: TAURON – shares with the total nominal value of PLN 60 million, ZEW Niedzica – shares with the total nominal value of PLN 60 million, FTF Columbus – shares with the total nominal value of PLN 60 million and MARR – shares with the total nominal value of PLN 30 million.

The Company informed of the aforementioned event in the current reports: no. 25/2015 of 24 September 2015 and no. 25/2015/K of 25 September 2015.

Under the ongoing public procurement procedure, negotiation meetings were held in SRK in September, mainly aimed at presenting the positions of the Parties concerning individual issues being subject to the procedure and defining the wording of the preliminary conditional sales agreement. The settlement of the bidder's selection tentatively scheduled on 21 September 2015 was postponed by SRK to 30 September 2015.

In accordance with the communication of SRK, on 30 September 2015 negotiations between SRK and R S G concerning the agreement for sales of KWK Brzeszcze were suspended for an unlimited period, due to the failure to agree on the wording of the preliminary conditional agreement between SRK and R S G, related to the sales of the designated part of the mining plant in Brzeszcze.

On 2 October 2015, the Management Board of TAURON, having taken into account the progress of works associated with the executed project aimed at purchasing of the selected part of Brzeszcze mining plant from SRK, declared the willingness to continue negotiations with the purpose of purchasing the abovementioned assets.

The Company informed of the aforementioned event in the current report no. 28/2015 of 2 October 2015.

On 8 October 2015 the following agreements were signed: on termination of the agreement between TAURON and MARR and ZEW Niedzica on defining the basic terms and conditions for the purchase of some KWK Brzeszcze assets from SRK, referred to in the current report no. 24/2015, and the agreement (term sheet) between the TAURON, MARR, ZEW Niedzica and FTF Columbus S.A. on defining the basic terms and conditions for the purchase of some KWK Brzeszcze assets from SRK and the joint conducting of economic activity by the special purpose vehicle, referred to in current report No. 25/2015.

The parties to the agreements decided to resign from further joint execution of the project concerning the purchase of the aforementioned assets and unanimously agreed that the termination of the agreements does not generate and will not generate in the future, any claims of any of the parties against other parties.

At the same time, TAURON informed that the R S G special purpose vehicle whose sole partner was TAURON, would participate in the negotiation process aimed at purchasing of some of the KWK Brzeszcze assets.

The Company informed of the termination of the agreements in the current report no. 31/2015 of 8 October 2015.

As a result of the resumed negotiations held under the public procurement procedure for the sales of the designated part of the Brzeszcze mining plant announced by SRK, on 15 October the wording of the preliminary conditional agreement for the sales of assets was agreed.

The parties to the preliminary conditional sales agreement included: SRK, as the Seller and R S G sp. As the Buyer. The subject of the preliminary conditional sales agreement comprised the obligations of the Parties to conclude the final agreement for sales of the designated part of the Brzeszcze mining plant as an organised part of an enterprise. The purchase price of the Subject of Sale amounted to PLN 1.

The draft of the preliminary conditional sale agreement agreed by the Parties contained the following conditions precedent for concluding the Final Agreement that must be fulfilled jointly by 24 December 2015:

1. Submission by SRK of the approval of the SRK GM, at which the rights to vote under all shares are exercised by the Minister of State Treasury, as an attachment to the Final Agreement,
2. Submission by R S G, as attachments to the Final Agreement:
  - 1) approvals of the relevant bodies of R S G pursuant to the provisions of the CCC and the articles of association of R S G as well as approvals of the relevant bodies of TAURON,
  - 2) clearance of the President of UOKiK for concentration consisting in the purchase of the Subject of Sales by R S G,
  - 3) the decision of the Minister of Environment to assign to R S G, as of the date of purchase of the Subject of Sales, the concession for extraction of coal and methane as accompanying fossil from the "Brzeszcze" deposit, and other related decisions.

The Parties also agreed that regardless of the above mentioned conditions, signing of the Final Agreement will take place under the condition precedent stating that Kompania Węglowa should reduce the amount of coal (approximately 600 thousand Mg) stored in coal bings on the premises belonging to the designated part of the Brzeszcze coal mine, by at least 100 thousand Mg by the day preceding the day of concluding of the Final Agreement, but not later than within 45 days following the day of signing the preliminary conditional sales agreement (whichever falls earlier) and the submission by Kompania Węglowa to R S G of a schedule of complete removal of coal from the bing within 6 months following the day of signing of the Final Agreement. The conditions precedent have been reserved in favour of the Buyer.

The Parties agreed that the Promised Agreement will be concluded by 31 December 2015.

Moreover, some of the boundary terms and conditions defined in the current report no. 19/2015 were waived. The preliminary conditional sales agreement did not define the number of employees or the remuneration of employees of the purchased organised part of an enterprise. The transfer of employees to the new employer was to take place pursuant to Article 23(1) of the Labour Code.

The Parties agreed that in view of the need for the correct and uninterrupted conducting activity by the Parties, they would define, at the latest by the date of signing the Final Agreement, in a separate agreement, the terms and conditions of cooperation between the Parties following the purchase of the Subject of Sales by R S G, in particular, the terms and conditions of mutual services pertaining to the ventilation of the Brzeszcze mining plant. The agreement will be in force until 31 December 2018.

The Company informed of the arrangements concerning the wording of the preliminary agreement in the current report no. 37/2015 of 15 October 2015.

On 19 October 2015 R S G and SRK concluded the preliminary conditional agreement for the sales of the designated part of the Brzeszcze coal mine.

The subject of the agreement are the obligations of the parties to conclude the agreement for the sales of the designated part of the Brzeszcze mining plant as an organised part of an enterprise, which comprises tangible and intangible assets used for extraction, production and sales of hard coal and methane; its major terms and conditions were presented in the current report no. 37/2015.

Moreover, on 19 October 2015 an agreement was concluded between R S G and trade unions operating at KWK Brzeszcze, under which R S G undertook to continue the economic activity conducted at the mine so far, maintaining the economic result. The transfer of the part of KWK Brzeszcze staff, i.e. approximately 1,500 employees, to the new employer will take place under Article 23<sup>1</sup> of the Labour Code. The Parties to the Agreement undertook to sign a new Corporate Collective Labour Agreement implementing an incentive employee remuneration system with payments depending on the results achieved by the company and task performance.

The Company informed of the aforementioned events in the current report no. 38/2015 of 19 October 2015.

On 1 December 2015 TAURON received the decision of the President of UOKiK of 27 November 2015, granting the unconditional approval for concentration consisting in the purchase by Nowe Brzeszcze GT, i.e. the 100% subsidiary of TAURON, previously acting under the enterprise name "R S G sp. z o.o.", of a part of assets of SRK in the form of a designated part of the mining plant in Brzeszcze, in accordance with the motion of Nowe Brzeszcze GT.

Moreover, the corporate approvals were also obtained, i.e. the approval of the SRK GM and the approvals of the relevant bodies of Nowe Brzeszcze GT and TAURON, required to conclude the final agreement for the sales of a designated part of the mining plant in Brzeszcze, as an organised part of the enterprise.

The condition precedent concerning the reduction of quantities of hard coal stored in coal bings on the premises belonging to the designated part of the Brzeszcze mining plant by Kompania Węglowa, was partly fulfilled, which did not jeopardise concluding of the final agreement. The aforementioned condition was reserved in favour of Nowe Brzeszcze GT.

Nowe Brzeszcze GT undertook measures aimed at obtaining the decision of the Minister of Environment concerning the assignment of concession for extraction of hard coal and methane as an accompanying product from the "Brzeszcze" deposit in favour of Nowe Brzeszcze GT, and other related decisions.

The Company informed of the aforementioned events in the current report no. 50/2015 of 01 December 2015.

On 17 December 2015 Nowe Brzeszcze GT company obtained the decision of the Minister of Environment concerning the assignment to its benefit, as of 31 December 2015, of Concession No. 12/2004 dated 23 September 2004 granted to Kompania Węglowa, later transferred to SRK, for the extraction of hard coal and methane as an accompanying product from the "Brzeszcze" deposit located in the town and municipality of Brzeszcze and the municipality of Oświęcim in the Małopolskie Province and the municipality of Miedźna in the Silesian Province.

The Company informed of the aforementioned event in the current report no. 60/2015 of 17 December 2015.

On 31 December 2015, Nowe Brzeszcze GT company and SRK concluded the agreement for the sales of a designated part of the Brzeszcze Mining Plant, as an organised part of an enterprise.

The sales agreement was concluded under the execution of the preliminary agreement of 19 October 2015 and pursuant to Article 8a item 4 of the *Act of 7 September 2007 on the functioning of hard coal mining industry*. The subject of the Sales Agreement was the purchase by Nowe Brzeszcze GT of a designated part of the Brzeszcze Mining Plant, as an organised part of an enterprise, including tangible and intangible assets used for mining, production and sales of hard coal and methane (subject of sales) for the price of PLN 1 (say PLN one). The parties agreed that the Subject of Sales will be handed over to Nowe Brzeszcze GT on 1 January 2016.

Due to the necessity to provide for smooth and uninterrupted conducting of the operations, the parties to the agreement defined, in separate agreements, the terms and conditions of mutual cooperation after the purchase of the designated part of the Brzeszcze Mining Plant by Nowe Brzeszcze GT, including, inter alia: the terms and conditions of providing mutual services in the scope of ventilation in the Brzeszcze Mining Plant, exchange of information as well as cooperation and mutual settlements in matters concerning claims and liabilities related to the designated part of the Brzeszcze Mining Plant, handing over the payroll and accounting services and other matters.

Due to the fact that the purchase of the designated part of the Brzeszcze Mining Plant is associated with the requirement to return public aid granted to SRK to cover current production losses at KWK Brzeszcze branch, Nowe Brzeszcze GT, to continue the operations conducted based on assets included in the subject of sale, would return the public aid in the amount determined in the final settlement of the public aid between SRK and the authority granting the aid, in any case, not higher than PLN 145,327,497 including any outstanding interest.

Nowe Brzeszcze GT will take over, under Article 23<sup>1</sup> of the Labour Code, as a party to the existing employment relations, 1501 employees involved in the functioning of the designated part of the Brzeszcze Mining Plant, who are a part of the Brzeszcze KWK staff.

Nowe Brzeszcze GT intends to continue the former operations conducted under the organised part of the enterprise.

The Company informed of the sales agreement in the current report no. 63/2015 of 31 December 2015.

#### **Information provided to shareholder under Article 428 § 6 of the Code of Commercial Companies**

On 30 October 2015, in response to questions asked by a shareholder of the Company outside the general meeting, pursuant to Article 428 § 6 of the CCC, the Management Board of TAURON presented the summary and provided more detailed information concerning the purchase of a part of KWK Brzeszcze assets.

The content of shareholders' questions and the response provided by the Company are presented in the current report no. 42/2015 of 30 October 2015.

#### **Listing of TAURON bonds on the Catalyst market**

On 18 February 2015 the Management Board of BondSpot S.A. adopted the resolution concerning the decision on listing 17,500 TPEA1119 series TAURON bearer bonds with the total nominal value of PLN 1,750,000 thousand and the unit nominal value of PLN 100 thousand, in the alternative trading system on Catalyst market. The resolution came into force as of the day of its adoption.

On 10 March 2015 the Management Board of BondSpot S.A., pursuant to resolution no. 43/15 decided to set 12 March 2015 as the first day of listing of 17,500 TAURON bearer bonds, TPEA1119 series, with the total nominal value of PLN 1,750,000,000 in the Catalyst alternative trading system. The bonds were assigned with code PLTAURN00037 by the Central Securities Depository of Poland (KDPW). The following details were also defined for the said bonds:

- 1) last day of listing – 22 October 2019,
- 2) trading unit – 1 bond,
- 3) obligatory unit – 1 bond
- 4) symbol – TPE1119.

The Company informed of the aforementioned events in current reports: no. 4/2015 of 18 February 2015 and no. 5/2015 of 10 March 2015.

#### **Exceeding of the 10% equity threshold in trade turnover between companies of TAURON Capital Group and companies of PSE Group**

On 10 April 2015, the Company received from PSE documents concerning the mutual provision of services to companies of TAURON Capital Group, enabling the settlement with PSE Group companies, with reference to the current reports: no. 1/2012 of 5 January 2012, no. 37/2012 of 7 November 2012, no. 42/2013 of 15 October 2013 and no. 30/2014 of 8 July 2014, regarding trade turnover between companies of TAURON Capital Group and PSE. In accordance with the aforementioned documents, as of 8 July 2014, i.e. as of the day of submission of the current report no. 30/2014, the net trade turnover generated between companies of TAURON Capital Group and companies of PSE Group amounted to approximately PLN 2,025 million (including approximately PLN 1,272 million of cost items for TAURON Capital Group companies, and about PLN 753 million of revenue items), accordingly, the value of turnover exceeded 10% of the Company equity.

The turnover of the highest value, i.e. approximately PLN 1,170 million net, was generated under the agreement of 16 December 2013, concluded between TAURON Dystrybucja and PSE. The subject of the aforementioned agreement, concluded for an indefinite period of time, is the provision of transmission services by PSE, understood as the transport of electricity via the transmission grid. Its estimated value over a period of 5 years following its conclusion, is about PLN 7,478 million. The services are cleared in accordance with the rules and rates approved by the President of the ERO, defined in the tariff, and taking into account the provisions of the Instruction for Transmission System Operation and Maintenance. The above mentioned agreement does not stipulate any liquidated damages and it does not contain any conditions precedent or terminating conditions.

The Company informed of the aforementioned event in the current report no.11/2015 of 10 April 2015.

#### **Signed agreement for the purchase of shares in PGE EJ 1**

In reference to the Shareholders' Agreement signed on 3 September 2014 as a part of nuclear power plant preparation and construction project, and the consent to concentrate business granted on 7 October 2014 by the President of the Office for Competition and Consumer Protection (OCCP), on 15 April 2015, TAURON and PGE, KGHM and ENEA signed the agreement for the purchase of shares in PGE EJ 1 – a special purpose vehicle responsible for the preparation and execution of the investment covering the construction and operation of the first Polish nuclear power plant with the capacity of approximately 3,000 MW<sub>e</sub>. TAURON, KGHM and ENEA purchased from PGE 10% of shares each in the special purpose vehicle PGE EJ 1, i.e. 30% of shares in total. TAURON paid the amount of PLN 16 million for the shares purchased.

Detailed information on the aforementioned event is included in subsection 1.3.4 hereof.

The Company informed of the aforementioned events in current reports: no. 12/2015 of 15 April 2015, no. 38/2014 of 3 September 2014 and no. 39/2014 of 9 October 2014.

#### **Fitch affirms TAURON ratings**

On 16 July 2015 Fitch rating agency affirmed the following ratings of the Company:

- 1) international long-term local and foreign currency rating at "BBB" with stable outlook,
- 2) international short-term local and foreign currency rating at "F3",
- 3) national long-term rating at "A (pol)" with stable outlook,
- 4) national unsecured and unsubordinated debt rating at "A (pol)".

Affirmed ratings reflect high share of regulated distribution segment in the EBITDA result of TAURON Capital Group (approximately 60%), which translates into higher predictability of cash flows and helps stabilise cash flows in the unfavourable period for the generation segment. According to Fitch the ratings take into account the balance of risk related to the stable distribution segment and generation segment operating in difficult environment.

On 27 October 2015 Fitch rating agency affirmed the following long-term ratings for TAURON Polska Energia S.A. company at "BBB" and revised the outlook of those ratings from stable to negative:

- 1) long-term foreign and local currency rating at "BBB"; outlook revised from stable to negative,
- 2) short-term foreign and local currency rating at "F3",
- 3) national long-term rating at "A (pol)" outlook revised from stable to negative,
- 4) national unsecured and unsubordinated debt rating at "A (pol)".

According to Fitch, the revision of the outlook reflects expected lower revenue of the TAURON Group from distribution operations starting from 2016 (EBITDA lower by PLN 240 million in 2016 following WACC reduction by the regulator) and the planned acquisition of part of the assets of KWK Brzeszcze. The negative impact of these developments is partly mitigated by an increase of share capital proposed by the State Treasury. The Agency also emphasises that there is a risk of a breach of loan covenants by the Company that are embedded in existing financing agreements (breaking the 3x net debt/ EBITDA covenant in 2016–2019).

The Agency informs that the outlook could be revised back to stable if the Company CAPEX is reduced and adjusted to projected operating cash flows in the next few years. The outlook revision would also depend on an improvement in the Company's medium-term liquidity position as well as reduced risk of breach of 3x net debt/ EBITDA covenant.

The Company informed of the aforementioned events in the current reports: no. 18/2015 of 17 July 2015 and no. 41/2015 of 28 October 2015.

## **Other events which occurred in 2015**

### ***Letter of intent concerning the joint development of renewable capacity***

On 2 July 2015 TAURON and ENEA signed a letter of intent concerning joint implementation of the strategy ensuring the optimum method of increasing renewable capacity and financing the purchase transaction of wind assets. The letter of intent assumes establishing of working teams in order to develop the assumptions related to the cooperation, including, in particular, the schedule of activities and the financial model favourable for both parties. Any business decisions will be made only based on results of working teams' activity. The strategy of both companies assumes the development of RES, in particular, wind farms. TAURON decided to resign from the continuation of negotiations with investors concerning the sales of rights to a part of wind assets belonging to TAURON Capital Group. The reason of this decision is the significant change in market terms and conditions of the transaction, in particular, the low current level of prices, of the so-called "green" certificates and electricity and the expectations concerning the level of those prices in the future.

### ***Increasing the value of the bond issue programme***

In July 2015 TAURON signed the annex with Bank Gospodarstwa Krajowego (BGK) to the programme agreement regarding the organisation of the bond issue programme. The objective of the bond issue is the financing of capital expenditure, mainly in the areas: Distribution and Generation, in accordance with the development strategy of TAURON Capital Group. Participation of BGK in this project is implemented under the "Polish Investments" programme.

The level of the issue programme of bonds with the maximum maturity period of 15 years, with six-month interest payment period, pursuant to the concluded annex, amounts to PLN 1.7 billion. Within the amount by which the bond issue programme was increased (PLN 700 million), as at the day of concluding the annex, the amount of PLN 300 million was covered by the guarantee. The financial structure stipulates bond issue in series in the years 2015–2016, with redemption deadlines maturing from 2020 to 2029. In this project, BGK acts as the organiser, programme guarantor and depository.

### ***Development of the Centre of Common Services – Accounting (CUW R)***

In 2015 works commenced in 2012 under the Programme on *Integration of the Accounting Function* were continued, associated with the organisation of the Centre of Common Services – Accounting (CUW R) in TAURON Obsługa Klienta sp. z o.o. company (TAURON Obsługa Klienta), providing services in the accounting area. CUW R provides the financial and accounting services to the following companies: TAURON, TAURON Dystrybucja, TAURON Wytwarzanie, TAURON Ciepło, TAURON Sprzedaż, TAURON Sprzedaż GZE, TAURON Obsługa Klienta, TAURON Dystrybucja Serwis, TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA), TAURON Wytwarzanie GZE, TAMEH POLSKA, TAMEH HOLDING, Enpower sp. z o.o., Nowe Brzeszcze GT, TAURON Ubezpieczenia.

Under the aforementioned Programme, the mainstream of the works in 2015 referred to:

- 1) organisation of the migration process related to the service of financial and accounting processes for companies: TAURON Wydobycie and KW Czatkowice,
- 2) takeover of centralised accounting and tax reporting processes of TAURON Dystrybucja,
- 3) continuation of the implementation of electronic document flow systems.

## **Events after 31 December 2015**

### ***Statement of the President of the Company Management Board***

On 29 January 2016, Remigiusz Nowakowski – President of the Management Board of the Company – submitted a statement to the Company informing that in relation to his appointment, as of 29 January 2016, to the Supervisory Board of Polski Koncern Naftowy ORLEN S.A. with its seat in Płock, he had submitted his statement to PKN ORLEN S.A. notifying that he was a member of governing bodies at companies of TAURON Capital Group whose operations may be considered as competitive towards the operations of PKN ORLEN S.A. At the same time he informed that he had obtained consent of the Company Supervisory Board to sit on the Supervisory Board of PKN ORLEN S.A. To avoid any potential conflicts of interest he committed himself to abstain from discussing and voting on matters of PKN ORLEN S.A. related to the scope of operations that could give rise to such a conflict.

The Company informed of the aforementioned event in the current report no. 6/2016 of 29 January 2016.

### ***Settlement of agreement with Kompania Węglowa***

On 19 January 2016 the settlement of the agreement with Kompania Węglowa was carried out, whose signing was reported by the Company in the current report no 7/2013 of 1 March 2013, and whose subject was the purchase of hard coal by the TAURON. The Agreement was concluded for a period of three years from 1 January 2013 until 31 December 2015 and its estimated net value determined as at the day of concluding of the Agreement amounted to PLN 2.4 billion.

Pursuant to the settlement, the value of the turnover accomplished under the Agreement amounted to PLN 2.014 net, i.e. approximately 84% of the net value of the Agreement estimated initially and approximately 7% below the equivalent of 10% of Company equity used as the threshold value for material agreements as at the day of publication of the report.

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

#### **Convening Bondholders' Meeting – bonds series TPEA1119**

The Management Board of TAURON, acting pursuant to the *By-laws of Bondholders' Meeting* constituting the attachment to the Terms and Conditions of the issue of bonds series TPEA1119, designated by the Central Securities Depository of Poland with the code PLTAURN00037 and listed in the Alternative Trading System on the Catalyst market organised by BondSpot S.A., with maturity falling on 4 November 2019, convened, on their own initiative, the Meeting of Bondholders to take place on 3 March 2016. The subject of the Bondholders' Meeting will be adoption of the resolution on the amendments to terms and conditions of the bonds' issue through amending of the definition of "Financial Debt" included in item 1.1 of the Terms and Conditions of the Bonds' Issue and the amendment to the provisions of Grounds for Early Redemption contained in item 9.1(e) of the Terms and Conditions of the Bonds' Issue.

The detailed description of the amendments to the Terms and Conditions of the Bonds' Issue is contained in the current report no. 8/2016 of 10 February 2016.

On 3 March 2016, Bondholders representing 91.44% of votes appeared at the Bondholders' Meeting, accordingly, the Bondholders' Meeting was unable to adopt the resolution concerning the amendments to the terms and conditions of the bond issue. Considering the foregoing, TAURON, as the Issuer, proposed Bondholders who attended the Bondholders' Meeting to sign, against agreed remuneration, bilateral agreements under which Bondholders who sign these agreements commit irrevocably with respect to the Issuer, to take part in every bondholders' meeting concerning the bonds during the effective term of a given agreement and vote at every bondholders meeting, with all bonds, against the resolution allowing bondholders to submit to the Issuer a request for early redemption in the event of a potential breach, i.e. if the debt ratio defined in the terms and conditions of the bond issue exceeds 3.0x but does not exceed 3.5x, taking into consideration the new definition of financial debt and the principles for calculation of the financial ratio included in the agreement. In addition, Bondholders will undertake to refrain from disposing of the bonds until their maturity date. The Issuer set the deadline for submitting of the signed agreements by Bondholders on 21 March 2016. At the same time, the Bondholders who did not appear at the Bondholders' Meeting on 3 March 2016, may read the text of the agreement and sign it in accordance with the aforementioned deadline. The text of the agreement is available at Dentons Europe Oleszczuk sp. k. Law Firm and the condition to obtain access to the text of the agreement is to present to the Law Firm a valid bond deposit certificate pertaining to the bonds which are subject to the aforementioned agreement. TPEA1119 series bonds were issued on 4 November 2014 in the amount of 17,500 pieces, as bearer, uncollateralized, coupon bonds with floating interest rate and nominal value of PLN 100,000 each.

The Company informed of the aforementioned event in the current report no. 12/2016 of 03 March 2016.

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

On 15 February 2016, following the completion of main works related to impairment tests on assets, in line with the requirements of the International Accounting Standard 36, the Management Board of TAURON publicly announced information on the expected impact of non-cash one-off event in the form of a write-off of unprofitable generation units in the Generation Segment. The Generation Segment comprises companies generating electricity and heat from conventional and renewable sources.

For testing purposes, the recoverable amount has been determined based on analysis of discounted cash flow generated by individual cash-generating centres. Key business assumptions affecting the evaluation of the recoverable amount included the adopted curves of electricity and fuel prices, CO<sub>2</sub> emission limits for electricity generation, tariff revenue of heat companies and maintenance of generation capacity of existing fixed assets as a result of executing capacity replacement investments.

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

To partially set off the impact of negative market conditions and improve the situation of the TAURON Capital Group over longer perspective, the Company Management Board has launched works on Corporate Strategy update. Within that process a review of the investment portfolio has been initiated to verify investment projects. The Company is also finalising works on the new Effectiveness Improvement Program for 2016–2018 which should bring further

savings. In addition, synergies are expected to be achieved inside the Group thanks to simplification of the management model. The Company indicates that market trends are essential in terms of development of long-term perspective for planning electricity generation profitability, which may lead to further write-offs if the unfavourable trends persist.

In relation to consolidated financial statements of TAURON Capital Group for the financial year ended on 31 December 2015, the conducted tests have indicated that it was necessary to write-off major part of the TAURON Capital Group's generation assets in the electricity and heat generation segment due to partial or full impairment – including generation units of various capacities (in particular, 200 MW and 150 MW), biomass-fired units and cogeneration units. The total value of estimated write-offs resulting from impairment of tangible and intangible assets and company value in the Generation Segment charged to prime costs amounts to PLN 3,564 million and their impact on net result amounts to PLN 2,916 million. The write-offs will have no impact on EBITDA understood by TAURON Capital Group as EBIT increased by depreciation and write-offs for non-financial assets.

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

The Company reserves that the values presented above represent estimated values and may be subject to change. The final results of tests and amounts of impairment write-offs will be presented in the financial statements of TAURON and TAURON Capital Group for 2015, to be published on 9 March 2016.

Detailed information concerning the aforementioned issue is included in the current report No. 9/2016 of 15 February 2016.

#### **Exceeding of the 10% equity threshold in trade turnover between companies of TAURON Capital Group and companies of PSE Group**

On 29 February 2016, the Company received documents concerning the mutual provision of services to companies of TAURON Capital Group enabling the settlement with companies of PSE Group, in reference to current reports no. 1/2012 of 5 January 2012, no. 37/2012 of 7 November 2012, no. 42/2013 of 15 October 2013, no. 30/2014 of 8 July 2014 and current report no. 11/2015 of 10 April 2015, regarding trade turnover between companies of TAURON Capital Group and PSE. In accordance with the aforementioned documents, as of 10 April 2015, i.e. as of the day of submission of the current report no. 11/2015, the net trade turnover generated between companies of TAURON Capital Group and companies of PSE Group amounted to approximately PLN 2,180 million (including approximately PLN 1,500 million of cost items for TAURON Capital Group companies, and about PLN 680 million of revenue items), accordingly, the value of turnover exceeded 10% of the Company equity.

The turnover of the highest value, i.e. approximately PLN 1,400 million net, was generated under the agreement of 16 December 2013, concluded between TAURON Dystribucja and PSE. The subject of the aforementioned agreement, concluded for an indefinite period of time, is the provision of transmission services by PSE, understood as the transport of electricity via the transmission grid. Its estimated value over a period of 5 years following its conclusion, is about PLN 7,478 million. The services are cleared in accordance with the rules and rates approved by the President of the ERO, defined in the tariff, and taking into account the provisions of the Instruction for Transmission System Operation and Maintenance. The above mentioned agreement does not stipulate any liquidated damages and it does not contain any conditions precedent or terminating conditions.

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

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

On 29 February 2016 the Company purchase, with the intention to redeem, 22,500 bonds ("Bought Back Bonds") out of 30,000 tranche C bonds ("Tranche C Bonds") issued on 12 December 2011 under the bond issue programme of 16 December 2010. TAURON informed of the issue of the said bonds in the current report no. 60/2011. The early buyback does not cover the remaining 7,500 Tranche C Bonds which, according to the terms and conditions of the bond issue, will be redeemed on 12 December 2016.

The Bought Back Bonds were purchased at the issue price of PLN 100,000, thus the total nominal value of bought back and redeemed bonds amounts to PLN 2,250,000,000. The amount of buy-back was increased by interest due from the first day of the last interest period preceding the buy-back until the day of that buy-back (excluding that day). The purchase with the intention to redeem was executed based on bilateral agreements concluded between TAURON and bondholders of Tranche C Bonds and the main purpose of the transaction is to extend the maturity of debt incurred by the Company in the form of bonds. Funds to refinance the Bought Back Bonds were obtained by TAURON under a new bond issue programme (TAURON informed of signing of the agreement for the new bond issue program in the current report No. 49/2015 of 24 November 2015), under which, on 29 February



2016 the Company issued 22,500 bonds with the total nominal value of PLN 2,250,000,000 ("Bonds") with the maturity date on 29 December 2020. The Bonds were issued in PLN as uncollateralized, dematerialized, coupon securities and taken up at the issue price equal to the nominal value amounting to PLN 100,000. The interest rate on bonds was determined based on WIBOR 6M rate increased by a fixed margin. The Bonds will be redeemed at the issue price on the maturity date and interest will be paid in arrears at the end of each interest period to bondholders who hold the Bonds on the record date. Interest payable under the Bonds will be paid in semi-annual periods (subject to the first, four-month period). On account of Bond holding, the Bondholders will be entitled to cash payments only. The Bonds have been taken up by financial institutions that are parties to the bond issue programme, i.e. Bank BGŻ BNP Paribas S.A., Bank Handlowy w Warszawie S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) BV, Bank of Tokyo-Mitsubishi UFJ (Polska) S.A., Bank Zachodni WBK S.A., (BZ WBK), CaixaBank S.A. (Joint Stock Company) Oddział w Polsce, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, ING Bank Śląski S.A., mBank S.A. (mBank) and PKO BP. As a result of the transaction TAURON improved its debt structure by moving the maturity date of the bonds in the amount referred to above by five years, which has a positive impact on the Issuer's financial and economic standing in view of investment expenditures planned for the coming years. As of the day of bond issue, the Management Board of the Company does not recognise any threats in relation to complying with the commitments resulting from the Bonds. The Company informs that as of 31 December 2015 the value of its liabilities amounted to PLN 9.7 billion. At the same time due to, inter alia, the execution of its investment program, the Issuer anticipates that the debt level may increase during the period until the maturity date of the Bonds.

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

### **Other important events**

In addition, events resulting from the contracts and agreements concluded, significant for the operations, described in subsection 2.7.1 of this report, should be also considered as important events with material impact on operations of the Company in the financial year 2015.

## **2.7 Information on agreements concluded by the Company**

### **2.7.1. Agreements significant for operations of the Company**

In the financial year 2015 the Company concluded the following agreements significant for operations of TAURON:

#### ***Signing material agreements concerning the bond issue programme***

On 24 November 2015, TAURON and Bank Handlowy w Warszawie S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) BV, Bank of Tokyo-Mitsubishi UFJ (Poland) S.A., BZ WBK, CaixaBank S.A. (Spółka Akcyjna) Oddział w Polsce, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, ING Bank Śląski S.A. and PKO BP signed the following agreements: agency agreement, depository agreement and underwriting agreement, under which a bond issue program has been established with the total value of PLN 6.27 billion.

The funds that will be obtained under the aforementioned programme will be used to cover expenses related to the execution of TAURON Capital Group investment programme, debt refinancing or to finance Group's general corporate expenses. The value of the programme may be increased up to PLN 6.5 billion.

Within the aforementioned programme, the Company may organise multiple bond issues within the period until 31 December 2020. The bonds will be uncollateralised, coupon, bearer securities, with the floating interest rate, nominal value of PLN 100 thousand each and maturity of 1, 3, 6, 12, 24, 36, 48 or 58 months.

The bonds will be underwritten, i.e. Programme Underwriters (banks that are parties to the underwriting agreement) will be obliged to purchase the bonds issued by the Company under the Programme.

To enable the transfer of funds under the bond issue, TAURON should repurchase bonds from B tranche (PLN 300 million) issued under the existing bond issue programme concluded in December 2010 and each Underwriter should be provided with standard documents including: the execution statement for the amount up to 120% of the total nominal value of the bonds that the Underwriter is obliged to purchase under the programme, original version of Terms and Conditions of the Issue signed by the Company, copy of resolution of the Company's Management Board granting approval for signing the agreements under the programme and bond issue, legal opinions of the Company's legal advisor and the Underwriters' legal advisor issued in connection with concluding of the aforementioned programme, and the statutory documents of the Company.

The fact that the value of the aforementioned programme exceeds 10% of the Company equity has been recognised as a criterion for considering the above mentioned agreements as material.

The Company informed of the aforementioned event in the current report no. 49/2015 of 24 November 2015.

With reference to the provisions of § 91 item 6 point 3 of the Regulation of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state, the Company hereby informs that it is not aware of any other agreements concluded, significant for the operations of the Company, other than the agreements mentioned above, including the agreements concluded between shareholders (partners), insurance agreements, cooperation or collaboration agreements.

### 2.7.2. Material transactions with the affiliated entities under conditions other than arm's length basis

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 44 to the financial statement for the year ended on 31 December 2015.

### 2.7.3. Information on agreements on credits and loans raised and terminated

#### Working capital credits and short-term loans

In accordance with the financial model adopted in TAURON Capital Group, only TAURON may act as the party to working capital credits and loans raised with external institutions.

In TAURON Capital Group the real cash pooling structure operates, implemented under the agreement for cash management concluded with PKO BP. The cash pooling structure is based on daily limits granted to individual participants by the Agent managing the service, i.e. TAURON. As a result of implementation of the cash pooling mechanism, cash transfers are performed between accounts of participants of the service and the Agent's account. Within the operation of the cash pooling the Company uses the overdraft limit at PKO BP in the amount of PLN 300,000 thousand, based on the Overdraft Agreement concluded with the bank in December 2014, with the repayment date maturing on 29 December 2017 and the intraday limit in the amount of PLN 500,000 thousand, effective until 17 December 2017 (the intraday limit is a daily limit which must be fully repaid by the end of each day on which it was used).

In 2015, the Agreement concluded with PKO BP was effective, for granting an overdraft up to the amount of EUR 25,000 thousand, with the repayment date until 31 December 2015. The loan was allocated for financing of the collateral margin and transactions of purchase/ sales/ exchange of CO<sub>2</sub> emission allowances on the European exchanges, as well as for financing of trading in electricity. As of 31 December 2015 the said loan agreement expired and the loan was repaid on time.

In connection with the termination of effectiveness of the aforementioned agreement, on 30 December 2015 the Overdraft Agreement was signed with BGK, up to the amount of EUR 25,000 thousand, for financing of the transactions of purchase/ sales/ exchange of CO<sub>2</sub> emission allowances, trading in electricity and gas on the European exchanges, with the repayment deadline until 31 December 2017.

On 15 April 2015 the Company concluded the overdraft agreement with mBank for the maximum amount of USD 2,000 thousand, allocated for financing of current activity, in particular, for financing of the collateral margin and commodity transactions, with the repayment deadline until 14 April 2016.

On 27 July 2015 the Company concluded the facility agreement with TAURON Sweden Energy in the amount of EUR 6,600 thousand, allocated for the general economic purposes of TAURON. The repayment deadline of the loan falls on 30 July 2016.

The table below presents detailed specification of agreements for working capital credits and loans effective in the Company in 2015.

**Table no 8. Specification of working capital loan and credit agreements effective in TAURON Capital Group as at 31 December 2015**

No.	Type of agreement	Type and level of interest rate	Amount of credit/loan (in thousand)	Effective term	Balance as at 31 December 2015 (in thousand)
1.	Overdraft facility	LIBOR 1M + fixed margin	USD 2,000	16.04.2015 – 14.04.2016	USD 404
2.	Overdraft facility	EURIBOR 1M + fixed margin	EUR 25,000	31.01.2014 – 31.12.2015	EUR 0
3.	Overdraft facility	EURIBOR 1M + fixed margin	EUR 25,000	31.12.2015 – 31.12.2017	EUR 2,025

No.	Type of agreement	Type and level of interest rate	Amount of credit/loan (in thousand)	Effective term	Balance as at 31 December 2015 (in thousand)
4.	Overdraft facility	WIBOR O/N + fixed margin	PLN 300,000	30.12.2014 – 29.12.2017	PLN 0
5.	Intraday Limit	None	PLN 500,000	18.12.2014 – 17.12.2017	PLN 0
6.	Loan	fixed margin	EUR 6,600	30.07.2015 – 30.07.2016	EUR 6,600

### Investment credits and loans

In July 2015 the Company raised funds in the amount of PLN 295,000 thousand from the facility at the European Investment Bank (EIB) under the agreement signed on 18 July 2014.

The table below presents the detailed specification of investment credit and loan agreements as at 31 December 2015.

**Table no 9. Specification of investment credit and loan agreements effective in the Company as at 31 December 2015**

No.	Type of agreement	Type and level of interest rate	Amount of credit/loan (in thousand)	Effective term	Balance as at 31 December 2015 (in thousand)
1.	EIB facility	fixed margin	PLN 210,000	30.01.2012 – 15.12.2021	PLN 126,000
2.	EIB facility	fixed margin	PLN 300,000	20.02.2012 – 15.12.2021	PLN 180,000
3.	EIB facility	fixed margin	PLN 450,000	16.07.2012 – 15.06.2024	PLN 347,727
4.	EIB facility	fixed margin	PLN 200,000	25.01.2013 – 15.09.2024	PLN 163,636
5.	EIB facility	fixed margin	PLN 250,000	22.02.2013 – 15.09.2024	PLN 204,545
6.	EIB facility	fixed margin	PLN 295,000	17.07.2015 – 15.03.2027	PLN 295,000
7.	Loan TAURON Sweden Energy	fixed margin	EUR 166,572	03.12.2014 – 03.12.2029	EUR 166,572

In 2015 the Company did not terminate any credit and loan agreements.

### 2.7.4. Information on loans and sureties granted as well as sureties and guarantees received

#### Loans granted

In 2015 the Company granted financing to its subsidiary, EC Stalowa Wola in form of the following loans:

- 1) On 25 November 2015 the Company signed a loan agreement with EC Stalowa Wola for the amount of PLN 2,600 for the current operating activity. The loan, including the accrued interest, will be repaid in a one-off payment, by 30 November 2016 at the latest. The loan is secured with a blank promissory note including the promissory note declaration.
- 2) On 14 December 2015 the Company signed a loan agreement with EC Stalowa Wola for the amount of PLN 15,850 thousand, for the repayment of the first instalment of the principal amount of the credits maturing on 15 December 2015. The loan, including interest accrued on a quarterly basis, will be repaid in a one-off payment on 31 December 2027. The loan is secured with a blank promissory note including the promissory note declaration.
- 3) Under the agreement concluded on 20 June 2012 between the Company, PGNiG and EC Stalowa Wola, TAURON granted two tranches of the VAT loan to EC Stalowa Wola; the funds raised were allocated for financing of the VAT due in connection with implementation costs of the investment involving the construction of the CCGT unit at Stalowa Wola, with the capacity of 449 MW<sub>e</sub> and 240 MW<sub>t</sub>. Both loans were repaid.

On 27 February 2015 the Company signed a loan agreement with the subsidiary, TAURON EKOENERGIA in the amount of PLN 1,120,000 thousand, with the repayment deadline falling on 26 February 2016. The loan was allocated for the repayment of debt (intra group bonds) arising from the purchase and construction of wind farms.

The table below presents the specification of loans granted by the Company in 2015.

**Table no 10. Specification of loans granted by the Company in 2015**

No.	Type of agreement	Type and level of interest rate	Amount of credit/loan (in thousand)	Effective term	Balance as at 31 December 2015 (in thousand)
1.	VAT loan EC Stalowa Wola	WIBOR 1 M + fixed margin	PLN 30,000	25.06.2012 – date of project completion	PLN 0
2.	Loan EC Stalowa Wola	WIBOR 6 M + fixed margin	PLN 2,600	02.12.2015 – 30.11.2016	PLN 2,100
3.	Loan EC Stalowa Wola	WIBOR 3M + fixed margin	PLN 15,850	15.12.2013 – 31.12.2027	PLN 15,850
4.	Loan TAURON EKOENERGIA	fixed margin	PLN 1,120,000	27.02.2015 – 26.02.2016	PLN 1,120,000

**Sureties and guarantees granted and received**

The guaranties, sureties and commitments granted in 2015 arise from the adopted financing model of TAURON Capital Group companies and they were provided on account of the conducted trading operations and as the collateral for repayment of loans granted, among others by the Regional Fund of Environmental Protection and Water Management in Katowice and the Regional Fund of Environmental Protection and Water Management in Kraków (WFOŚiGW).

The table below presents detailed specification of guaranties and sureties effective as at 31 December 2015.

**Table no 11. Specification of agreements on sureties and guarantees effective as at 31 December 2015**

No.	Beneficiary	Agreement	Party to the agreement	Amount (in thousand)	Date term
1.	WFOŚiGW	Collateral agreement	TAURON Wytwarzanie	PLN 40,000	15.12.2022
2.	WFOŚiGW	Aval agreement	TAURON Ciepło	PLN 30,000	15.12.2022
3.	WFOŚiGW	Aval agreement	TAURON Ciepło	PLN 1,180	01.05.2016
4.	WFOŚiGW	Surety agreement	KW Czatkowice	PLN 513	31.07.2018
5.	WFOŚiGW	Surety agreement	KW Czatkowice	PLN 256	31.10.2018
6.	WFOŚiGW	Surety agreement	KW Czatkowice	PLN 128	31.10.2018
7.	WFOŚiGW	Surety agreement	KW Czatkowice	PLN 154	31.10.2018
8.	WFOŚiGW	Surety agreement	KW Czatkowice	PLN 94	15.01.2019
9.	Bondholders	Corporate guarantee	TAURON Sweden Energy	EUR 168,000	03.12.2029
10.	SPP CZ a.s.	Collateral agreement	TAURON Czech Energy	EUR 300	31.01.2016
11.	PSE	Collateral agreement	TAURON Wytwarzanie	PLN 5,000	04.08.2019

On 31 October 2015, as a result of the agreement signed, the surety of the guarantee issued by Bank BGŻ BNP Paribas S.A. expired, for securing of claims of Abener Energia S.A., with the initial validity deadline until 12 September 2018.

The Company has also concluded the following agreements concerning the issuance of bank guarantees:

- 1) the general agreement of 22 September 2011, including its subsequent annexes, for granting bank guarantees, concluded with PKO BP bank, with the effective term until 31 December 2016 for the amount of PLN 100,000 thousand, to be used by TAURON and its subsidiaries,
- 2) the general agreement of 8 June 2015 for the bank guarantee limits, concluded with BZ WBK, with the effective term until 7 June 2018, and the limit up to PLN 150,000 thousand, to be used by TAURON and its subsidiaries in favour of Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House) (IRGIT).

At the same time, on 6 May 2015 the general agreement of 6 May 2013, with the subsequent annex expired, for the limit on bank guarantees with BZ WBK.

The table below presents the specification of bank guaranties and re-guarantees under the agreements effective as at 31 December 2015.

**Table no 12. Specification of bank guaranties granted under the agreements effective as at 31 December 2015**

No.	Bank	Company	Beneficiary	Type of guarantee	Amount (in thousand)	Date of starting point	Date term
1.	BZ WBK	TAURON	IRGIT	payments	PLN 20,000	14.07.2015	15.01.2016
2.	PKO BP	TAURON	CAO	payments	EUR 1,000	01.01.2012	05.02.2016
3.	PKO BP	TAURON	PSE	performance bond	PLN 6,300	01.01.2015	11.02.2016
4.	PKO BP	TAURON	GAZ-SYSTEM	performance bond	PLN 3,864	01.12.2015	30.11.2016
5.	PKO BP	TAURON Dystrybucja Serwis	Eurovia Polska	performance bond	PLN 23	21.12.2013	04.01.2016
6.	PKO BP	TAURON Dystrybucja Serwis	Strabag Infrastruktura Południe	performance bond	PLN 387	02.10.2015	30.04.2016
7.	PKO BP	TAURON Dystrybucja Serwis	Dragados Oddział w Polsce	performance bond	PLN 96	01.04.2014	31.12.2016
8.	PKO BP	TAURON Dystrybucja	City Jelenia Góra	performance bond	PLN 97	01.07.2015	31.12.2016
9.	PKO BP	TAURON Wydobycie	PKP	performance bond	PLN 76	15.10.2015	31.12.2016
10.	PKO BP	TAURON Sprzedaż	Dąbrowskie Wodociągi	performance bond	PLN 224	15.04.2015	30.01.2016
11.	PKO BP	TAURON Sprzedaż	PSE	performance bond	PLN 369	01.01.2015	30.01.2016
12.	PKO BP	KW Czatkowice	PGE GiEK	performance bond	PLN 436	18.12.2013	30.01.2016
13.	PKO BP	KW Czatkowice	PGE	bid bond	PLN 350	21.10.2015	19.01.2016
14.	PKO BP	KW Czatkowice	PGE	bid bond	PLN 126	30.11.2015	29.01.2016

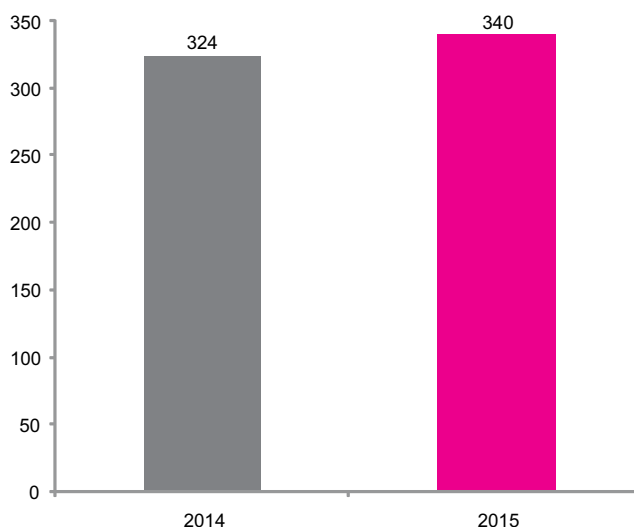
Within TAURON Capital Group, in order to secure the transactions executed by the Company on the TGE in electricity markets and participation in the system of securing the liquidity of transaction settlement, in 2015 the following agreements were effective, based on which TAURON Wytwarzanie granted the surety to the Company in favour of the IRGIT, on account of the settlement of future transactions:

- 1) the agreement concluded on 6 October 2014 up to the amount of PLN 80,000 thousand, effective from 13 October 2014 until 31 March 2015,
- 2) the agreement concluded on 14 October 2015 up to the amount of PLN 123,000 thousand, effective from 15 October 2015 until 31 March 2016.

## 2.8. Information concerning employment

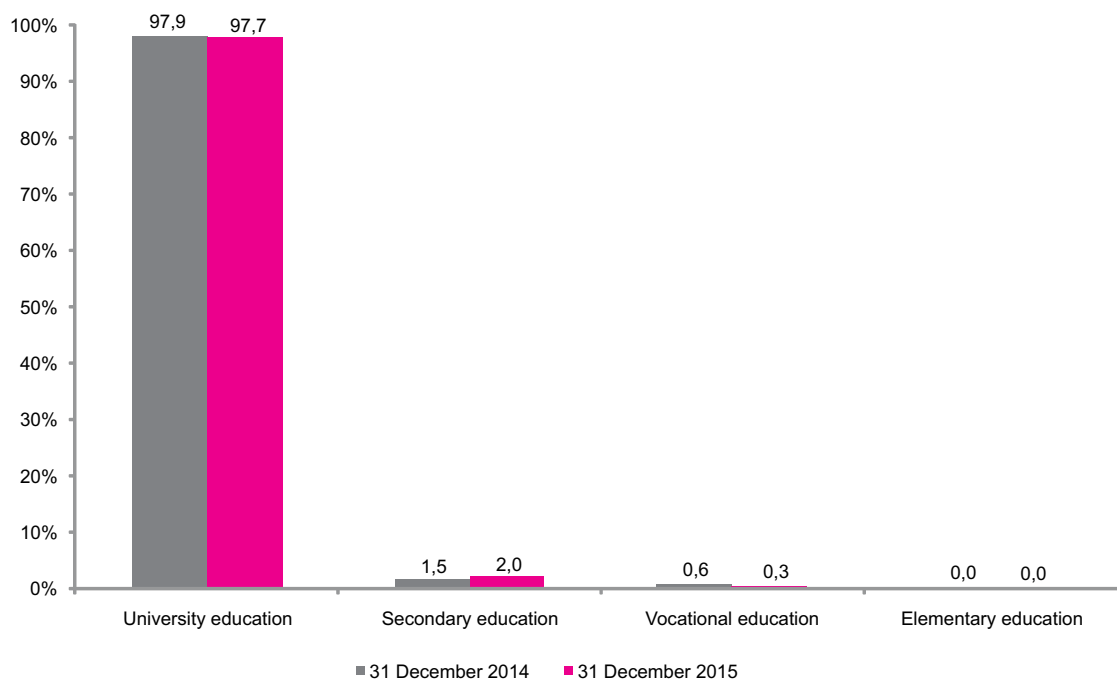
The figure below shows the levels of employment in the Company in FTEs (rounded up to a full FTE), in the years 2014–2015.

**Figure no. 14 Employment the Company in 2014 and 2015 in FTEs.**



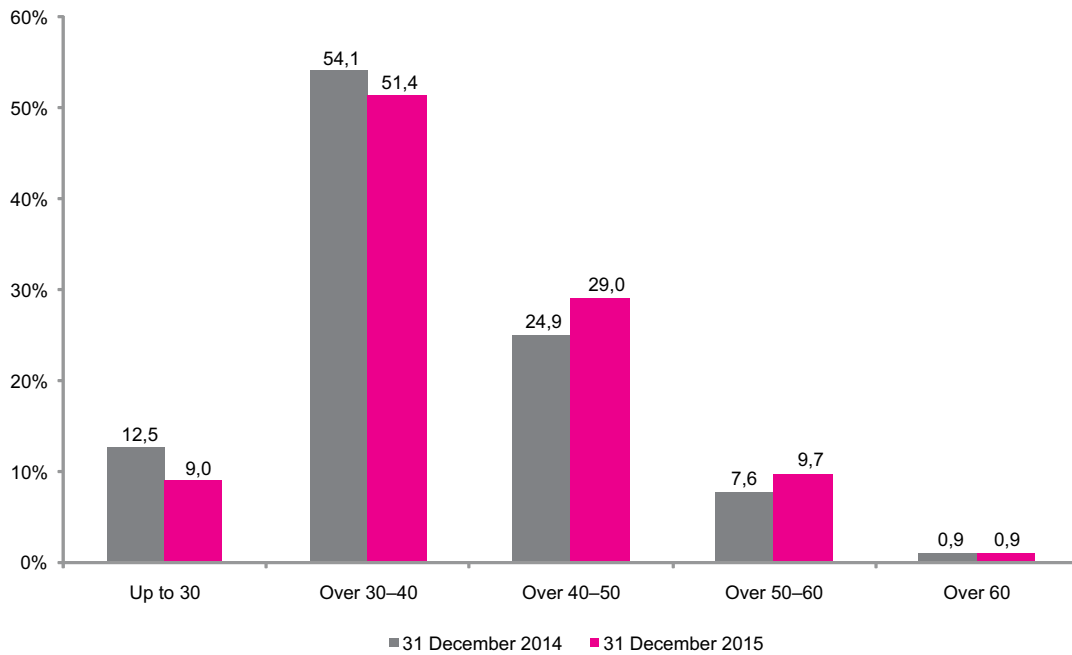
The figure below presents the structure of employment in the Company according to education as at 31 December 2014 and 31 December 2015.

**Figure no. 15 Employment structure in the Company according to education as at 31 December 2014 and 2015**



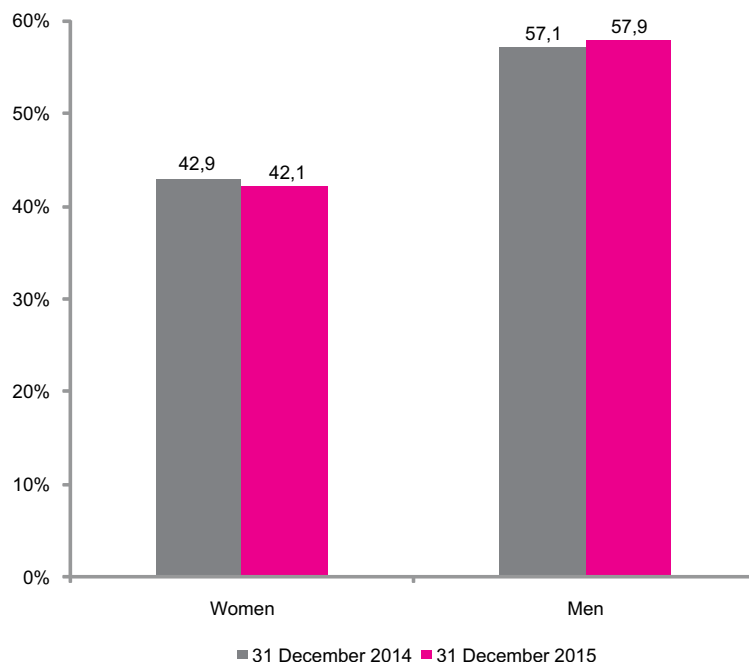
The figure below presents the structure of employment in the Company according to age as at 31 December 2014 and 31 December 2015.

**Figure no. 16 Employment structure in the Company according to age as at 31 December 2014 and 2015**



The figure below presents the structure of employment in the Company according to gender as at 31 December 2014 and 31 December 2015.

**Figure no. 17 Employment structure in the Company according to gender as at 31 December 2014 and 2015**



### 3. RISK MANAGEMENT IN TAURON CAPITAL GROUP

#### Risk and threat factors

Taking care for implementation of the Corporate Strategy, the Company implements the risk management process in relation to operations of TAURON Capital Group. This process, particularly important for the implementation of the strategic goals, identifies potential deviations against the planned result of TAURON Capital Group and increases the predictability of its accomplishment, enabling risk level control to provide for its possibly neutral impact on the implementation of strategic goals. The risk management system comprises all elements of the value chain implemented of TAURON Capital Group and all the employees participate in the risk management process.

Risk management should ensure stable value creation owing to the effective control of risk-taking, enhancing the transparency of risk-taking, independent risk assessment and increasing business concentration on optimisation of the relations between profits and the risk assumed.

The process of risk-taking in TAURON Capital Group is centralised. Within the risk management process the Risk Committee fulfils a special role, as the team of experts which permanently and continuously initiates, analyses, monitors, controls, supports and supervises the performance of the risk management system. The Risk Committee comprises persons with relevant knowledge on the Company and its environment as well as the required qualifications and powers. The role of the Risk Committee is to define risk management norms and standards in TAURON Capital Group and to supervise the effectiveness of the risk management process. Within the Risk Committee two separate teams were established for the commercial risk area and for the financial and credit risk area. The Risk Committee directly supervises the implementation of the corporate risk management process.

In TAURON Capital Group, Risk Department is responsible for the operational implementation of tasks associated with the risk management process.

Risk management in TAURON Capital Group is based on three pillars:

- 1) enterprise risk management,
- 2) commercial risk management,
- 3) financial and credit risk management.

#### Enterprise risk management

The comprehensive enterprise risk management system (ERM) in TAURON Capital Group supports the implementation of the strategic goals through:

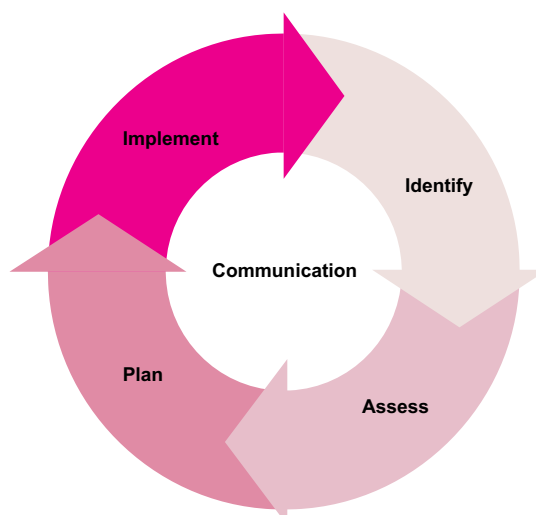
- 1) a possibility to predict deviations against the planned levels (material and financial plan) and, at the same time, a possibility to prepare effective instruments of response to such risk,
- 2) assessment and identification of risks and the consistent approach to their measurement, as a result of 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 against the specific risk,
- 4) harmonisation of the risk management process in the entire TAURON Capital Group.

In 2015, the risk management process in the regulatory area was improved by introduction of risk limits for individual Areas of TAURON Capital Group and for individual operational risks within such limits. For individual key risks, early warning indicators were defined and acceptance, mitigation and escalation thresholds were determined for those indicators. The conducted measures within risk response were made conditional on the current value of the indicators.

The figure below shows stages in the process of enterprise risk management in TAURON Capital Group.



**Figure no. 18 Stages in enterprise risk management in TAURON Capital Group**



The risk management process includes the hereunder continuous measures comprising:

1. **Risk identification** – based on determining the potential events that may affect the implementation of goals defined by TAURON Capital Group.
2. **Risk assessment** – based on determining the impact of the event classified as risk in the identification process on the implementation of the specific goals.
3. **Planning** – based on preparation of the dedicated response to the risk identified in order to achieve the desirable goals.
4. **Implementation** – based on practical implementation of the risk response prepared in the planning process.
5. **Communication** – based on the continuous information flow among ERM process participants. The periodical risk reporting is the element of this process.

The table below presents participants in the enterprise risk management process as well as the roles and responsibilities assigned to them.

**Table no 13. Participants of the risk management process**

No.	Participant	Roles and responsibilities of the risk management process participants
1.	Supervisory Board of the Company	Authorised to controlling of activities undertaken by the Company in the scope of enterprise risk management, in terms of compliance with the expectations of shareholders, governing and regulatory bodies.
2.	Audit Committee	Authorised to the monitoring of the effectiveness of the risk management system existing in TAURON Capital Group.
3.	Company Management Board	1) takes formal decisions related to the key elements of corporate management in TAURON Capital Group, 2) performs the assessment of effectiveness and efficiency of the risk management process.
4.	Risk Committee	1) supervises the risk management process in TAURON Capital Group, 2) recommends and provides opinions for the Management Board concerning the form of individual elements of risk management infrastructure, 3) defines maximum risk tolerance on TAURON Capital Group and global limit for risks, applies to the Management Board for their approval and change, 4) approves strategies, methods and plans for securing the position on the market of energy and associated products, comprising individual areas of activities, 5) supervises the preparation of the quarterly information for the Management Board in the scope of all significant issues related to risk in TAURON Capital Group.
5.	Internal Audit Department in TAURON	Conducts audit of the risk management process in TAURON Capital Group, comprising the assessment whether the enterprise risk management system is compliant with the requirements of the documentation and whether it is effectively implemented and maintained.
6.	Enterprise Risk Office in the Risk Department in TAURON	1) implements the risk management process in compliance with the rules defined in the relevant regulations, 2) acquires information concerning the current status of enterprise risk, the value of parameters measuring risk and the conducted and planned risk response,

No.	Participant	Roles and responsibilities of the risk management process participants
		<ol style="list-style-type: none"> <li>3) prepares risk reports and submits them to the authorised participants of the enterprise risk management process,</li> <li>4) cooperates with Risk Owners in the scope of tasks implemented by them, arising from their function.</li> </ol>
7.	Risk Owner	<ol style="list-style-type: none"> <li>1) manages risks occurring in the scope of a business unit reporting to it and bears responsibility for their impact on the current activities as well as on the implementation of the goals assigned to it,</li> <li>2) coordinates risk management within the scope of its responsibilities,</li> <li>3) co-participates in the reporting process, is responsible for the effectiveness of risk communication in the area it is responsible for,</li> <li>4) submits information concerning the current risk status.</li> </ol>
8.	Risk Manager	<ol style="list-style-type: none"> <li>1) supports and supervises business units within the implementation of the risk management process, its implementation, compliance and development,</li> <li>2) verifies information on risk for the business unit he supports and assesses the effectiveness of the performed risk response.</li> </ol>
9.	Risk Management Coordinator	<ol style="list-style-type: none"> <li>1) supports the Risk Owner, as well as individual management levels within the implementation of the risk management process,</li> <li>2) supports the harmonisation of procedures in the scope of risk identification, measurement and reporting,</li> <li>3) supervises the presentation of the real risk picture in his unit and the application of the adequate instruments of risk response.</li> </ol>
10.	Risk Expert	<ol style="list-style-type: none"> <li>1) performs risk analyses in accordance with the methodology adopted in the Company,</li> <li>2) reports risk in accordance with the defined reporting rules,</li> <li>3) recommends performing the specific risk responses and monitors the current status of their implementation.</li> </ol>
11.	Executor of risk response	<ol style="list-style-type: none"> <li>1) provides and manages the resources,</li> <li>2) performs tasks included in the risk response plan, for which he/she has been appointed,</li> <li>3) bears responsibility for the quality and timeliness of implementation of those tasks.</li> </ol>
12.	Other employees of organisational structures of TAURON and its subsidiaries	All employees of TAURON Capital Group should have the basic knowledge concerning the risk management system, be aware of the main risks in their areas of responsibility and should be responsible for decisions that may affect the associated risks and the result of the risk assumed.

During 2015 the identification and valuation of new risks was performed as well as the valuation of risks identified earlier was updated, in particular, those which may significantly affect the implementation of strategic goals adopted by the Company.

### Commercial risk management

The Company manages the commercial risk based on the developed and adopted *Policy of risk management in the commercial activities of TAURON Group*, which specifies the set of rules and principles of commercial risk management at the level of TAURON Capital Group. The above document constitutes the implementation of market practices and solutions used in the scope of commercial risk management in electricity trading and related products trading (CO<sub>2</sub> emission allowances, property rights, fuels), including their adjustment to the structures of TAURON Capital Group, considering the specific nature of the energy sector.

The commercial risk management in TAURON Capital Group is understood as limiting of unplanned volatility of the operating result of TAURON Capital Group, with simultaneous use of the diversification effect, arising from the portfolio of assets held. The price risk is limited through defining of the maximum permissible level of deviation of the real result of TAURON Capital Group against the planned result, arising from the volatility of market prices of electricity and the associated products. The system of limits also comprises non-market risk factors which may potentially have an impact on the result of the commercial area. The control covers both the global limit constituting the acceptable commercial risk level comprising the full structure of TAURON Capital Group (risk appetite), as well as operating limits demonstrating the decomposition of the global limit into individual portfolios associated with the areas and types of commercial activities of TAURON Capital Group.

In accordance with the adopted model, commercial risk management in TAURON Capital Group is decentralised, however, commercial risk controlling in TAURON Capital Group is also conducted centrally from the Company level, which ensures the appropriate supervision of one of the main Business Areas within TAURON Capital Group. The essential element of commercial risk management structure is the classification of commercial activities into Front, Middle and Back Office. The distribution of tasks is aimed at ensuring the independence of the operating functions executed by the Front Office in relation to the risk control functions fulfilled by the Risk Department. Such an organisation ensures the security of commercial activity and the transparency of the supervision over risk-taking in TAURON Capital Group companies.

## Financial and credit risk management

Credit risk refers to potential losses resulting from the failure of partners to fulfil the contractual obligations. Market risks and credit risks are closely associated with each other. High volatility of prices, in particular, their unforeseen growth, may significantly change a customer's credit risk. While measuring the transaction risk, information flowing from the market should be taken into consideration, which may be the first warning signal of the deterioration in the financial situation of a customer.

In accordance with the adopted model, financial and commercial risk management in TAURON Capital Group is decentralised, however, financial and credit risk controlling in TAURON Capital Group is performed centrally from the Company level, which ensures the appropriate supervision over risk-taking and the required transparency of exposure to financial and credit risk. Risk exposure is understood as the amount that may be lost if a customer fails to fulfil its obligations within the specific period of time (considering the value of collaterals contributed by the customer). Credit exposure is calculated for the current day and divided into exposure due to payment and exposure of replacement, taking into consideration the exposure arising from the provisions of the Polish Energy Law.

TAURON Capital Group has a decentralised credit risk management system, however, the control, limiting and reporting of credit risk is provided centrally, from the Company level, in accordance with the *Policy of credit risk management in TAURON Group*. This policy defines the set of principles and rules for credit risk management at a level of TAURON Capital Group, to lead to the effective mitigation of credit risk impact on the implementation of the strategic goals of TAURON Capital Group.

The commercial activity of TAURON Capital Group is exposed to credit risk occurring on the market, which means that customers are evaluated from the perspective of their creditworthiness and that credit exposure must be confined within the defined and acceptable credit limits. The general rule is that each customer, prior to concluding a contract, should receive a credit limit, providing basis for controlling of the process of assuming such a risk. Moreover, in order to ensure its effectiveness, the rules have been defined, with the following goals:

- 1) defining the exposure to credit risk in TAURON Capital Group and
- 2) assigning competences and reporting obligations in the scope of credit risk to individual elements of the organisational structure.

Credit risk management results from controlling of the level of credit risk exposure generated upon concluding of a contract with customers by companies of TAURON Capital Group.

The Company manages financial risk (currency, interest rates, liquidity) based on the developed *Policy of managing risk specific in the financial area in TAURON Group*, adopted for application. This process is described in detail in subsection 4.6.2. hereof.

## Specification of the most significant risks associated with the performance of TAURON Capital Group

The description of risks presented below represents, according to the opinion of the Company, the specification of the most essential current threats associated with the performance of TAURON Capital Group. The sequence of presentation of individual risks does not reflect the scale of their impact on the implementation of strategic goals of TAURON Capital Group.

**Table no 14. Description of risk factors**

No.	Types of risks	Risk description
<b>I. Strategic risks</b>		
1.	Risk of growth in prices of CO <sub>2</sub> emission allowances	The risk associated with the establishment of MSR in the market of emission trading, introducing the instrument for maintaining of the high level of prices by reduction of allowances pool. The growth in costs of CO <sub>2</sub> emission allowances may have an adverse effect on the operations of TAURON Capital Group, through the increase in costs and margin reduction.
2.	Risk of failure to allocate CO <sub>2</sub> emission allowances	The risk of failure to allocate free emission allowances included in the plan for 2019 and the growth in prices of allowances available in the market, triggering the necessity to incur additional costs for the fulfilment of regulatory obligations.
3.	Risk of fund raising and financial services	Risk associated with the lack of possibilities to raise funding for operational and investment needs or high costs of acquisition of such financing, arising from tightening of the crediting policy of banks, unfavourable market conditions, unstable macroeconomic situation, which may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities due to the lack of resources for projects included in the Corporate Strategy and in investment plans, and for operations.

No.	Types of risks	Risk description
4.	Market risk	Risk associated with the unfavourable change in prices in the energy market and related markets as well as other markets, where transactions are performed by individual areas of TAURON Capital Group operations, exerting adverse impact on the financial result of TAURON Capital Group.
5.	Concession risk	The risk associated with the withdrawal, failure to extend the validity term, or limiting the scope of any of the concessions held, causing the lack of possibility to conduct the activities in the planned scope, resulting in the loss of revenues and, consequently, the deterioration of the financial result of TAURON Capital Group.
6.	Risk of changes in the rules of Balancing Market functioning	The risk associated with a possibility of changes in the Balancing Market functioning and, consequently, the development of negative prices on this market and finally, on the SPOT market, which may consequently have an adverse impact on the financial result of TAURON Capital Group.
7.	Risk of change in the tariff development method for distribution	The risk associated with the change in tariff development for distribution, planned as of 2018, through introduction of qualitative regulations, which may consequently have an impact on the reduction in the level of revenues due to the activity conducted and on the financial result of TAURON Capital Group.
8.	Risk of unstable legal system and the European Union regulations connected with the functioning of the energy sector, including the environmental protection	Risk related to unfavourable legal changes, modifications in the Polish and the European Union regulations as well as to the legislative environment uncertainty. The risk factors may have significant adverse impact on operations of TAURON Capital Group and its financial situation through increase of operating costs of the enterprise, necessary to change the strategy of the Company or TAURON Capital Group companies, permanent exclusion of specific technologies arising from the requirement to implement the EU regulations, limiting the generation capacity of the Company and undermining its negotiation position against the institutions.
9.	Risk of loss of Tax Capital Group (PGK) status	Risk associated with a possibility to lose the status by the PGK due to the failure to comply with the statutory requirements (e.g. Insufficient profitability of TAURON Capital Group, ownership changes infringing the required levels in the capital structure of PGK companies), challenging of the settlements between PGK and other affiliated entities, unsettled tax liabilities of the PGK companies. The materialisation of the risk may result in the loss of tax optimisation, increased costs of fiscal year closing, the requirement to prepare additional documentation of transfer prices.
10.	Risk of resource base identification	Risk associated with poor identification of the perspective resource base arising from the lack of economic, technical and organisational capacity of the Company. Risk materialisation creates threat for the implementation of tasks and production plans, causing the adverse impact on the financial result of TAURON Capital Group.
<b>II. Operational risks</b>		
1.	Commercial risk	The risk is associated with the volatility of prices of electricity, property rights, CO <sub>2</sub> emission allowances and the significant and/or unexpected changes in prices of coal and other fuels, as well as volatility of sales and generation volumes. The volatility referred to above, including the adverse change in a medium-term perspective, may significantly affect the financial result of TAURON Capital Group through the growth of costs, reduction of the margin and limitation of the revenues gained, as well as the fulfilment of the legal requirements related to maintaining of the relevant fuel reserves or imposing a fine in case of failure to fulfil those requirements. The Company manages the commercial risk based on the developed and adopted <i>Policy of risk management in the commercial activities of TAURON Group</i> , which specifies the set of rules and principles of commercial risk management at the level of TAURON Capital Group. The above document constitutes the implementation of market practices and solutions used in the scope of commercial risk management in electricity trading and related products trading (CO <sub>2</sub> emission allowances, property rights, fuels), including their adjustment to the structures of TAURON Capital Group, considering the specific nature of the energy sector.
2.	Risk connected with the obligation to redeem CO <sub>2</sub> emission allowances	Risk connected with discharge of CO <sub>2</sub> into ambient air as well as the need to redeem the relevant quantity of CO <sub>2</sub> emission allowances. The risk factors may have adverse impact on operations of TAURON Capital Group, its financial standing or results of its activities, through the fines imposed for each unit of unredeemed allowance, or decreasing the planned electricity sales profitability and the increase in costs associated with the failure to issue free allowances and their incorrect redemption.
3.	Risk of failure to maintain availability of generation units	The risk arises from the inadequate adjustment of units and distribution of loads in the scheduling process of units, emergency conditions of generation equipment, unplanned unit shutdowns, changes (enforced) in operating plans by the TSO, changes in fuel prices other than adopted in the assumptions, failures of the transmission system, control systems and ICT systems. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, through the necessity to select a more expensive generation unit or change in the optimum production schedule, which results in the increased variable cost of electricity production.

No.	Types of risks	Risk description
4.	Assets failure risk	Risk connected with occurrence of serious and/or permanent failures and damages of equipment used by the TAURON Capital Group companies. Risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through loss of income arising from the interruptions and shutdowns, the necessity to incur additional costs of repairs of the grid infrastructure and non-grid infrastructure, the requirement to pay fines.
5.	Risk of fixed assets management	Risk associated with the lack of possibility to use fixed assets due to their ineffective management causing their poor technical condition, inadequate costs of fixed assets insurance resulting from their underestimation or overestimation, as well as the costs of holding redundant assets. Risk factors may have adverse impact on TAURON Capital Group operations, its financial situation or results of its activities through the lack of optimum use of the assets, its faster wear arising from inadequate maintenance, the need to incur costs of remedying failures arising from wrong asset management.
6.	Weather risk in the Heat Area	Risk related to fluctuations of air temperatures which have significant impact on the demand for electricity and heat at a longer term, causing the significant increase or decrease of this demand, respectively, which may result in the failure to achieve the production plan in the assumed period or limitation of the possibility to satisfy the demand due to hydraulic constraints of the connection network, fixtures and the increased failure rate of sales.
7.	Compliance risk	Risk associated with the failure to comply with the legal regulations, wrong interpretation of new provisions and regulations, requirements imposed by ERO/UOKiK/KNF, the requirements of the Act on personal data protection as well as risk associated with the failure to observe procedures associated with the external control conducted in TAURON Capital Group, which may result in imposing such sanctions by authorised entities.
8.	Risk of lack of coverage of activity costs in the period subject to the tariff	Risk associated with the lack of possibility to cover the overall costs of conducting the activity by the Company in the tariff for electricity, in particular, operating costs included in the tariff for a given year negatively affecting the financial result of TAURON Capital Group.
9.	Risk of sales of distribution services	The risk associated with the reduction of revenues for the provision of distribution services to individual groups of consumers in relation to the level included in the operating plan, arising, in particular, from the change in consumers' demand for electricity or the change of capacity they order.
10.	Environmental risk, including the risk associated with the atmospheric conditions	The risk consisting in a possibility to incur losses resulting from non-compliance with the legal regulations (including those arising from the way of implementation of the European law in the national law, administrative decisions), and including the possibility of occurrence of environmental damage or serious industrial accident or failure. The risk factors may have an adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through the requirement to incur significant costs of compliance, pay damages, or the potential threat to the implementation of production tasks.
11.	Risk of occurrence of natural hazards or unfavourable geological and mining conditions	Risk connected with threats to implementation of production tasks, hazards to safety of maintenance of the mining plant or safety of the staff due to natural risk factors within the development of the mining works, difficulties connected with the roof and floor conditions hampering the mining process, as well as natural hazards occurring in the mining plants (water and fire conditions, rock bumps).
12.	Risk of economic slowdown	Risk associated with the decline in revenues of TAURON Capital Group as a result of the economic slowdown translating into the reduced electricity demand, in particular, in the segment of business clients, and the generally lower energy prices in the market.
<b>III. Disaster Risks</b>		
1.	Risk of destruction of key machinery and equipment	The risk associated with a possibility of permanent destruction of machinery or equipment resulting in long-term decommissioning of a power unit, which may cause a significant loss of financial revenues and additional costs associated with the purchase of new elements or entire machines.
2.	Risk of cyber attack	The risk refers to the attack against the IT network controlling the performance of power units or the transmission grid, causing shutdown of power units and, in extreme cases, destruction of key elements of electricity infrastructure, which may result in the lack of possibility of their performance over a longer period of time, leading to the deterioration of financial results through the decline in revenues and the necessity to incur additional costs to recover their efficiency.

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.

## 4. ANALYSIS OF THE FINANCIAL AND ECONOMIC SITUATION OF TAURON POLSKA ENERGIA S.A.

### 4.1. Principles of preparation of the annual financial statements

The financial statement has been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU.

The IFRS comprise standards and interpretations approved by the International Accounting Standards Board as well as the International Financial Reporting Interpretation Committee.

The financial statement was generated with the assumption that the Company would continue its business operations within the foreseeable future. As of the date of approval of the consolidated financial statement for publication, no circumstances are recognised, indicating any risk for business continuity of the Company.

The accounting principles (policy) adopted for drawing up of the consolidated financial statement are provided in note 9 of the Financial statement for the year ended on 31 December 2015.

### 4.2. Overview of economic and financial values disclosed in the annual financial statement

#### Statement of comprehensive income

The table below presents the annual separate statement of comprehensive income.

**Table no 15. Annual separate statement of comprehensive income in 2015–2013**

Statement of comprehensive income prepared in accordance with the IFRS (PLN thousand)	2015	2014	2013	Dynamics (2015/2014)
<b>Continued operations</b>				
Revenue on sales	9,173,030	8,689,799	10,909,760	106%
Own cost of goods, materials and services sold	9,185,682	8,526,855	10,523,336	108%
<b>Gross profit (loss) on sales</b>	<b>(12,652)</b>	<b>162,944</b>	<b>386,424</b>	<b>-</b>
Other operating revenues	7,103	2,821	3,675	252%
Sales costs	20,268	25,286	39,498	80%
Overheads	96,341	80,365	81,998	120%
Other operating expenses	2,134	1,462	1,801	146%
<b>Operating profit (loss)</b>	<b>(124,292)</b>	<b>58,652</b>	<b>266,802</b>	<b>-</b>
<i>Operating profit margin (%)</i>	<i>(1.4%)</i>	<i>0.7%</i>	<i>2.5%</i>	<i>-</i>
Financial revenues	1,984,170	1,511,327	1,776,526	131%
Revaluation write-offs of stocks and shares	(4,931,147)	-	-	-
Financial expenses	379,525	397,452	346,806	95%
<b>Gross profit (loss)</b>	<b>(3,450,794)</b>	<b>1,172,527</b>	<b>1,696,522</b>	<b>-</b>
<i>Gross profit margin (%)</i>	<i>(37.6%)</i>	<i>13.5%</i>	<i>15.6%</i>	<i>-</i>
Income tax	3,114	26,084	7,550	12%
<b>Net profit (loss) on continuing operations</b>	<b>(3,453,908)</b>	<b>1,146,443</b>	<b>1,688,972</b>	<b>-</b>
<i>Net profit margin (%)</i>	<i>(37.7%)</i>	<i>13.2%</i>	<i>15.5%</i>	<i>-</i>
<b>Other total income</b>	<b>69,720</b>	<b>(17,054)</b>	<b>63,336</b>	<b>-</b>
<b>Total income</b>	<b>(3,384,188)</b>	<b>1,129,389</b>	<b>1,752,308</b>	<b>-</b>
<b>EBITDA</b>	<b>(115,781)</b>	<b>78,146</b>	<b>290,034</b>	<b>-</b>
<i>EBITDA Margin</i>	<i>1.3%</i>	<i>0.9%</i>	<i>2.7%</i>	<i>-</i>

In 2015 the Company recorded operating profit at a level of 2014 result. In 2015, the process of centralisation of functions and taking over the competence of companies of TAURON Capital Group was continued, aimed at improvement of effectiveness in TAURON Capital Group.

In 2015, impairment write-offs were recognised for the value of stocks and shares in subsidiaries, which had an impact on the negative level of gross and net profit of the Company.

## Revenues

The table below presents the level of revenue on sales of the Company in the years 2015–2013.

**Table no 16. Revenues on sales of the Company**

Specification (PLN thous.)	2015	2014	2013	Dynamics 2015/2014
<b>Revenue on sales</b>	<b>9,173,030</b>	<b>8,689,799</b>	<b>10,909,760</b>	<b>106%</b>
<b>Revenue on sales of goods and materials</b>	<b>9,074,456</b>	<b>8,564,045</b>	<b>10,790,134</b>	<b>106%</b>
including: Sales of electricity (without excluding excise duty)	8,558,477	7,925,020	9,877,998	108%
<b>Revenue from sales of services</b>	<b>98,574</b>	<b>125,754</b>	<b>119,626</b>	<b>78%</b>
including: Sales of commercial services	56,703	57,641	61,861	98%
<b>Revenue on other operating activity</b>	<b>7,103</b>	<b>2,821</b>	<b>3,675</b>	<b>252%</b>
<b>Revenue on financial activity</b>	<b>1,984,170</b>	<b>1,511,327</b>	<b>1,776,526</b>	<b>131%</b>

The growth of revenue on sales in 2015 as compared to 2014 is associated with the increased volume of sales of electricity by about 2.4 TWh (5%). In 2015 the Company continued its activities as the intermediary in transactions of biomass (until September) and coal purchase for companies of the Generation Segment.

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.

The growth in revenues on financial activities gained in 2015, as compared to 2014, results mainly from the lower level of dividends from subsidiaries.

The table below presents the level of revenues on sales of the Company in the years 2015–2013, divided into products.

**Table no 17. Revenues on sales of the Company, divided into products**

Specification (PLN thous.)	2015	2014	2013	Dynamics 2015/2014
Electricity	8,558,477	7,925,020	9,877,998	108%
Gas	119,774	76,970	72,424	156%
Property rights of energy origin	186,358	378,235	471,420	49%
CO <sub>2</sub> emission allowances	204,870	183,451	367,103	112%
Other	4,977	369	1,189	1,345%
<b>Total revenues on sales of goods and materials</b>	<b>9,074,456</b>	<b>8,564,045</b>	<b>10,790,134</b>	<b>106%</b>
Commercial services	56,703	57,641	61,861	98%
Other	41,871	68,113	57,765	61%
<b>Total revenues on sales of services</b>	<b>98,574</b>	<b>125,754</b>	<b>119,626</b>	<b>78%</b>
<b>Total revenues on sales</b>	<b>9,173,030</b>	<b>8,689,799</b>	<b>10,909,760</b>	<b>106%</b>

The growth in revenues on electricity sales in 2015, as compared to 2014, results from the growth in the volume of electricity sales by 5% and the increase in the average price of electricity sales by approximately 2.5% YoY.

The level of revenues on sales of property rights of energy origin in 2015 was lower than in previous years, mainly due to occurrence of additional transactions in 2014 and 2013 for hedging companies of TAURON Capital Group.

The Company continued to act as an intermediary in transactions of biomass and coal purchase for the TAURON Capital Group companies. In the year ended on 31 December 2015 the value of commodities purchased and simultaneously resold as a result of the above transactions amounted to PLN 1,881 thousand whereas the Company recognised revenues due to the intermediary services in the amount of approximately 38,5 million, which constitutes the major part of revenues on trade services.

The activity of the Company is mostly carried out on the territory of Poland. Sales to foreign clients in years ended on 31 December 2015 and 31 December 2014 reached PLN 400.7 million and PLN 422,3 million, respectively.

### Expenses

The table below presents the level and structure of costs incurred by the Company in the years 2015–2013.

**Table no 18. Level and structure of costs**

Specification (PLN thous.)	2015	2014	2013	Dynamics (2015/2014)
<b>Total costs</b>	<b>14,615,097</b>	<b>9,031,420</b>	<b>10,993,439</b>	<b>162%</b>
Cost of goods, materials and services sold	9,185,682	8,526,855	10,523,336	108%
Costs of sales and overheads	116,609	105,651	121,496	110%
Costs of other operating activities	2,134	1,462	1,801	146%
Costs of financial activities	5,310,672	397,452	346,806	1336%

In 2015, the total costs of Company operations were higher by 62% than in the previous year, mainly due to recognising of impairment write-offs for the value of shares and stocks in subsidiaries in financial costs.

Costs of goods, materials and services sold in 2015 is higher by approximately 8% as compared to 2014, which was mostly affected by the growth in energy purchase costs arising from the increase in electricity purchase volume and the growth in the average purchase price YoY. In addition, in connection with agreements concluded with the joint venture – Elektrociepłownia Stalowa Wola S.A., as at 31 December 2015 the Company created provisions for agreements generating charges in the amount of PLN 182.9 million.

In relation to 2014, costs of sales and overheads in 2015 were higher by approximately 10%. The growth was mainly related to costs of payroll and benefits due to payments arising from the non-competition agreements.

Other operating expenses include mainly the fees in favour of external organisations and donations.

Growth in financial costs arises from recognising of the impairment write-offs for the value of shares and stocks in the subsidiaries: TAURON Wytwarzanie in the amount of PLN 4,487,895 thousand and TAURON Ciepło in the amount of PLN 443,252 thousand. The decrease in other financial costs in 2015 as compared to 2014 arises mainly from a lower surplus of exchange losses over exchange gains by PLN 13.5 million, in connection with the valuation of a loan in EUR received from the subsidiary, and the occurrence of the exchange gain due to the valuation of derivative instruments.

### Financial end economic standing of the Company

The table below presents the separate annual statement of financial standing of the Company.

**Table no 19. Annual separate statement of financial standing (significant items)**

Statement of financial standing prepared in accordance with the IFRS (PLN thousand)	Status as of 31 December 2015	Status as of 31 December 2014	Status as of 31 December 2013	Dynamics (2015/2014)
<b>ASSETS</b>				
<b>Fixed assets</b>	<b>24,866,370</b>	<b>26,617,011</b>	<b>25,968,345</b>	<b>93%</b>
Stocks and shares	15,933,194	20,809,799	20,221,322	77%
Bonds	7,451,601	5,522,725	5,165,000	135%
Loans granted	1,417,165	198,331	189,310	715%
<b>Current assets</b>	<b>1,607,786</b>	<b>3,723,519</b>	<b>1,993,786</b>	<b>43%</b>
Inventory	249,492	177,272	149,317	141%



Statement of financial standing prepared in accordance with the IFRS (PLN thousand)	Status as of 31 December 2015	Status as of 31 December 2014	Status as of 31 December 2013	Dynamics (2015/2014)
Trade receivables and other receivables	709,594	982,582	1,134,856	72%
Bonds	215,040	1,276,001	52,830	17%
Cash and equivalents	168,255	1,228,880	507,127	14%
<b>TOTAL ASSETS</b>	<b>26,474,156</b>	<b>30,340,530</b>	<b>27,962,131</b>	<b>87%</b>
<b>LIABILITIES</b>				
<b>Equity</b>	<b>16,592,497</b>	<b>20,239,567</b>	<b>19,443,162</b>	<b>83%</b>
<b>Long-term liabilities</b>	<b>5,069,118</b>	<b>7,511,096</b>	<b>5,576,565</b>	<b>66%</b>
Loans, credits and debt securities	4,876,546	7,405,005	5,445,279	66%
<b>Short-term liabilities</b>	<b>4,812,541</b>	<b>2,589,867</b>	<b>2,942,404</b>	<b>185%</b>
Current portion of interest-bearing credits, loans and debt securities	4,057,048	1,803,255	1,858,032	225%
Trade liabilities and other liabilities	517,220	631,125	819,147	82%
Derivatives	96,942	102,615	73,358	94%
<b>TOTAL LIABILITIES</b>	<b>26,474,156</b>	<b>30,340,530</b>	<b>27,962,131</b>	<b>87%</b>

*Stocks and shares* – as a result of the conducted impairment tests for shares and stocks in subsidiaries, impairment write-offs were applied for shares in TAURON Wytwarzanie in the amount of PLN 4,487,895 thousand and shares in TAURON Ciepło in the amount of PLN 443,252 thousand, which is described in detail in note 6 of the financial statements.

*Bonds* – the item comprises bonds purchased by the Company, issued by subsidiaries.

According to the status as at 31 December 2015 and 31 December 2014, the equity amounted, respectively, to 63% and 67% of the total value of liabilities.

The liabilities of the Company due to loans and credits received and due to bonds as at 31 December 2015, referred to bonds issued under the bonds issue programme at the level of PLN 5,969,016 thousand, loans from subsidiaries drawn under the *Agreement on cash pool services*, in the amount of PLN 860,535 thousand, credits received from EIB in the amount of PLN 1,324,191 thousand (including interest), the loan from the subsidiary in the amount of PLN 30,256 thousand and the overdraft in the amount of PLN 10,207 thousand, drawn in order to finance hedging deposits and transactions for pollution emission allowances.

### Statement of Cash Flows

The table below presents the statement of cash flows prepared according to the IFRS.

**Table no 20. Statement of Cash Flows (significant items)**

Statement of Cash Flows prepared in accordance with the IFRS (PLN thousand)	2015	2014	2013	Dynamics (2015/2014)
<b>Cash flows from operating activities</b>				
Gross profit (loss)	(3,450,794)	1,172,527	1,696,522	–
Adjustments	3,608,403	(1,168,064)	(1,162,336)	–
<b>Net cash from operating activities</b>	<b>157,609</b>	<b>4,463</b>	<b>534,186</b>	<b>3,531%</b>
<b>Cash flows from investment activities</b>				
Purchase of stocks and shares	(53,377)	(98,625)	(270,791)	54%
Purchase of bonds	(4,155,000)	(3,745,520)	(6,130,000)	111%
Redemption of bonds	2,267,266	2,004,067	3,580,000	113%
Repayment of loans granted	14,500	11,700	161,390	124%
Loans granted	(168,124)	(18,050)	(108,800)	931%

Statement of Cash Flows prepared in accordance with the IFRS (PLN thousand)	2015	2014	2013	Dynamics (2015/2014)
Dividends received	1,510,624	1,076,835	1,500,627	140%
Interest received	267,464	310,066	220,678	86%
<b>Net cash from investment activities</b>	<b>(318,640)</b>	<b>(438,236)</b>	<b>(1,059,910)</b>	<b>73%</b>
<b>Cash flows from financial activities</b>				
Issue of debt securities	310,000	2,950,000	–	11%
Redemption of debt securities	(450,000)	(1,148,200)	–	39%
Credits/ loans drawn	322,358	693,273	450,000	46%
Credits/ loans repayment	(132,818)	(132,818)	(71,455)	100%
Dividends paid	(262,882)	(332,984)	(350,510)	79%
Interest paid	(344,332)	(314,904)	(296,384)	109%
<b>Net cash from financial activities</b>	<b>(587,079)</b>	<b>1,701,129</b>	<b>(279,177)</b>	<b>–</b>
<b>Increase/(decrease) in net cash and equivalents</b>	<b>(748,110)</b>	<b>1,267,356</b>	<b>(804,901)</b>	<b>–</b>
Net exchange differences	1,147	(186)	(1,869)	–
<b>Cash opening balance</b>	<b>68,935</b>	<b>(1,198,421)</b>	<b>(393,520)</b>	<b>–</b>
<b>Cash closing balance</b>	<b>(679,175)</b>	<b>68,935</b>	<b>(1,198,421)</b>	<b>–</b>

The status of cash received from operating, investment and financial activities of the Company for 2015, considering the status of opening balance of cash flows, amounted to PLN (679.2) million. The level of cash closing balance results from the adjustment of cash and pecuniary assets, consisting of balances of loans granted and received, implemented under cash pooling transactions, due to the fact that they do not constitute cash flows from investment or financial activities, therefore, being used mainly for management of current cash flows.

#### 4.3. Differences between the financial results recognised in the annual report and the forecasts of results for the year as published earlier

The Management Board did not publish any forecasts of financial results TAURON for 2015. This decision resulted from considerable volatility of the market and substantial number of variables affecting its predictability.

#### 4.4. Basic financial and non-financial ratios

##### Financial ratios

The table below presents the basic financial ratios of the Company.

**Table no 21. Basic financial indicators of the Company**

No.	Specification	2015	2014	2013	Dynamics 2015/2014
1.	<b>Gross Profitability</b> (gross result / revenue on sales)	(37.6)%	13.5%	15.6%	–
2.	<b>Net Profitability</b> (net result / revenue on sales)	(37.7)%	13.2%	15.5%	–
3.	<b>Return on equity</b> (gross result / equity)	(20.8)%	5.8%	8.7%	–
4.	<b>Return on assets</b> (net result / total assets)	(13.0)%	3.8%	6.0%	–
5.	<b>EBIT (PLN thous)</b> (result on operating activities)	(124,292)	58,652	266,802	–
6.	<b>EBIT Margin</b> (EBIT / revenue on sales)	(1.35)%	0.67%	2.45%	–

No.	Specification	2015	2014	2013	Dynamics 2015/2014
7.	<b>EBITDA (PLN thous)</b> (result on operating activities before depreciation)	(115,781)	78,146	290,034	–
8.	<b>EBITDA Margin</b> (EBITDA / revenue on sales)	(1.26)%	0.90%	2.66%	–
9.	<b>Current liquidity ratio</b> (current assets / short-term liabilities)	0.33	1.44	0.68	23%

In 2015, the gross and net profitability ratios, return on equity and return on assets reached negative levels due to recognising impairment write-off for shares and stocks in subsidiaries. The creation of the provision for agreements generating charges arising from the joint venture EC Stalowa Wola in the amount of PLN 182.9 million had major impact on the negative EBIT value.

The level of the operating result is typical for a company conducting activities associated with the management of a holding (costs related to management of TAURON Capital Group are included in operating activities while revenues gained from dividends are recognised under financial activities).

The ability of the Company to settle its liabilities was not threatened in 2015.

#### Non-financial ratios

The non-financial ratios in the Company are closely related to the specific nature of its activities, the resources held and the adopted Corporate Strategy, including:

- 1) methods of human resources management,
- 2) centralisation of governance functions in TAURON Capital Group, restricting the non-core activities,
- 3) assessment of investment opportunities,
- 4) development of organisational structures and management procedures.

#### 4.5. Income from the issue of securities

On 9 July 2015 and on 20 November 2015, TAURON concluded annexes with BGK to the agency and deposit agreement and the guarantee agreement, pursuant to which the amount of the bond issue programme available for TAURON increased from the level of PLN 1,000,000 thousand to PLN 1,700,000 thousand. The goal of the issue of bonds is to finance investment expenditure in accordance with the development strategy of TAURON Capital Group. The financial structure stipulates bond issue in series in the years 2015–2016, with redemption deadlines maturing from 2020 to 2029. In this project, BGK acts as the organiser, programme guarantor and depository. The bonds will be uncollateralised, coupon securities bearing interest rate according to the floating interest rate. In 2015, under the aforementioned bond issue programme, TAURON issued bonds for the total amount of PLN 310,000 thousand.

On 24 November 2015, TAURON and Bank Handlowy w Warszawie S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) BV, Bank of Tokyo-Mitsubishi UFJ (Poland) S.A., BZ WBK, CaixaBank S.A. (Spółka Akcyjna) Oddział w Polsce, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, ING Bank Śląski S.A., and PKO BP signed the agency agreement, the depository agreement and the underwriting agreement, to which mBank and Bank BGŻ BNP Paribas S.A., under which a bond issue programme was established to the amount of PLN 6,270,000 thousand, with a guarantee of being taken up by the aforementioned banks. The funds from the issuance, obtained under the aforementioned programme will be used to cover expenditure related to the execution of TAURON Capital Group investment programme, for debt refinancing or financing of the general corporate expenses of TAURON Capital Group. Within the programme, TAURON may organise multiple bond issues within the period until 30 November 2020. The bonds will be uncollateralised, coupon, bearer securities, bearing interest according to floating interest rate, and with maturity of 1, 3, 6, 12, 24, 36, 48 or 58 months.

Within the bond issue programme concluded on 31 July 2013 between the Company and BGK, TAURON issued bonds for the total amount of PLN 520,000 thousand according to the following specification:

- 1) on 21 December 2015 the issue of bonds with the nominal value of PLN 100,000 thousand, with the redemption term on 20 December 2028,
- 2) on 20 December 2015 the issue of three series of bonds, PLN 70,000 thousand each, with the total nominal value of PLN 210,000 thousand, with the redemption term in the years 2020–2022,

- 3) on 8 January 2016 the issue of three series of bonds, PLN 70,000 thousand each, with the total nominal value of PLN 210,000 thousand, with the redemption term in the years 2023–2025.

The objective of the issue of bonds was to finance investment expenditure of TAURON Capital Group.

On 29 February 2016 the issue of bonds with the total value of PLN 2,250,000 thousand was performed, with the redemption term on 29 December 2020, under the programme signed with the consortium of banks on 24 November 2015. The objective of the issue of bonds was to acquire funds for the purchase of 22,500 bonds from C tranche, issued on 12 December 2011, with the purpose of redemption, with the redemption date falling on 12 December 2016. Information on this event is contained in the current report no. 11/2016 of 29 February 2016.

The table below presents the specification of issued and non-redeemed bonds as at 31 December 2015.

**Table no 22. Specification of issued and non-redeemed bonds as at 31 December 2015**

No.	Value of bonds (in thousand)	Type and level of interest rate	Redemption term of the last series	Balance as at 31 December 2015 (in thousand)
1.	PLN 3,000,000	WIBOR 6M + fixed margin	12.12.2016	PLN 3,000,000
2.	PLN 1,750,000	WIBOR 6M + fixed margin	04.11.2019	PLN 1,750,000
3.	PLN 1,210,000	WIBOR 6M + fixed margin	20.12.2028	PLN 1,210,000

#### 4.6. Financial instruments

##### 4.6.1. Application of financial instruments in the scope of elimination of price changes, credit risk, significant disruptions of cash flows and loss of financial liquidity

Within the financial risk management, in 2015 the Company hedged the risk of cash flow volatility resulting from the indebtedness held, based on WIBOR reference rate, by its partial mitigation through concluding the interest rate swap transactions (IRS). Moreover, in 2015, the currency exposure arising within the commercial activities (mainly due to the CO<sub>2</sub> emission allowances trading) was hedged by concluding forward contracts. The aim of these transactions was to hedge the Company against the risk of cash flow fluctuations resulting from currency exchange rate volatility. In addition, the Company effectively eliminates the currency risk of EUR/PLN exchange rate changes in relation to interest coupons against the loan in EUR throughout its entire effective period, through the concluded CIRS transaction.

The table below presents active forward derivative transactions according to the status as at 31 December 2015 (due to the adopted centralised model of financial risk management, the data refer only to the Company).

**Table no 23. Information on forward and derivative transactions as at 31 December 2015 (data in thousand)**

No.	Type of transaction concluded	Total denomination of the specific type of transaction	Currency			Maturity date of the specific type of transaction		Valuation of transaction of the specific type as at 31 December 2015
			PLN	EUR	other	up to one year	above one year	
1.	IRS	3,000,000	X			X		- 95,467
2.	CIRS	704,928	X				X	- 11,368
3.	Forward	3,914		X		X		493

Within hedging of risk arising from price volatility TAURON Capital Group used forward market instruments for edging purposes. On the other hand, under liquidity loss risk management a number of debt instruments referred to in subsection 2.7.3 is used.

##### 4.6.2. Goals and methods of financial risk management

The Company manages financial risk, understood as currency risk and interest rate risk in accordance with the prepared *Policy of risk management specific for the financial area in TAURON Group*, adopted for application, which is the collection of principles and standards compliant with the best practices in this area.

Due to correlation between the risk incurred and the level of achievable income, these regulations are used to maintain the risks at the previously established, acceptable level. The main goal of financial risk management is to mitigate sensitivity of cash flows of the Company to financial risk factors and to minimise financial costs and collateral costs under transactions with the use of derivative instruments.

The aforementioned policy also defines the rules of hedge accounting application, including the types of cash flow collaterals and the accounting treatment of hedging instruments and items hedged, in accordance with the IFRS. In accordance with the said policy, the Company, in case where it is feasible and economically justified, uses derivative instruments whose characteristics enables the application of hedge accounting.

#### **4.7. Financial outlook**

The financial situation of the Company is stable and no adverse events occurred which would cause risk for its business continuity or significant deterioration of its financial standing. The revaluation of shares and stocks recognised in financial costs results from the conducted impairment tests in TAURON Wytwarzanie and TAURON Ciepło companies and does not pose threat to continuation of business operations of the Company.

The detailed description of the financial standing understood as the provision of financial resources for both the operational and the investment activity is included in subsection 4.2 of this report.

#### **4.8. Assessment of financial resources management**

Due to the measures implemented in the previous years and continued in 2015, resulting in centralising the financial management area in TAURON Capital Group, the Company effectively managed its financial resources. The main tools enabling effective management of financial resources include the implemented central financing model as well as the *Policy of liquidity management of TAURON Group*, including the cash pooling operating in TAURON Capital Group. Moreover, the financial management system is supported by the central *Policy of managing risks specific in the financial area of TAURON Group* and the central *Insurance policy of TAURON Group*, where the Company plays the role of the management body and decision maker in the scope of directions of measures undertaken, allowing for determining the relevant limits of risk exposure.

In accordance with the adopted central model of financing, the Company is responsible for acquisition of financial resources for companies of TAURON Capital Group. Resources acquired both internally (from companies of TAURON Capital Group generating financial surpluses), as well as externally (from the financial market) are subsequently transferred to companies of TAURON Capital Group, reporting the demand for financing (for this purpose, besides cash pooling, the intra group bond issue programme has been implemented).

Such model of acquisition of funding sources allows, among other things, for decreasing of the costs of capital, increasing of the possibility to obtain financing, it reduces the number and form of hedges established on assets of TAURON Capital Group and covenants required by financial institutions, as well as reduces administrative costs. The central model of financing also enables to acquire financing sources unavailable for individual companies, such as, for example, issue of Euro bonds. The implementation of the central financing model effectively influenced the change of approach to investment funding in TAURON Capital Group. The financing is acquired based on the consolidated balance sheet of the whole TAURON Capital Group, while the funding sources are not assigned to any specific investment projects, but they are incurred to cover the financial gap at a level of TAURON Capital Group. The structure of financing of investment projects in the specific period corresponds to the overall activity of TAURON Capital Group. The model adopted enables the implementation of investment plans in accordance with the approved Corporate Strategy.

Another key element influencing the effectiveness of financial management is the policy of liquidity management. Through implementation of relevant forecasting standards it becomes possible to establish the precise liquidity position allowing for optimising of selection of the moment of fund raising as well as the maturity term and types of deposit instruments as well as the appropriate level of liquidity provision. The above factors influence both the cost reduction and safety enhancement. The current liquidity management is supported by the implemented cash pooling mechanism. Its overriding goal is to provide for current financial liquidity in TAURON Capital Group, with simultaneous limitation of costs of short-term external financing and maximising of financial revenue due to cash surpluses held. Owing to the cash pooling structure, companies of TAURON Capital Group facing short-term deficits of funds, may use funds of companies recognising financial surpluses, without the need to acquire external financing.

Moreover, TAURON implemented a coherent programme of bank guarantees. Under a single agreement it is possible to issue guarantees in favour of any company of TAURON Capital Group within a centralised limit. The above mentioned activity reduced the cost of bank guarantees acquired, made their acquisition independent of the standing of an individual company and limited the total number of activities required to obtain the guarantee. In addition, TAURON concluded the general agreement with BZ WBK bank for bank guarantees issued for IRGIT,

which significantly reduces the cost of collaterals required in connection with the electricity trading on the stock exchange.

In 2015, the Company demonstrated full capacity to settle its liabilities on their maturity date.

#### 4.9. Information concerning the entity authorised to examine financial statements

On 7 May 2013 TAURON concluded the agreement with Deloitte Polska Sp. z o.o Spółka komandytowa (Deloitte Polska) for conducting the examination of:

- 1) financial statements of the Company for 2013–2015, prepared in accordance with the requirements of the IFRS,
- 2) financial statements of selected companies of TAURON Capital Group for 2013–2015 prepared in accordance with the IFRS,
- 3) consolidated financial statements of the Company for 2013–2015, prepared in accordance with the requirements of the IFRS.

The Agreement also covers conducting of the interim reviews of semi-annual financial statements of the Company and consolidated financial statements of TAURON Capital Group, prepared in accordance with the IFRS for periods ending on 30 June 2013, 30 June 2014 and 30 June 2015.

The table below presents the level of remuneration of the independent auditor due to the services provided for the Company.

**Table no 24. Level of remuneration of the independent auditor due to the services provided for the Company (data in PLN thousand)**

No.	Type of service	Year ended 31 December 2015	Year ended 31 December 2014
1.	Mandatory audit	105	105
2.	Other certifying services, including the review of financial statements	63	94
3.	Tax advisory services	0	0
4.	Other services (including training)	465	0
<b>Total</b>		<b>633</b>	<b>199</b>

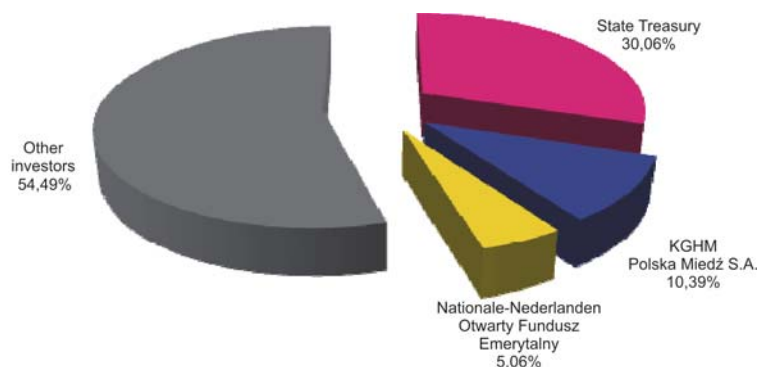
## 5. SHARES AND SHAREHOLDERS

### 5.1. Structure of shareholding and the level of the dividend paid

As at 31 December 2015 and as at the day of drawing up this report, the share capital of the Company, in accordance with the entry to the National Court Register, amounted to PLN 8,762,746,970 and it was divided into 1,752,549,394 shares with the nominal value of PLN 5 each, including 1,589,438,762 ordinary bearer shares of AA series and 163,110,632 ordinary registered shares of BB series.

The figure below presents the structure of shareholding as at 31 December 2015 and as at the day of drawing up this report.

Figure no. 19 Structure of the shareholding as at 31 December 2015 and as at the day of this report



The table below presents the level of dividend paid in the years 2010–2014.

Table no 25. The level of dividend paid in the years 2010–2014

No.	Financial year for which the dividend was paid	Dividend paid for 2010–2014				
		Amount of dividend paid (PLN)	% of profit net	Value of dividend per share paid (PLN)	Day of dividend	Date of dividend payment
1.	2010	262,882,409.10	31%	0.15	30.06.2011	20.07.2011
2.	2011	543,290,312.14	44%	0.31	02.07.2012	20.07.2012
3.	2012	350,509,878.80	24%	0.20	03.06.2013	18.06.2013
4.	2013	332,984,384.86	25%	0.19	14.08.2014	04.09.2014
5.	2014	262,882,409.10	23%	0.15	22.07.2015	12.08.2015

### 5.2. Number and nominal value of Company shares as well as shares and stocks in affiliated entities of the Company, held by members of the management and supervisory bodies

The table below presents the status of Company shares, held by the management staff as at 31 December 2015 and as at the day of this report.

Table no 26. Status of shareholding of Company shares by managing persons

No.	Name and surname	TAURON shares	
		Number	Nominal value (in PLN)
1.	Remigiusz Nowakowski	935	4675
2.	Jarostaw Broda	0	0
3.	Kamil Kamiński	0	0
4.	Marek Wadowski*	0	0
5.	Piotr Zawistowski	0	0
6.	Anna Striżyk*	0	0

\* Anna Striżyk was dismissed from the Management Board on 8 January 2016, Marek Wadowski was appointed as the member of the Management Board on 29 January 2016.

As at 31 December 2015 and as at the day of drawing up this report, Members of the Management Board did not hold stocks or shares in affiliated entities of the Company.

The table below presents the status of Company shares, held by the supervisory staff as at 31 December 2015 and as at the day of drawing up this report.

**Table no 27. Status of shareholding of Company shares by supervising persons**

No.	Name and surname	TAURON shares	
		Number	Nominal value (in PLN)
1.	Beata Chłodzińska	0	0
2.	Anna Mańk	0	0
3.	Jacek Szyke	0	0
4.	Anna Biesialska	0	0
5.	Maciej Koński	0	0
6.	Leszek Koziorowski	0	0
7.	Wojciech Myślecki	0	0
8.	Michał Czarnik	0	0
9.	Renata Wiernik-Gizicka	2,500	12,500

As at 31 December 2015 and as at the day of drawing up this report, Members of the Supervisory Board did not hold stocks or shares in affiliated entities of the Company.

### 5.3. Agreements concerning potential changes in the shareholding structure

The Management Board does not have any information on existence of any agreements (including agreements concluded after the balance sheet day), as a result of which changes in the ratio of the shares held by shareholders and bondholders may occur in the future.

### 5.4. Purchase of treasury shares

In 2015 and as at the day of drawing up this report, the Company did not hold any treasury shares.

### 5.5. Programmes of employee shares

In 2015, no employee shares programmes operated in the Company.

### 5.6. Listing of shares on the Warsaw Stock Exchange (GPW)

Shares of TAURON have been listed at the Primary Market of GPW since 30 June 2010. In 2015 the price of TAURON shares ranged from PLN 2.37 to PLN 5.29 (according to closing prices). The price of shares during the last session in 2014 reached the level of PLN 5.05. A year later, the price reached PLN 2.88. The return rate<sup>1</sup> on investment in TAURON shares in 2015 was negative and amounted to -41%, whereas the WIG20 index in this period decreased by 20%, and the WIG-Energia index – by 31%. One of the main reasons of the poor condition of Polish exchange indices was the deteriorating situation of the Chinese economy, the decline in commodity prices and the persisting political uncertainty.

On the other hand, the main reason of radical downward adjustment of energy companies' valuation in 2015 – as analysts indicate – was the risk associated with the potential involvement of those companies in the restructuring of the coal mining sector. It should be stressed that in 2015, quotations of the leading European energy groups (inter alia, RWE, EON, Engie, EDF) continued to follow the long-term downward trend, and market valuations of some companies reached their historical lows (e.g. RWE).

As at 31 December 2015, TAURON shares were included in the following exchange indices:

1. **WIG** – comprising all companies listed at the Primary Market of GPW which meet the base criteria of participation in the indices, Share of TAURON in WIG index: 1.14%.

<sup>1</sup> The return rate calculated, including the income of the investor due to dividends, and assuming that the additional income gained will be reinvested. Methodology compliant with the GPW Statistical Bulletin.



2. **WIG-Poland** – the national index which includes only shares of national companies listed at the Primary Market of GPW, which meet the base criteria of participation in the indices. Share of TAURON in WIG-Poland index: 1.164%.
3. **WIG20** – index calculated based on the value of share portfolio of 20 biggest and most liquid companies of the Primary Market of GPW. Share of TAURON in WIG20 index: 1.75%.
4. **WIG30** – index comprising 30 biggest and most liquid companies listed at the Primary Market of GPW. Share of TAURON in WIG30 index: 1.62%.
5. **WIG-Energia** – the sectoral index comprising companies participating in the WIG index and simultaneously classified to the energy sector. Share of TAURON in WIG-Energia index: 14.756%.
6. **Respect Index** – the index grouping in their portfolio companies operating in accordance with the highest standards of social responsibility. Share of TAURON in Respect Index: 3.645%.
7. **MSCI Emerging Markets Europe 10/40 Index** – the index comprising key companies listed at exchanges of emerging markets. Share of TAURON in MSCI Emerging Markets Europe 10/40 Index: 0.51%.
8. **MSCI Poland Index** – the index comprising over 20 key companies listed at GPW. Share of TAURON in MSCI Poland Index: 1.81%.

The table below presents the key data concerning the Company shares in the years 2011–2015.

**Table no 28. Key data related to TAURON shares in the years 2011–2014**

No.	2011	2012	2013	2014	2015
1. Maximum price (PLN)	6.81	5.61	5.39	5.69	5.29
2. Minimum price (PLN)	4.65	4.08	3.85	4.04	2.37
3. Last price (PLN)	5.35	4.75	4.37	5.05	2.88
4. Capitalisation at the end of the period (PLN million)	9,376	8,325	7,659	8,850	5,047
5. Capitalisation at the end of the period (%)	2.10	1.59	1.29	1.50	0.98
6. Book value (PLN million)	15,922.47	16,839.41	17,675.34	18,106.79	18,837.00
7. C/Z	8.10	5.50	5.50	7.80	4.2
8. C/WK	0.59	0.49	0.43	0.49	0.27
9. Return rate since the beginning of the year <sup>2</sup> (%)	-16.73	-5.03	-3.64	+20.07	-40.78
10. Dividend rate (%)	2.8	6.5	4.6	3.8	5.2
11. Turnover value (M PLN)	5,574.82	3,198.94	3,103.56	3,134.81	3,062.52
12. Share in trade (%)	2.21	1.70	1.41	1.53	1.50
13. Average volume per session	3,721,539	2,667,725	2,793,020	2,489,329	3,190,195
14. Average number of transactions per session	1,373	960	1,022	1,106	1,431

Source: GPW Statistical Bulletin

The figures below present the historic developments of TAURON share price and the value of trade, including, in comparison with WIG20 and WIG-Energia indices.

<sup>2</sup> The return rate calculated, including the income of the investor due to dividends, and assuming that the additional income gained will be reinvested. Methodology compliant with the GPW Statistical Bulletin.

Figure no. 20 Graph of TAURON share price and value of trade in 2015

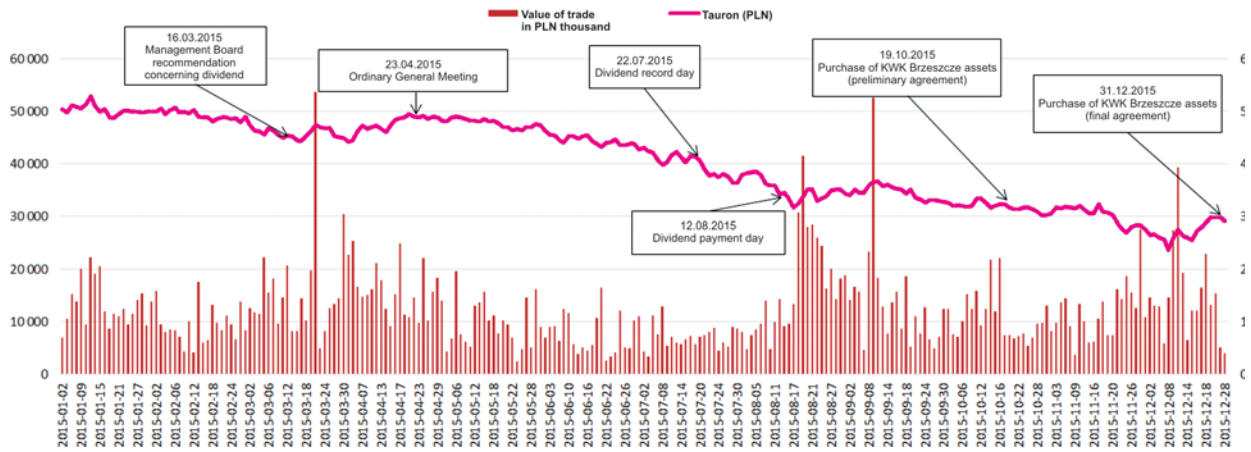


Figure no. 21 Graph of TAURON share price and the value of trade from the exchange debut until 31 December 2015

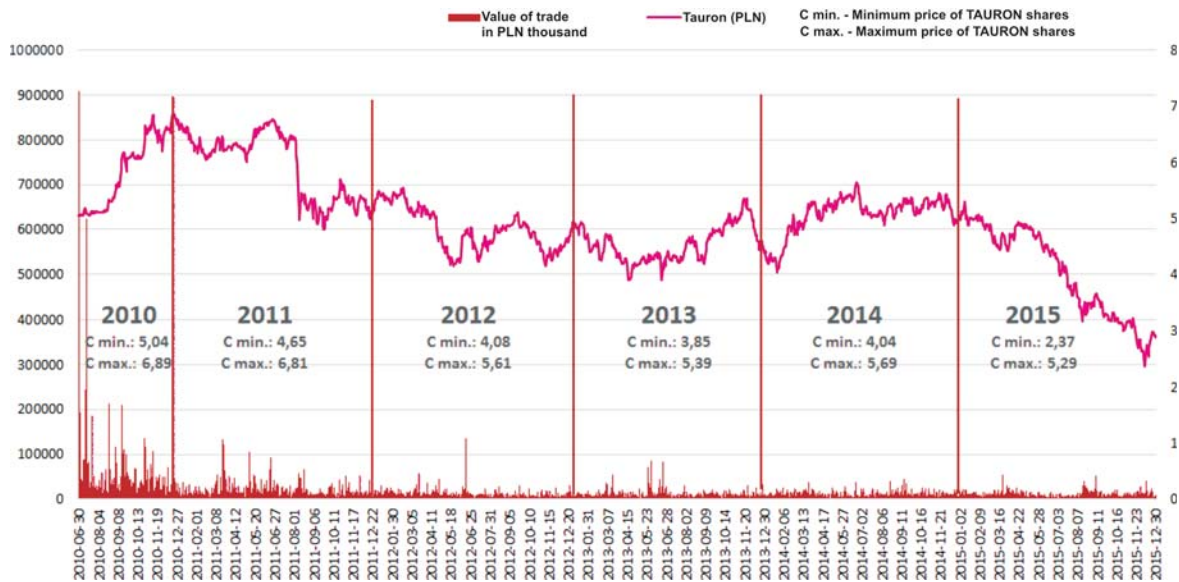
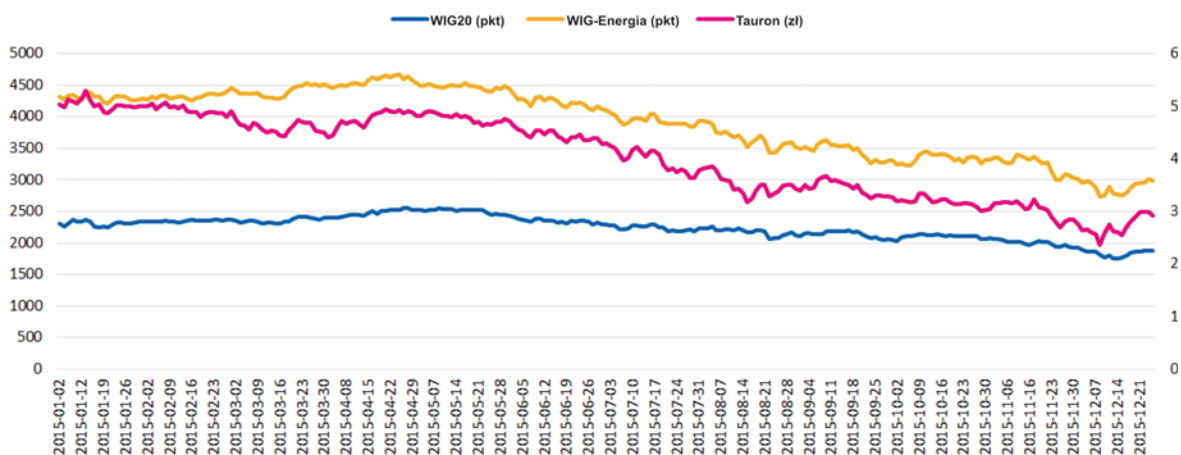
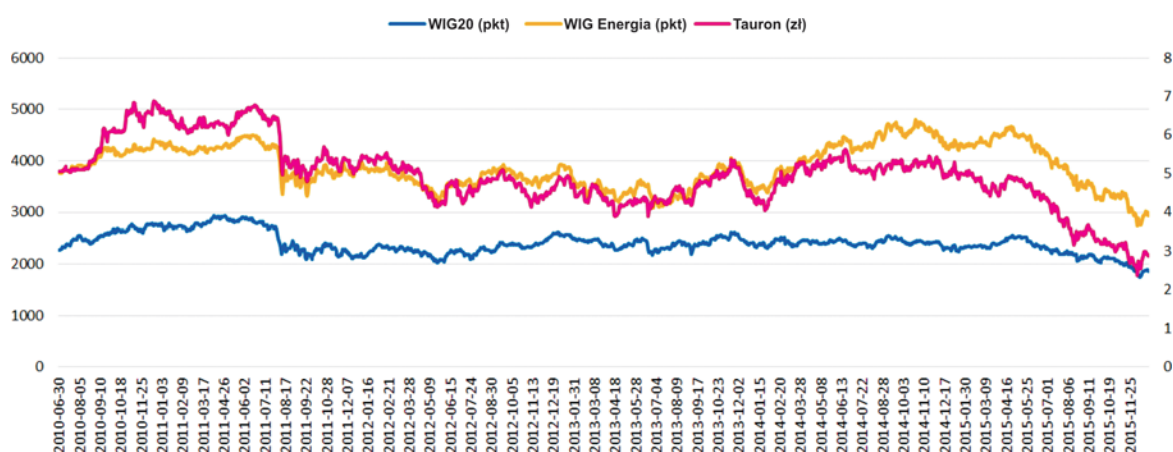


Figure no. 22 Graph of TAURON share price compared to WIG20 and WIG-Energia indices in 2015



**Figure no. 23 Share price of TAURON as compared to WIG20 and WIG-Energia indices from the exchange debut until 31 December 2015**


### Recommendations for TAURON Polska Energia S.A. shares

In 2015, analysts of brokerage houses and investment banks issued the total of 32 recommendations (excluding the updates of target prices) for TAURON shares, including:

- 1) four “buy” recommendations,
- 2) fourteen “keep” recommendations,
- 3) twelve “sell” recommendations.

The table below presents the list of recommendations issued in 2015

**Table no 29. Recommendations issued in 2015**

No.	Date of recommendation	Recommendation/target price	Recommending institution
1.	22.01.2015	Buy / PLN 6.20	Wood & Company
2.	09.02.2015	Keep / PLN 5.06	J.P. Morgan
3.	13.02.2015	Sell / PLN 5.00	Citi
4.	20.02.2015	Sell / PLN 4.40	Deutsche Bank
5.	05.03.2015	Keep / PLN 4.70	Societe Generale
6.	25.03.2015	Keep / PLN 5.30	Goldman Sachs
7.	09.04.2015	Keep / PLN 5.10	UBS Investment Research
8.	23.04.2015	Sell / PLN 4.60	Citi
9.	19.05.2015	Keep / PLN 5.30	Goldman Sachs
10.	20.05.2015	Keep / PLN 5.10	Societe Generale
11.	18.06.2015	Keep / PLN 4.85	DM BZ WBK
12.	21.06.2015	Keep / PLN 4.50	DM BOŚ
13.	16.07.2015	Keep / PLN 4.60	Pekao Investment Banking
14.	17.07.2015	Sell / PLN 3.90	Citi
15.	30.07.2015	Buy / PLN 4.70	mBank
16.	07.08.2015	Sell / PLN 3.60	Goldman Sachs
17.	12.08.2015	Keep / PLN 3.90	Societe Generale
18.	28.08.2015	Sell / PLN 3.00	Citi
19.	04.09.2015	Keep / PLN 3.60	Bank of America Merrill Lynch
20.	18.09.2015	Keep / PLN 3.80	Deutsche Bank

No.	Date of recommendation	Recommendation/target price	Recommending institution
21.	29.09.2015	Keep / PLN 3.40	DM PKO BP
22.	02.10.2015	Keep / PLN 3.60	Societe Generale
23.	08.10.2015	Sell / PLN 3.00	Goldman Sachs
24.	23.11.2015	Sell / PLN 2.80	J.P. Morgan
25.	30.11.2015	Sell / PLN 2.33	Erste
26.	01.12.2015	Sell / PLN 3.00	Deutsche Bank
27.	07.12. 2015	Keep / PLN 3.49	DM BZ WBK
28.	11.12.2015	Sell / PLN 2.50	Citi
29.	14.12.2015	Sell / PLN 2.40	Pekao Investment Banking
30.	14.12.2015	Sell / PLN 2.30	DM BOŚ
31.	14.12.2015	Buy / PLN 3.73	mBank
32.	16.12.2015	Buy / PLN 3.30	Societe Generale

## 6. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

Acting pursuant to § 91 item 5 p. 4) of the *Regulation of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state* (Journal of Laws no.33 item 259 as amended), the Company Management Board submits the Statement on Application of Corporate Governance in 2015.

In connection with the adoption of Resolution no. 27/1414/2015 of 13 October 2015 by the Supervisory Board of GPW concerning *Best Practice of GPW Listed Companies 2016* (Best Practice 2016), effective from 1 January 2016, the Management Board of the Company additionally presents information on adopting the recommendations and principles contained in the aforementioned Best Practice 2016 for application by the Company.

### 6.1. Indicating the applied set of corporate governance rules

#### Application of the set of corporate governance rules in 2015

In 2015 the Company was subject to the corporate governance rules, described in the document *Best Practice of GPW Listed Companies* (Best Practice), constituting the Annex to the Resolution of the GPW Board no. 12/1170/2007 of 4 July 2007, amended by the following resolutions of the GPW Board: No. 17/1249/2010 of 19 May 2010, No. 15/1282/2011 of 31 August 2011, No. 20/1287/2011 of 19 October 2011 and No. 19/1307/2012 of 21 November 2012, which entered into force on 1 January 2013. The document also contains the rules of corporate governance which the Company adopted on a voluntary basis.

The Best Practice was adopted for application by the Company Management Board. In 2015 the Company did not apply only the rule contained in Chapter IV section 10 of the Best Practice. Other rules specified in the aforementioned document in Chapters II, III and IV were applied by the Company.

The texts of the Best Practice the Company was subject to in 2015 and the Best Practice 2016, the Company has been subject to since 1 January 2016 are published on the GPW website: <http://www.corp-gov.gpw.pl>.

#### Adopting of the set of corporate governance rules for application by the Company in 2016

In connection with the entry into force of the Best Practice 2016 as of 1 January 2016, the Management Board of the Company adopted the recommendations and rules defined in the aforementioned document for application, excluding the rules defined in: IV.Z.2, VI.Z.1, VI.Z.2. At the same time, the Management Board recognised that the following recommendations and rules of Best Practice 2016 do not apply to the Company: I.Z.1.10, III.Z.6, IV.R.2.

Pursuant to § 29 item 3 of the *Regulations of Giełda Papierów Wartościowych w Warszawie S.A.*, on 1 February 2016 the Company submitted a report concerning non-compliance with detailed rules contained in the Best Practice 2016, via the Electronic Information Base (EBI system). At the same time, the Company published information on its website concerning the status of application of recommendations and rules contained in Best Practice 2016 by the Company.

### 6.2. Indicating the waived rules of corporate governance

#### Waiver of the application of corporate governance rules in 2015

In 2015 the Company did not apply only the rule contained in Chapter IV item 10 of the Best Practice (in its wording applicable as of 1 January 2013), concerning the provision of a possibility for shareholders to participate in the GM by means of electronic communication means, consisting in:

- 1) transmission of the GM session in real time,
- 2) bilateral communication in real time, where Shareholders may speak during the GM while being at a different location than the venue of the General Meeting.

On 2 January 2013 the Company submitted the current report no. 1/2013, by means of the EBI system, containing information on the non-compliance with the aforementioned corporate governance rule, due to the fact that the provisions of the Company Articles of Association did not include the provisions enabling the participation in the GM using electronic communication means, pursuant to the provisions of the Code of Commercial Companies (CCC).

In order to enable the application of the aforementioned rule, the Management Board of the Company applied to the Ordinary GM of the Company for adopting of the resolution concerning the amendment to TAURON Articles of Association, suggesting the provisions enabling participation of shareholders in the GM by means of electronic communication means, including, in particular: transmission of the GM session in real time, bilateral communication in real time, where shareholders may speak during the GM while being at a different location than the venue of the GM, exercising the voting right personally or through a proxy, before or during the GM.

The Ordinary GM of the Company convened on 16 May 2013 did not adopt the aforementioned resolution.

Accordingly, also in 2015, the Company did not apply the rule contained in Chapter IV item 10 of the Best Practice and the recommendation contained in Chapter I item 12 of the Best Practice.

Other rules specified in Chapters II, III and IV of the Best Practice were applied by the Company. In the period since the day of commencement of public listing of the Company shares until 31 December 2015, there have been no occurrences of infringement of the corporate governance regulations adopted.

In 2015, the Company also endeavoured to implement the recommendations contained in Part I of the Best Practice. The issues described below are particularly important.

#### **Recommendation concerning the remuneration policy**

With the aim of implementing recommendation I.5 of Good Practices, the Company has adopted the *Remuneration Policy for Members of supervisory and management bodies, including the description of the rules of defining the policy in TAURON Polska Energia S.A.* (Remuneration Policy), considering the EC Recommendation of 14 December 2004 *fostering an appropriate regime for the remuneration of directors of companies listed at the stock exchange* (2004/913/EC), supplemented by the EC recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC). The above policy determines the objectives and rules of remuneration policy for members of Supervisory Board and the Management Board of the Company, with the application of general regulations as well as the relevant resolutions of the GM and the Supervisory Board of the Company. The Remuneration Policy has, among others, the following objectives:

- 1) providing the motivating and consistent system of remuneration policy for members of Supervisory Board and the Management Board,
- 2) linking the remuneration rules with monitoring of implementation of the adopted strategic plans and implementation of the financial plans,
- 3) adjusting the level of remuneration of members of corporate bodies of the Company in connection with implementation of the tasks delegated.

Simultaneously, in fulfilment of the information obligations specified in the provisions of the Regulation of the Minister of Finance of 19 February 2009 *on current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state*, the Company publishes information regarding the remuneration of members of Supervisory Board and the Management Board in its annual reports.

#### **Recommendation concerning the balanced participation of women in performing the functions of management and supervision**

In accordance with recommendation I.9 of the Best Practice, GPW recommends that the public companies and their shareholders should provide for the balanced participation of women and men in performing the management and supervisory functions in enterprises. In the Company, members of Supervisory Board are appointed in accordance with the provisions of the Articles of Association, by the GM and the State Treasury, under its personal powers, whereas the members of the Management Board are appointed by the Supervisory Board. The rules applicable in the Company in this scope do not restrict a possibility of participation in the Company governance bodies due to gender. Simultaneously, in fulfilment of the requirements specified in Section II p. 1 subsection 2a) of the Best Practice, in the 4th quarter of 2015 the Company published information on participation of men and women in the Supervisory Board and the Management Board of TAURON in the period of the last two years, on its website.

#### **Non-applied recommendations and rules of the Best Practice 2016**

The Company did not adopt the following detailed rules contained in the Best Practice 2016 for application:

- 1) IV.Z.2. concerning ensuring of publicly available real-time broadcasts of general meetings, due to the lack of the relevant provisions of the Articles of Association enabling the aforementioned broadcast. At the same time, the Management Board of the Company indicated that taking into consideration the provisions of Article 406<sup>5</sup> of the CCC, it would request the GM to introduce the amendment to the Company Articles of Association enabling the shareholders to participate in the GM using electronic means of communication, comprising the real-time broadcasts of general meetings,
- 2) VI.Z.1. concerning the construction of incentive schemes in a way necessary, among others, to tie the level of remuneration of members of the company's management board and key managers to the actual long-term financial standing of the company and long-term shareholder value creation as well as the company's stability. Justifying the failure to adopt this rule for application, the Management Board of the Company has indicated that the remuneration and bonus system applicable in TAURON in relation to members of the Management Board of the Company and its key managers stipulates that the level of remuneration will be tied to the financial situation of the Company within the annual perspective, in conjunction with the implementation of strategic objectives,

- 3) VI.Z.2. stating that in order to tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years. Justifying the failure to adopt this rule for application, the Management Board of the Company has indicated that the remuneration and bonus system applicable in TAURON in relation to Members of the Management Board of the Company and its key managers does not provide that remuneration should be tied to instruments linked with the Company shares.

At the same time, while adopting the Best Practice 2016 for application, the Management Board of the Company indicated that the following rules and recommendations do not apply to the Company:

- 1) I.Z.1.10. concerning placing financial projections on the Company website – if the company has decided to publish them – published at least in the last 5 years, including information about the degree of their implementation – due to the fact that financial forecasts are not published,
- 2) III.Z.6. stating that where the company has no separate internal audit function in its organisation, the audit committee (or the supervisory board if it performs the functions of the audit committee) should review on an annual basis whether such function needs to be separated – due to the fact that the Company has a separate Internal Audit Department in its organisational structure,
- 3) IV.R.2. concerning enabling shareholders to participate in the general meeting using electronic communication means – due to the failure of the Company GM on 16 May 2013 to adopt the resolution concerning the amendment to the Company Articles of Association aimed at enabling the shareholders to participate in the general meeting using electronic communication means. Accordingly, no justification exists to apply this recommendation.

Moreover, the Management Board of the Company, adopting the detailed rules of the Best Practice 2016, designated as: I.Z.1.3, I.Z.1.15, I.Z.1.16, II.Z.1, II.Z.6, II.Z.10.1, II.Z.10.2, II.Z.10.3, II.Z.10.4, V.Z.5, V.Z.6, VI.Z.4., indicated the method of their application. The detailed description of the method of applying the aforementioned rules has been included in the *Information concerning the status of application of recommendations and rules contained in the Best Practice 2016 by the Company*, constituting the annex to the report on non-compliance of the detailed rules contained in the Best Practice 2016 document, published on 1 February 2016 via the EBI system and placed on the Company website.

### **6.3. Description of main characteristics of internal control and risk management systems in relation to the process of generating the financial statements and consolidated financial statements**

The internal control and risk management system in relation to the process of generating financial statements and consolidated financial statements is implemented through:

#### ***Supervision over application of coherent accounting principles by companies of TAURON Capital Group while compiling the consolidated financial statements of TAURON Capital Group***

In order to ensure coherent accounting principles based on IFRS, approved by the EU, in TAURON Capital Group the *Accounting Policy of TAURON Polska Energia S.A.* was developed and implemented (Accounting Policy). The document is subject to relevant amendments and updates in case of amendments to the regulations. The rules contained in the Accounting Policy are applicable to separate financial statements of TAURON and consolidated financial statement of TAURON Capital Group. Companies of TAURON Capital Group are obliged to apply the Accounting Policy while preparing the reporting packages which provide basis for compiling of the consolidated financial statement of TAURON Capital Group. The reporting packages are verified by the Office for Consolidation and Reporting in the parent company as well as by the independent auditor during examination or review of consolidated financial statements of TAURON Capital Group.

#### ***Procedures of authorisation and reviewing of financial statements of the Company and consolidated financial statements of TAURON Capital Group***

In the Company, procedures of authorisation of financial statements have been implemented. Quarterly, semi-annual and annual financial statements of the Company as well as consolidated financial statements of TAURON Capital Group are approved by the Company Management Board before publication. The annual financial statements of the Company as well as consolidated financial statements of TAURON Capital Group are additionally presented for review by the Company Supervisory Board before publication. The Vice President of the Board, Chief Financial Officer supervises the preparation of financial statements, whereas management boards of companies covered by consolidation are responsible for compiling of the reporting packages for the TAURON Capital Group consolidated financial statement.

In the structures of the Company Supervisory Board, the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. operates, whose composition, competence and description of activities is included in subsection 6.11.3 of this report.

### IT systems and financial and accounting processes

Companies of TAURON Capital Group keep ledgers providing basis for the preparation of financial statements in the computer financial and accounting systems of ERP class. The consolidated financial statements are prepared using the IT tool designed for consolidation of financial statements.

In the companies of TAURON Capital Group IT and organizational solutions operate which control the access to financial-accounting systems and provide adequate protection and archiving of the ledgers. Access to IT systems is restricted by relevant authorisations for the entitled employees.

In connection with the on-going integration of the accounting function and the transfer of the financial and accounting service of individual companies of TAURON Capital Group to CUW-R, gradual harmonisation of financial and accounting processes in TAURON Capital Group takes place. Companies adjust own procedures to the financial and accounting processes, taking into account the specific character of individual segments.

### Internal audit

In the Company Internal Audit Department operates whose objective is to plan and implement the auditing tasks, among others, of advisory nature, as well as to perform the commissioned temporary inspections. The procedures and rules of implementation of the audit are specified in *Regulations of Internal audit in TAURON Group* as well as in rules of cooperation binding 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.

### Submission of financial statements of the Company and consolidated financial statements of TAURON Capital Group to examination or review by an independent chartered accountant

Annual financial statements of the Company and consolidated statements of TAURON Capital Group are subject to examination by an independent auditor. Semi-annual financial statements of the Company and semi-annual consolidated statements of TAURON Capital Group are subject to review by a chartered accountant. In 2013 the Company selected one entity authorised to examine and review financial statements for significant companies of TAURON Capital Group as well as the consolidated financial statement. The agreement with the entity authorised to examine financial statements was concluded for the examination of financial statements for years 2013–2015.

### The rule concerning the change of the entity authorised to examine financial statements of the Company and TAURON Capital Group

Pursuant to the resolution of the Supervisory Board of the Company No 343/II/2010 of 27 August 2010, the rule was adopted concerning changing of the entity authorised to audit the financial statements of the Company and TAURON Capital Group at least once per five 5 financial years. The entity authorised to audit the financial statements of the Company and TAURON Capital Group may perform these activities again after two financial years.

## 6.4. Shareholders holding large blocks of shares

The table below presents shareholders holding, as at 31 December 2015 and as at the day of drawing up this report, directly or indirectly large blocks of shares of the Company.

**Table no 30. Shareholders holding large blocks of shares, directly or indirectly**

No.	Shareholders	Number of shares held	Percentage in the share capital	Number of votes held	Percentage interest in general number of votes
1.	State Treasury	526,848,384*	30.06%	526,848,384	30.06%
2.	KGHM Polska Miedź S.A.	182,110,566**	10.39%	182,110,566	10.39%
3.	Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open Pension Fund) (formerly: ING Otwarty Fundusz Emerytalny)	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. 10 November 2015, until the date of publication of this report, the Company has not received any notifications from shareholders concerning changes in proprietary structure of significant blocks of shares of TAURON.

During the Ordinary GM convened on 23 April 2015 and the Extraordinary GM convened on 9 November 2015 (continued after two adjournments ordered on 23 November 2015 and 8 December 2015), the following shareholders holding at least 5% of votes at those GMs were present:

1. State Treasury,
2. KGHM Polska Miedź S.A.,
3. Nationale-Nederlanden Otworthy Fundusz Emerytalny (formerly: ING Otworthy Fundusz Emerytalny).

#### **6.5. Owners of securities providing special control rights**

In the financial year 2015, the Company did not issue securities which would provide special control rights towards to the Company.

#### **6.6. Limitations on performing of the voting right**

Limitations concerning exercising of the voting right are included in § 10 of the Company Articles of Association available on the Company website <http://www.tauron-pe.pl/>.

The aforementioned limitations on performing of the voting right have been formulated in the following way:

1. The voting right of shareholders holding over 10% of total votes in the Company shall be limited in the way that none of them can exercise more than 10% of the total votes in the Company at the GM.
2. Voting right limitation included in point 1 above does not apply to the State Treasury and entities subsidiary to the State Treasury in the period of time in which the State Treasury together with subsidiary entities subsidiary of the State Treasury has a number of the Company's shares entitling to performing at least 25% of total votes in the Company.
3. Shareholders' votes, between which there is a controlling or dependence relationship within the meaning of § 10 of the Articles of Association (Association of Shareholders) are cumulated; in case when the cumulated number of votes exceeds 10% of total votes in the Company, it is subject to reduction. Rules of votes accumulation and reduction have been defined in 6 and 7 below.
4. A shareholder, within the meaning of § 10 of the Articles of Association is every person, including its parent company and subsidiary company, which is entitled directly or indirectly to a voting right at the GM on the basis of any legal title; it also applies to a person who does not hold the Company's shares, and in particular to a user, pledgee, person entitled on the basis of a depositary receipt under regulations of the *Act of 29 July 2005 on financial instruments trading*, as well as a person entitled to take part in the GM despite the disposal of shares after the date of establishing the right to take part in the GM.
5. A parent company and subsidiary company, for the purposes of § 10 of the Articles of Association, is, respectively, understood as a person:
  - 1) holding a status of a dominating entrepreneur, subsidiary or has both the status of a dominating entrepreneur and a subsidiary, within the meaning of the provisions of the *Act of 16 February 2007 on competition and consumers' protection* or,
  - 2) holding the status of a parent company, higher level parent company, subsidiary company, lower level subsidiary company or which has both the status of a parent company (including a parent company of higher status and subsidiary (including a subsidiary company of lower level status or co-subsidiary) within the meaning of *Accounting Act of 29 September 1994*, or
  - 3) which has (parent company) or one which is under (subsidiary company) decisive influence within the meaning of the *Act of 22 September 2006 on the transparency of financial relationships between public bodies and public entrepreneurs and on financial transparency of some entrepreneurs*, or
  - 4) whose votes resulting from the Company's shares owned directly or indirectly are subject to accumulation with votes of another person or other persons on conditions defined in the *Act of 29 July 2005 on public offering and conditions of introducing financial instruments to an organized trading system and on public companies* in connection with holding, disposing of or acquiring large blocks of the Company shares.
6. Accumulation of votes is based on aggregating of the number of votes held by particular shareholders of Shareholders' Group.

7. Reduction of votes is based on decreasing the total number of votes in the Company that shareholders, who are a part of Association of Shareholders, are entitled to at the GM to the level of 10% of total votes in the Company. Reduction of votes takes place in accordance with the following rules:
  - 1) number of votes of a shareholder who holds the highest amount of votes in the Company among all shareholders who are members of Association of Shareholders is subject to being decreased by a number of votes equal to surplus of over 10% total votes in the Company that all shareholders in total are entitled to and who are members of the Association of Shareholders,
  - 2) if, despite the aforementioned reduction, the total number of votes that shareholders who are members of the Association of Shareholders are entitled to exceeds 10% of the total votes in the Company, a further reduction of votes belonging to other shareholders who are members of the Association of Shareholders takes place. Further reduction of particular shareholders' votes takes place in order established on the basis of the amount of votes that particular shareholders who are members of the Association of Shareholders hold (from the highest to the lowest one). Further reduction takes place until the moment when the total number of votes held by shareholders who are members of the Association of Shareholders does not exceed 10% of the total votes in the Company,
  - 3) in each case the shareholder whose voting right has been limited shall have to right to perform at least one vote,
  - 4) limitation on performing the voting right applies also to a shareholder absent at the General Meeting.
8. Each shareholder who is going to take part in the General Meeting, in person or through a proxy is obliged to, without a separate notice stipulated in subsection 9 below, notify the Management Board or the Chairperson of the GM that she/he holds, directly or indirectly, more than 10% of the total votes in the Company.
9. Notwithstanding the provisions of subsection 8 above, in order to establish the basis for accumulation and reduction of votes, the Company's shareholder, the Management Board, the Supervisory Board or particular members of these bodies have the right to demand that the Company shareholder provides information whether she/he is a person holding the status of an entity dominating or subordinate towards other shareholder within the meaning of § 10 of the Articles of Association. The aforementioned entitlement includes also the right to demand revealing the number of votes that the Company's shareholder has independently or jointly with other shareholders of the Company.
10. A person who has failed to fulfil or fulfilled the information obligation stipulated in subsections 8 and 9 above improperly, until the moment of improvement of the information obligation performed improperly shall have the voting right from one share only; performing voting rights from other shares by such a person shall be null and void.

## **6.7. Limitations on transfer of securities property rights**

As at 31 December 2015 and as at the day of this report, there are no limitations in the Company on the transfer of proprietary rights of Company securities.

## **6.8. Rules on appointing and dismissing managing and supervising persons and their powers**

### **6.8.1. Management Board**

#### **Rules on appointing and dismissing members of the Management Board**

The Management Board of the Company consists of one to six persons, including the President and Vice-Presidents. Members of the Management Board are appointed for the period of a joint term of office which lasts three years, except for the first term of office which lasted two years.

Members of the Management Board or the whole Management Board are appointed and dismissed by the Supervisory Board. Each of the members of the Management Board can be dismissed or suspended in office by the Supervisory Board or the General Meeting.

#### **Competence of the Management Board**

The Management Board handles the Company's affairs and represents the Company in all court and out-of-court activities. All issues connected with managing of the Company not restricted by the regulations of law and provisions of the Company Articles of Associations for the GM or Supervisory Board lie within the competences of the Company's Management Board.

In accordance with the Company Articles of Association, all issues which go beyond the regular scope of Company activities require the resolution of the Management Board, in particular, the following issues listed in the table below:

**Table no 31. Competence of the Management Board**

Issues requiring the Resolution of the Management Board as at 31 December 2015 and as at the day of this report
1. Management Board bylaws,
2. organizational regulations of the Company enterprise,
3. establishment and liquidation of branches,
4. appointment of a proxy,
5. raising credits and loans,
6. adopting the annual material and financial plans of the Company and the Capital Group, and the Corporate Strategy of the Capital Group,
7. incurring contingent liabilities within the meaning of the <i>Accounting Act of 29 September 1994</i> , including granting guarantees and sureties by the Company as well as issuing bills of exchange, subject to § 20 item 2 p. 4 and 5 of the Company Articles of Association,
8. making donations, redemption of interest or discharge from debt, subject to § 43 item 3 p.1 and 2 of the Company Articles of Association,
9. purchase of real property, perpetual usufruct or shares in property or in perpetual usufruct, subject to § 20 item 2 p. 1 of the Company Articles of Association,
10. purchase of the components of fixed assets excluding real property, perpetual usufruct or share in real property or perpetual usufruct, with the value equal to or exceeding the equivalent of EUR 10 thousand in PLN, subject to the provisions of § 20 item 2 p. 2 of the Company Articles of Association,
11. disposal of the components of fixed assets including real property, perpetual usufruct or share in real property or perpetual usufruct, with the value equal to or exceeding the equivalent of EUR 10 thousand in PLN, subject to the provisions of § 20 item 2 p. 3 of the Company Articles of Association,
12. defining the right to exercise a vote at the GM or at Shareholders' Meetings of companies in which the Company holds stocks or shares, on issues covered by the competence of the General Meetings or Shareholders' Meetings of such companies, subject to § 20 item 3 p. 9 of the Company Articles of Association,
13. rules of conducting sponsoring activity,
14. adoption of the annual plan of sponsoring activity,
15. issues, whose examination the Management Board refers to the Supervisory Board or the General Meeting.

## 6.8.2. Supervisory Board

### Rules on appointing and dismissing members of the Supervisory Board

The Supervisory Board consists of five to nine persons, appointed for the joint term of office which lasts three years, except for the first term of office which lasted one year. In accordance with the Company Articles of Association, members of the Supervisory Board are 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% of the total votes in the Company, the State Treasury is represented by the minister competent for the issues of the State Treasury, is entitled to appoint and dismiss the 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 when 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 GM on establishing 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 submitting such a motion to the Management Board by a shareholder or shareholders who have a number of votes entitling to perform at least 5% of the total votes in the Company,
  - b) is excluded from the voting right at the GM on appointing and dismissing of other members of the Supervisory Board, including independent members of the Supervisory Board; it does not, however, apply to the case when the Supervisory Board cannot act due to a composition minor than required by the Articles of Association, and the shareholders present at the GM 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 this 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, has a number of the Company's shares entitling to perform under 25% of total voting rights in the Company, the State Treasury, represented by a minister competent for the issues of the State Treasury shall be entitled 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 aforementioned item 1) or subsection 2) takes place by means of a statement submitted to the Company.

At least two members of the Supervisory Board shall meet the criteria of independence in relation to the Company and subsidiaries significantly related to the Company (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 EC Recommendation 2005/162/EC 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 the Best Practice.

Independent members of the Supervisory Board provide the Company, before being appointed to the composition of the Supervisory Board, with a written statement of having fulfilled the prerequisites of independence. In case of a situation causing failure to fulfil the of independence, a member of the Supervisory Board is required to immediately notify the Company of this fact. The Company shall inform shareholders of the present number of independent members of the Supervisory Board.

### Competence of the Supervisory Board

The Supervisory Board carries out continuous supervision over the Company’s activities in all areas of its operations.

In accordance with the Company Articles of Association, the tasks and competences of the Supervisory Board include, in particular the following issues listed in the table below:

**Table no 32. Competence of the Supervisory Board**

Issues requiring the Resolution of the Supervisory Board	
as at 31 December 2015 and as at the day of drawing up this report:	
Opinion-making competence	
1.	assessment of the Management Board report on the Company operations as well of the financial statement for the previous financial year in the scope of their compliance with the books, documents as well as with the actual status. It also applies to the consolidated financial statement of the Capital Group, provided that it is generated,
2.	assessment of the Management Board conclusions on profit distribution or loss coverage,
3.	submitting of a written report to the GM on the results of operations covered by subsections 1 and 2,
4.	preparing, together with the report on results of the annual financial statement of the Company, an opinion of the Supervisory Board on the issue of economic legitimacy of involving the Company capital committed in a given financial year in other entities of commercial law,
5.	giving opinions on the Corporate Strategy of the Capital Group,
6.	giving opinions and approval of the rules of conducting sponsoring activity,
7.	giving opinions on the annual plan of conducting of the sponsoring activity as well as annual reports on its implementation.
Decision-making competence	
1.	selecting of the chartered accountant to carry out the examination of the Company financial statement and consolidated financial statement of the Capital Group,
2.	determining the scope and deadlines of submitting of annual material and financial plans as well as long-term strategic plans of the Company and the Capital Group, by the Management Board,
3.	adopting of consolidated text of the Company Articles of Association, prepared by the Company Management Board,
4.	approving of the bylaws of the Company Management Board,
5.	approving of the organisational regulations of the Company enterprise.
6.	purchase of real property, perpetual usufruct or shares in property or in perpetual usufruct with the value exceeding the equivalent of EUR 5,000 thousand in PLN, excluding the real property or perpetual usufruct, or share in real property or in perpetual usufruct purchased from Companies of the Capital Group,
7.	purchase of the components of fixed assets excluding real property, perpetual usufruct or share in real property or perpetual usufruct, bonds issued by the companies of the Capital Group and other components of fixed assets purchased from companies of the Capital Group, of the value equal to or exceeding the equivalent of 5,000 EUR in PLN, thousand in PLN,
8.	disposal of the components of fixed assets, including real property, perpetual usufruct or share in real property or perpetual usufruct, of the value equal to or exceeding the equivalent of 5,000 EUR in PLN, excluding the real property or perpetual usufruct, or share in real property or in perpetual usufruct, as well as other components of fixed assets which, as a result of the disposal, shall be sold or encumbered to the benefit of Companies of the Capital Group,
9.	incur contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of EUR 5,000 thousand in PLN,
10.	issuing bills of exchange with the value exceeding the equivalent of 5,000 EUR thousand in PLN,
11.	advance payment on account of the expected dividend,
12.	taking over or purchase of shares or stocks in companies other than Companies of the Capital Group, with the value exceeding the equivalent of 5,000 EUR in PLN, excluding the situations when the takeover of stocks or shares of such companies occurs in exchange for Company liabilities under the composition or bankruptcy proceedings,

#### Issues requiring the Resolution of the Supervisory Board

##### as at 31 December 2015 and as at the day of drawing up this report:

13. disposal of stocks or shares with the value exceeding the equivalent of 5,000 EUR in PLN, including the defining of the conditions and procedure for their disposal, excluding:
  - a) disposal of shares which are traded on the regulated market,
  - b) disposal of stocks or shares that the Company holds in the amount not exceeding 10% share in the initial capital of particular companies,
  - c) disposal of shares or stocks to the benefit of Companies of the Capital Group,
14. granting permission to establish Company branches abroad,
15. defining the way of performing the right of vote at the GM or at the Shareholders' Meeting of companies in which the Company holds over 50% of stocks or shares, in matters concerning:
  - a) disposal and leasing of the company's enterprise or its organized part as well as establishing a limited proprietary right if their value exceeds the equivalent of the amount of 5,000 EUR thousand in PLN,
  - b) winding up and liquidation of a company.

#### Competence of the Company Supervisory Board related to the Management Board

1. appointing and dismissing members of the Management Board,
2. establishing the rules of remuneration and the amount of remuneration for the Members of the Management Board, subject to § 43 item 2 p.1 of the Company Articles of Association,
3. suspending members of the Management Board in performance of their duties, due to material reasons,
4. delegating members of the Supervisory Board to temporarily perform actions of the members of the Management Board who cannot perform their duties and establishing their remuneration subject to the provision that the total remuneration of the person delegated as the Supervisory Board's member as well as on account of being delegated to temporary performing actions of a member of the Management Board shall not exceed the remuneration established for the member of the Management Board, for whom the member of the Supervisory Board was delegated,
5. conducting recruitment proceedings for the position of a member of the Management Board,
6. conducting of a competition in order to select a person with whom an agreement to perform management in the Company shall be concluded,
7. granting permission to the members of the Management Board to take positions in governing bodies of other companies.

#### Other competences of the Company Supervisory Board

1. preparing of reports of the Supervisory Board on supervision of implementation of investments by the Management Board, including the purchase of fixed assets, and in particular, giving opinions on the correctness and effectiveness of spending of financial resources related to the above expenditures,
2. passing of by-laws describing in details the procedures of performance of the Supervisory Board.

### 6.9. Description of the procedure of amendment of the Company Articles of Association

Amendments to the Company Articles of Association in accordance with the provisions of the CCC, in particular: amendments to the Company Articles of Association take place by means of resolution of the GM, at the majority of two thirds of the votes, and then requires issuing a decision by a proper court on entering the change into the register of entrepreneurs. The consolidated text of the Company Articles of Association, including amendments passed by the General Meeting, shall be adopted by the Supervisory Board by means of a resolution.

In accordance with the Company Articles of Association, a material amendment to the subject of activities requires two thirds of votes under the presence of persons representing at least a half of the share capital.

In 2015 the GM did not pass the resolution concerning the amendment to the Company Articles of Association.

### 6.10. Way of operating of the General Meeting, its fundamental authorities and description of shareholders' rights and mode of their performance

The way of operating of the Company GM and its powers are included in the Company Articles of Association and in the *Regulations of the GM of TAURON Polska Energia S.A.* which are available at the Company website <http://www.tauron-pe.pl/>.

#### Operation of the General Meeting

The GM is convened by announcement on the Company website and in the manner defined for providing current information by public companies. In case the GM is convened by an entity or body other than the Management Board on the basis of provisions of the CCC, and the convening of the GM requires cooperation with the Management Board, the Management Board is obliged to perform all actions defined by law regulations in order to summon, organize and conduct the GM which shall take place in the Company registered office or in Warsaw.

The GM is opened by the Chairperson of the Supervisory Board, and in case of his/her absence to open the GM shall be authorized the following persons in the following order: Vice-Chairperson of the Supervisory Board, President of

the Management Board, a person appointed by the Management Board or a shareholder who registered at the GM shares entitling him/her to perform the biggest number of votes. Then, among the persons entitled to take part in the GM the Chairperson of the Meeting is selected.

The GM shall adopt resolutions irrespective of the number of shares represented at the Meeting, unless the provisions of the CCC as well as provisions of the Company's Articles of Association shall state otherwise. The GM may order a break in the meeting by the majority of two thirds of votes. In total, the breaks shall not exceed 30 days.

### Competence of the General Meeting

In accordance with the Company Articles of Association, the following issues listed in the table below require Resolutions of the GM:

**Table no 33. Competence of the General Meeting**

Issues which require the resolution of the GM	
as at 31 December 2015 and as at the day of drawing up this report	
1.	examination and approval of financial statement for the previous financial year as well as the Management Board's report on the Company operations,
2.	granting the acknowledgement of the fulfilment of duties to the members of the governing bodies of the Company,
3.	profit distribution and coverage of loss,
4.	appointing and dismissing of members of the Supervisory Board,
5.	suspending members of the Management Board in performance of their duties,
6.	establishing the rules of remuneration for the members of the Supervisory Board, subject to § 29 item e of the Company Articles of Association,
7.	disposal and lease of the Company enterprise or its organized part as well as establishing a limited proprietary right on them,
8.	concluding of a credit, loan, surety agreement or any other similar agreement by the Company with a member of the Management Board, Supervisory Board, proxy and liquidator or for any of these persons. Concluding of a loan, surety or any other similar agreement with a member of the Management Board, Supervisory Board, proxy, liquidator or for any by a subsidiary company,
9.	increasing and lowering the share capital of the Company,
10.	issuing convertible bonds or priority bonds as well as registered securities or bearer securities entitling its owner to subscribe or acquire the shares,
11.	purchasing of treasury shares in cases required by the regulations of the Code of Commercial Companies,
12.	compulsory redemption of shares in accordance with the stipulations of art. 418 of the Code of Commercial Companies,
13.	creating, using and liquidation of reserve capitals,
14.	using of supplementary capital,
15.	provisions concerning claims to repair damage caused at establishing of the company or serving in the board or performing supervision,
16.	merger, transformation and division of the Company,
17.	redemption of shares,
18.	amendment to the Articles of Association and change of the scope of the Company operations,
19.	dissolving and liquidation of the Company.

In accordance with the provisions of the CCC the decision on issue and repurchase of shares is included in the competence of the General Meeting.

### Description of shareholders' rights and mode of their execution

The table below presents the description of rights of the Company shareholders associated with the General Meeting, in accordance with the Company Articles of Association, CCC and the *Regulations of the General Meeting of TAURON Polska Energia S.A.*

**Table no 34. Description of rights of the Company shareholders associated with the General Meeting**

No.	Shareholder rights	Description of shareholders' rights
1.	Convening of the GM	A shareholder or shareholders representing at least one twentieth of the share capital, may demand convening of the Extraordinary GM. Such a demand shall include its concise justification. It can be submitted to the Management Board in writing or send in electronic form, to the Company e-mail address, indicated by the Company on its website in "Investor Relations" tab. A shareholder or Shareholders representing at least a half of the share capital or at least a half of all votes in the Company may convene the Extraordinary GM and appoint the Chairperson of this Meeting.

No.	Shareholder rights	Description of shareholders' rights
2.	Including issues on the agenda of the General Meeting	Shareholders representing at least one twentieth of the share capital may demand including certain issues on the agenda of the nearest General Meeting. Such a demand, including a justification or a draft of resolution on the proposed point of agenda shall be submitted to the Management Board not later than 21 days before the given date of the GM in electronic form to the Company e-mail address, or in writing to the Company address.
3.	Becoming acquainted with the list of shareholders	Shareholders may become acquainted with the shareholders' list in the Company's Management Board registered office during three days directly preceding the GM. The shareholder may demand sending him/her the list of Shareholders free of charge by electronic mail, providing address to which the list shall be sent.
4.	Participation in the General Meeting	The right to take part in the GM shall be given only to persons who are Shareholders sixteen days before the date of the GM (registration date of participation in the GM). In order to participate in the GM such shareholders should report the investment company holding their securities account a request to issue a certificate with their name on the right to take part in the GM. Such a request shall be submitted not earlier than a day after the announcement on convening of the GM and not later than on the first working day after the day of registering participation in the GM.
5.	Representing the shareholder by a proxy	The shareholder may take part in the GM as well as perform the voting right personally or through a proxy. Persons co-authorized by means of shares may take part in the GM and perform the voting right only through a joint representative (proxy). The proxy may represent more than one Shareholder and vote differently based on shares of each Shareholder.
6.	Election of the Chairman of the General Meeting	Shareholders select the Chairperson among persons entitled to take part in the GM. Each of the members of the GM shall have the right to submit one candidate to the post of the Chairperson. The election of the Chairperson takes place by secret voting, with an absolute majority of votes. In case there is just one candidate to the Chairperson, the election can take place by acclamation.
7.	Appointment of the Returning Committee	Each Shareholder shall submit no more than three candidates to the member of Returning Committee, selected by the GM and vote for maximum three candidates.
8.	Submission of draft resolution	Until closing the discussion on a certain point of the agenda of the GM shareholders shall be authorised to submit a proposal of changes to the content of a draft of resolution proposed for adoption by the GM within a given item of the agenda or to put forward his/her draft of such a resolution. The proposal of changes or a draft of the resolution may be submitted to the Chairperson or orally or in writing to the minutes of the meeting.
9.	Raising objections	The shareholder who was voting against a resolution, and after its adoption by the GM wants to raise his/her objection shall immediately after the announcement of results of voting raise his/her objection and demand its including in the minutes before proceeding to the next item of the agenda. In case of a later raising of objection, which however shall not take place later than until closing the GM, the Shareholder shall indicate to which resolution passed at this GM she/he is raising his/her objection. The shareholder raising his/her objection to the GM resolution may submit to the minutes of the GM a concise justification of the objection.

## 6.11. Composition of managing and supervising bodies and their committees, its changes, description of performance

### 6.11.1. Management Board

The current, fourth term of office of the Management Board began to run on 17 March 2014, i.e. on the day of dismissal of all members of the Management Board of the third term by the Supervisory Board, and the appointment of the Management Board of the Company for the fourth common term of office. In accordance with the Company Articles of Association the common term of office lasts three years.

#### The personal composition of the Management Board as at 31 December 2015

1. Remigiusz Nowakowski – President of the Management Board, responsible for the Division of the President of the Management Board,
2. Jarosław Broda – Vice President of the Management Board responsible for the Division of the Vice-President of the Management Board for Strategy and Development,
3. Kamil Kamiński – Vice President of the Management Board responsible for the Division of the Vice-President of the Management Board for Corporate Affairs,
4. Anna Striżyk – Vice President of the Management Board responsible for the Division of the Vice-President of the Management Board for Economics and Finance,
5. Piotr Zawistowski – Vice President of the Management Board responsible for the Division of the Vice-President of the Management Board for Commercial Affairs.

#### Changes in the personal composition of the Management Board in 2015 and in the period until the day of drawing up this report

As at 01 January 2015 the Management Board consisted of the following members: Dariusz Lubera (President of the Management Board), Aleksander Grad (Vice President of the Management Board), Katarzyna Rozenfeld

(Vice President of the Management Board), Stanisław Tokarski (Vice President of the Management Board) and Krzysztof Zawadzki (Vice President of the Management Board).

On 1 October 2015, the Supervisory Board of the Company dismissed the following persons from the Management Board: Dariusz Lubera – President of the Management Board, Aleksander Grad – Vice-President of the Management Board for Corporate Affairs and Katarzyna Rozenfeld – Vice-President of the Management Board for Commercial Affairs.

As of 01 October 2015, the Supervisory Board appointed the following persons to the Management Board: Jerzy Kurella who was appointed as the President of the Management Board, Michał Gramatyka who was appointed as Vice-President of the Management Board for Commercial Affairs and Henryk Borczyk who was appointed as Vice-President of the Management Board for Corporate Affairs.

On 1 October 2015 the following persons resigned from the positions of the Management Board members: Stanisław Tokarski – Vice-President of the Management Board for Strategy and Development and Krzysztof Zawadzki – Vice-President for Economics and Finance.

As of 10 October 2015, the Supervisory Board appointed the following persons to the Management Board: Anna Striżyk who was appointed as Vice-President of the Management Board for Economics and Finance and Piotr Kołodziej who was appointed as Vice-President of the Management Board for Strategy and Development.

On 8 December 2015, the Supervisory Board dismissed the following persons from the Management Board: Jerzy Kurella – President of the Management Board, Henryk Borczyk – Vice-President of the Management Board, Michał Gramatyka – Vice-President of the Management Board, Piotr Kołodziej – Vice-President of the Management Board.

As of 8 December 2015, the Supervisory Board appointed the following persons to the Management Board: Remigiusz Nowakowski – appointed as the President of the Management Board, Jarosław Broda – appointed as Vice-President of the Management Board for Strategy and Development, Kamil Kamiński – appointed as the Vice-President of the Management Board for Corporate Affairs and Piotr Zawistowski – appointed as the Vice-President of the Management Board for Commercial Affairs.

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

As of 29 January 2016, the Supervisory Board appointed Marek Wadowski as Vice-President of the Management Board for Economics and Finance.

Until the day of submission of this report, no other changes in the composition of the Management Board have taken place.

#### **Personal composition of the Management Board as of the day of drawing up this report**

1. Remigiusz Nowakowski – President of the Management Board, responsible for the Division of the President of the Management Board,
2. Jarosław Broda – Vice President of the Management Board responsible for the Division of the Vice-President of the Management Board for Strategy and Development,
3. Kamil Kamiński – Vice President of the Management Board responsible for the Division of the Vice-President of the Management Board for Corporate Affairs,
4. Marek Wadowski – Vice President of the Management Board responsible for the Division of the Vice-President of the Management Board for Economics and Finance,
5. Piotr Zawistowski – Vice President of the Management Board responsible for the Division of the Vice-President of the Management Board for Commercial Affairs.

#### **Experience and competences of members of the Management Board**



##### ***Remigiusz Nowakowski – President of the Management Board***

Graduate of the Faculty of Management and IT at Wrocław University of Economics and the Faculty of Law and Administration of University of Wrocław. PhD student in the Department of Strategy and Management Methods at the Faculty of Management, IT and Finance of Wrocław University of Economics.

Holds experience in the area of defining and implementation of development strategies in the electricity and heat sectors in Central and Northern Europe, including in particular strategic management of investments and fuel management in energy utilities as well as preparation and development of investment projects, design and implementation of public-private partnership models.

Since the beginning of his professional career, he has been associated with energy sector entities or companies associated with the energy sector, having acted in the capacity of the President or the Vice-President of the Management Board and holding senior executive positions. He gained his professional



experience working in the INERCON consulting company, EnergiaPro Koncern Energetyczny S.A. (currently, a part of TAURON Dystrybucja), Fortum Power and Heat Polska, Fortum Zabrze and Fortum Bytom. From December 2012 he managed the business line of production optimisation and fuel management in the Heat Electricity Sales and Solutions Division of Fortum in Poland, where he was responsible, in particular, for the development of Fortum's strategy in Poland, development and implementation of fuel procurement strategy, coordination of fuel procurement process, planning and optimization of electricity and heat generation at combined heat and power plants, preparing analyses of the energy market and forecasting trends in fuel and energy prices.

Acting as the President of the Management Board of TAURON Polska Energia S.A. since 8 December 2015. He currently supervises the performance of the following business units: corporate bodies, legal department, HR, internal audit, market communication and PR, risk management, Health&Safety Issues, protection of classified information and IT security.



**Jarosław Broda – Vice-President of the Management Board**

Graduate of Warsaw School of Economics, holder of a postgraduate diploma in project management at Kozminski University.

Holds experience in the area of consolidation and operation of the energy sector, privatisation of state-owned energy groups, development of processes associated with the restructuring and strategy building as well as development projects of energy entities.

Since the beginning of his professional career he has been associated with energy sector entities, holding senior executive and managerial positions. He gained his professional experience working at the Ministry of State Treasury as well as at

TAURON and GDF Suez Energia Polska. Recently associated with GDF Suez Energia Polska – Katowice and GDF Suez (Branch Energy Europe), where he was responsible for market analyses and preparation of the company development strategy, regulatory management and M&A projects. He also participated in drafting of sales and marketing development strategy in Europe. From mid-2015 he was responsible for the development of the commercial strategy and contract for difference under a nuclear project in Great Britain.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 8 December 2015. He currently supervises the performance of the following business units: development strategy, management of strategic projects as well as regulations and external funds.



**Kamil Kamiński – Vice-President of the Management Board**

Graduate of the Faculty of Management and Communications of Jagiellonian University. The holder of MBA Executive diploma (Stockholm University School of Business/ Cracow University of Economics) and post-MBA Diploma in Strategic Financial Management (Rotterdam School of Management, Erasmus University/ GFKM).

He has broad experience in the area of building company value, mergers and acquisitions, business integration, strategy operationalization as well as management of complex projects in public and private sectors. He took part in complex transformation and restructuring processes of enterprises in the sectors of energy and fuel and transport logistics.

He gained his professional experience acting in the capacity of the President or Vice-President of the Management Board and holding senior managerial positions. From the beginning of 2014 he was associated with Węglokoks Capital Group where, within the structures of Węglokoks Energia, he participated in consolidation of electricity and heat generation assets of Kompania Węglowa and Węglokoks. At that time he managed the works of the Management Committee. Previous professional experience includes, among other things, work at the Research and Development Centre of the Refining Industry (OBR) in Płock or Jan Paweł II International Airport in Kraków-Balice. He also managed the operations of John Menzies PLC in Poland. For many years he cooperated with Lotos Group, where he supported the development of aviation fuel segment, which resulted in the joint venture with Air BP Ltd. and establishment of Lotos Air BP.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 8 December 2015. He currently supervises the performance of the following business units: procurement department, corporate governance and Group optimisation.



**Marek Wadowski – Vice President of the Management Board**

Graduate of University of Economics in Katowice. He also completed post graduate studies École Supérieure de Commerce Toulouse where he obtained Mastère Spécialisé en Banque et Ingénierie Financière diploma and Executive MBA studies at Kozminski University in Warsaw.

He has professional experience in the field of accounting, controlling and financial processes management in industry (power sector, mining, metallurgical industry), as well as in financing of investments and international commercial transactions. He took part in the implementation of due diligence projects and enterprise valuation (using income-based, equity and comparison valuation methods).

Since the beginning of his professional career, he has been associated with energy, mining and metallurgical sector entities, having acted in the capacity of the President or the Vice-President of the Management Board and holding senior executive positions. He gained his professional experience working for BRE Corporate Finance S.A., Huta Cynku Miasteczko Śląskie S.A. and in companies of Jastrzębska Spółka Węglowa S.A. Capital Group. From 2008, acting in the capacity of the Vice-President of the Management Board in charge for the financial division in companies of Jastrzębska Spółka Węglowa Capital Group, he was responsible, inter alia, for structuring of commercial transactions, implementation of foreign exchange risk hedging policy, financial costs reduction, liquidity management, acquisition of funds from the consortium of banks in the form of a bond issue programme. He also took part in the IPO of JSW S.A. (implementation of International Accounting Standards, modification of management information system, development of IPO prospectus, talks with investors).

Recently he has acted in the capacity of the President of the Management Board at Towarzystwo Finansowe Silesia where he was involved in bond issue program for Kompania Węglowa and dealt with the acquisition of debt financing from the consortium of banks.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 29 January 2016. He currently supervises the performance of the following business units: accounting and taxes, financial management, controlling and management of information resources.



**Piotr Zawistowski – Vice President of the Management Board**

Graduate of Wrocław University of Economics where he completed MA studies in Enterprise Management. He also completed postgraduate studies in Sales Management at WSB University in Wrocław. He is a Commodity Exchange Broker.

He has experience in the area of trading in electricity, gas and related products in the country and abroad, commercial risk management, portfolio management in the scope of purchase and sales of electricity, property rights, CO<sub>2</sub> emission allowances and fuels. He took active part in works related to unbundling of electricity supply and distribution, in particular in establishment of EnergiaPro Gigawat (currently a part of TAURON Sprzedaż).

Since the beginning of his professional career he has been associated with energy sector entities, holding senior executive and managerial positions. He gained his professional experience working at Zakład Energetyczny Legnica, EnergiaPro Koncern Energetyczny (currently a part of TAURON Dystrybucja), EnergiaPro Gigawat and at TAURON, where he acted in the capacity of Portfolio Management Department from 2008, participating in many key projects, managing, among others, the works related to the development of the business model of TAURON Group or integration with GZE Group companies (Vattenfall) in the trading segment.

From May 2014 he acted in the capacity of the President of the Management Board of TAURON Obsługa Klienta.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 08 December 2015. He currently supervises the performance of the following business units: trade, market operator and trade service, portfolio management, fuels and analyses.

The detailed description of experience and competences of Management Board members is published on the Company website <http://www.tauron.pl/>.

## Description of operation

The Management Board of the Company operates on the basis of CCC and other regulations of law, provisions of the Company Articles of Association and provisions of the *Bylaws of the Management Board of TAURON Polska Energia Spółka Akcyjna z siedzibą w Katowicach*, which is available on the website of the Company <http://www.tauron-pe.pl/>. While performing their obligations, members of the Management Board are governed by regulations included in the Best Practice.

Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for submitting of statements on behalf of the Company. Should the Management Board be single person, one member of the Management Board or a proxy shall be entitled to submit statements on behalf of the Company.

Meetings of the Management Board are convened by the President of the Management Board or a Vice-President of the Management Board appointed by him/her. Meetings of the Management Board are also convened upon the motion of the majority of Vice-Presidents of the Company as well as upon the motion of the Chairperson of the Supervisory Board. The meetings take place in the Company's seat, on the date set by the person convening the meeting. In justified cases, the Management Board's meetings may take place outside the seat of the Company. President of the Management Board or a Vice-President appointed by him/her shall chair the meeting.

The Management Board votes in an open voting. The result of voting is recorded in the minutes of the meeting. The President of the Management Board orders a secret ballot upon the request of any member of the Management Board.

Resolutions of the Management Board are passed by an absolute majority of votes in the presence of 3/5 of the composition of the members of the Management Board. In case of an equal number of votes the President of the Board has a casting vote. The Management Board may pass resolutions in a written mode or by using means of direct remote communication. Voting in the aforementioned modes is ordered by the President of the Management Board or the Vice-President appointed by him/her, defining the deadline to vote by the members of the Management Board. It is acceptable to submit a different opinion. It shall be recorded in the minutes together with justification. Decisions of the Management Board, regulating business as usual, not requiring a resolution, are recorded only in the minutes.

Under the circumstances when the number of Vice-Presidents of the Management Board is lower than the Divisions, the Vice-Presidents of the Management Board may join the capacity of directors of two divisions, or distribute the competence in any other way which would be in compliance with the distribution of responsibilities performed by the Supervisory Board.

Scope of activities of the President of the Management Board covers competence in the area of operations of business units reporting to the Division of the President of the Board, in accordance with the organisational structure of the Company.

Scope of activities of the Vice-Presidents of the Management Board covers competence in the area of operations of business units reporting to the Divisions of the Vice-Presidents of the Board, in accordance with the organisational structure of the Company.

The structure of the divisions reporting to individual members of the Management Board is specified in the organisational chart of the Company, presented in subsection 1.5.2 of this report.

### 6.11.2. Supervisory Board

The current, fourth term of office of the Supervisory Board, started on 15 May 2014, i.e. on the day of convening of the Ordinary GM of the Company approving the financial statement for the last full financial year of the tenure of the members of the Supervisory Board of the third term, i.e. for the financial year 2013. In accordance with the Company Articles of Association this is a joint term of office and it shall last for three years.

#### Personal composition of the Supervisory Board as at 31 December 2015 and as at the date of drawing up this report

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

## **Changes in the personal composition of the Supervisory Board in 2015**

As at 1 January 2015 the Supervisory Board consisted of the following members: Antoni Tajduś (Chairman of the Supervisory Board), Agnieszka Woś (Deputy Chairwoman of the Supervisory Board), Jacek Szyke (Secretary 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 and Maciej Tybura (Member of the Supervisory Board).

On 7 August 2015 the State Treasury, acting pursuant to its personal powers specified in § 23 item 1(3) of the Company Articles of Association, dismissed Marek Ściążko (Member of the Supervisory Board) from the Supervisory Board of TAURON.

On 7 August 2015, the Chairman of the Supervisory Board, Antoni Tajduś submitted his resignation from his function of the Chairman of the Supervisory Board, effective as of 7 August 2015.

On 12 August 2015 the State Treasury, acting pursuant to its personal powers specified in § 23 item 1(3) of the Company Articles of Association, dismissed the following persons from the Supervisory Board of TAURON: Agnieszka Woś (Deputy Chairwoman of the Supervisory Board), Andrzej Gorgol (Member of the Supervisory Board) and Michał Michalewski (Member of the Supervisory Board).

On 12 August 2015 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: Grzegorz Barszcz, Beata Chłodzińska, Piotr Ciach, Katarzyna Kosińska and Jarosław Zagórowski.

On 6 October 2015, Member of the Supervisory Board, Maciej Tybura, resigned from his function of the Member of the Supervisory Board, with the effect as of 7 October 2015.

On 02 December 2015 the State Treasury, acting pursuant to its personal powers specified in § 23 item 1(3) of the Company Articles of Association, dismissed the following persons from the Supervisory Board of TAURON: Piotr Ciach (Member of the Supervisory Board), Grzegorz Barszcz (Member of the Supervisory Board), Katarzyna Kosińska (Member of the Supervisory Board) and Jarosław Zagórowski (Deputy Chairman of the Supervisory Board).

On 2 December 2015 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: Anna Biesialska, Michał Czarnik, Anna Mańk and Wojciech Myślecki.

On 8 December 2015, the Extraordinary GM of the Company, convened on 9 November 2015, continued on 23 November 2015 and 8 December 2015, after the ordered adjournments of the meeting, adopted the resolution on determining of the number of members of the Supervisory Board and the resolution on the appointment of Renata Wiernik-Gizicka as a member of the Company Supervisory Board of the fourth joint term of office, effective as of 9 December 2015.

Until the day of submission of this report, no other changes in the composition of the Supervisory Board have taken place.

## **Experience and competences of members of the Supervisory Board**

### ***Beata Chłodzińska – Chairwoman of the Supervisory Board***

Graduate of the Faculty of Law and Administration of Warsaw University. She is a legal counsel.

She has professional experience associated with supervising companies with State Treasury ownership. Professionally affiliated with the Ministry of State Treasury, currently working in the Department of Strategic Companies. She represented the State Treasury on supervisory boards of companies supervised by the Ministry.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 12 August 2015. Currently acting in the capacity of the Chairwoman of the Supervisory Board as well as the member of the Audit Committee of the Supervisory Board, the Nominations and Remunerations Committee of the Supervisory Board and the Strategy Committee of the Supervisory Board.

### ***Anna Mańk – Deputy Chairwoman of the Supervisory Board***

Graduate of Warsaw School of Economics and postgraduate studies in financial and economic law at University of Łódź.

She has professional experience in the scope of supervision and ownership transformations at the Ministry of State Treasury. Professionally associated with the Ministry of State Treasury, holding senior executive positions, currently acting in the capacity of Director General. She represented the State Treasury on supervisory boards of companies supervised by the Ministry, including those listed on the GPW.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 2 December 2015. Currently acting in the capacity of Deputy Chairwoman of the Supervisory Board and a member of the Strategy Committee of the Supervisory Board.

**Jacek Szyke – Secretary of the Supervisory Board**

Graduate of Faculty of Economics at Łódź University and Electric Faculty of Technical University in Poznań, where he also obtained PhD in technical sciences.

He has broad professional experience associated with power industry where he had climbed through all levels in the career ladder, working both in the country and abroad. Holding senior executive and managerial positions he worked, inter alia, at ZE Kalisz, EC Łódź, ZE Płock and EC Siekierki. He is an honorary President of the Chamber of Power Engineering and Energy Consumers. He is a consultant in electrical engineering matters. Author of many improvement recommendations, designs, publications and books on energy industry and power engineering.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010. Currently acting in the capacity of the Secretary of the Supervisory Board, Chairman of the Strategy Committee of the Supervisory Board and the Member of the Audit Committee of the Supervisory Board.

**Anna Biesialska – Member of the Supervisory Board**

Graduate of the Faculty of Law and Administration at Warsaw University and postgraduate studies in law and economy of the capital market at Warsaw School of Economics, legal counsel at the Regional Chamber of Legal Counsels in Warsaw.

She gained her professional experience at law firms. At present, she is employed at the Ministry of State Treasury where she provides legal support, in particular, in the scope of reviewing agreements for pre-privatisation analyses and privatisation-related tasks. She is a member of supervisory boards of companies as a representative of the State Treasury.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 2 December 2015. Currently acting as the member of the Audit Committee of the Supervisory Board and Nominations and Remuneration Committee of the Supervisory Board.

**Michał Czarnik – Member of the Supervisory Board**

Graduate of the Faculty of Law and Administration of Warsaw University, legal counsel at the Regional Chamber of Attorneys in Warsaw, tax advisor.

He gained his professional experience in international consulting companies and as an arbitrator of the Court of Arbitration at the Polish Financial Supervision Authority of the first term of office. At present he is a managing partner of a law firm specialising in economic law, in particular, in fiscal and commercial law. He is the head of the team of advisers to the Minister of State Treasury dealing with corporate governance reform and managing some of the elements of the public property.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 2 December 2015. Currently acting as the member of the Audit Committee of the Supervisory Board.

**Maciej Koński – Member of the Supervisory Board**

Graduate of the Warsaw School of Economics, faculty of Banking and finance, PhD in technical sciences at Wrocław University of Technology.

He has experience in the scope of building strategy of a mining company and the development of resource base as well as analysis of the commodity and foreign currency market and market risk management. He actively participates in scientific activity in the aforementioned areas. At present, General Director of Resource Base and Strategic Analyses Centre at KGHM. He is a co-author of books and the author of numerous publications on commodity market.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 1 September 2014. Currently acting as the member of the Strategy Committee of the Supervisory Board.

**Leszek Koziorowski – Member of the Supervisory Board**

Graduate of Faculty of Law and Administration of Warsaw University, legal counsel in the Regional Chamber of Attorneys in Warsaw.

He has rich experience in the scope of securities law, which he gained as a counsel in the Securities Commission, arbitrator in the Stock Exchange Court at the Warsaw Stock Exchange and in Arbitration Court at the Private Employers' Organisation "Lewiatan", and a judge of the Stock Exchange Court. At present, he is the general partner in a law firm where he deals with legal advice in the scope of capital market law and preparation of companies for listing at the stock exchange. Author of numerous publications concerning capital market law, received multiple recommendations as the best legal counsel in Poland in the aforementioned scope. He was the member of numerous supervisory boards.

Appointed as the member of the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010, he acted as the member of the Supervisory Board in the period until 15 May 2014, i.e. the day of termination of the third joint term of office of the Supervisory Board. In the aforementioned period he acted as the secretary of the Supervisory Board and member of the Audit Committee of the Supervisory Board. Re-elected to the Supervisory Board as of 1 September 2014. Currently acting as the member of the Nominations and Remuneration Committee of the Supervisory Board.

#### **Wojciech Myślecki – Member of the Supervisory Board**

Graduate of the Faculty of Electronics of Wrocław University of Technology, PhD, engineer in technical sciences.

Long-time researcher and lecturer, author of several dozen scientific publications in the field of telecommunications, industrial IT as well as political and economic issues. He managed or participated in numerous Polish and international economic programmes, in particular, in the field of power engineering. Several times he held the position of the CEO of large commercial law companies, including Polskie Sieci Elektroenergetyczne S.A. (Polish Transmission System Operator). At present, he is the President of the Management Board of a consulting company Global Investment Corporation sp. z o. o. and an advisor for strategic programmes at BZ WBK. He was the member of numerous supervisory boards.

Appointed as a member of the Supervisory Board of TAURON Polska Energia S.A. as of 2 December 2015. Currently acting as the Chairman of the Audit Committee of the Supervisory Board and the member of the Strategy Committee of the Supervisory Board.

#### **Renata Wiernik-Gizicka – Member of the Supervisory Board**

Graduate of Wrocław University of Economics, Department of Finance and Banking and postgraduate studies on Management of International Mining Projects at AGH University of Science and Technology in Kraków, and Management Accounting at Wrocław University of Economics.

She has experience in the area of financial analysis, planning and budgeting, investment project effectiveness account and economic managerial information. Professionally associated with mining and metallurgy within the KGHM holding, currently acting in the capacity of Director General for Controlling and Economic Analyses. She actively participates in the process of building relations with shareholders and stakeholders of KGHM Capital Group.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 09 December 2015. Currently acting as the member of the Nominations and Remuneration Committee of the Supervisory Board.

The detailed description of experience and competences of the member of the Supervisory Board is published on the Company website <http://www.tauron.pl/>.

#### **Description of operation**

A detailed description of the Supervisory Board operations is included in the CCC, in the Company Articles of Association, which is available on the Company website <http://www.tauron-pe.pl/> and in the *Bylaws of the Supervisory Board of TAURON Polska Energia S.A. z siedzibą w Katowicach*.

The main form of performing supervision by the Supervisory Board over the Company's operations are meetings of the Supervisory Board. The Supervisory Board performs its obligations jointly. Meetings of the Supervisory Board are convened by the Chairperson of the Supervisory Board or Vice-Chairperson of the Supervisory Board by presenting a detailed agenda.

- 1) in accordance with decisions adopted by the Supervisory Board,
- 2) on his/her own initiative,
- 3) upon a written proposal of each member of the Supervisory Board,
- 4) upon a written proposal of the Management Board.

Meetings of the Supervisory Board take place in the Company's seat. In justified cases the venue of the meeting may be changed.

In order to convene a meeting, written invitation of all members of the Supervisory Board at least 7 days before the date of the Supervisory Board's meeting is required. Due to material reasons the Chairperson of the Supervisory Board may shorten this period to 2 days, defining the mode of giving the invitation. Notifications of the Supervisory Board meeting are sent by means of fax or electronic mail. In the notification of the Supervisory Board meeting the Chairperson defines the date of the meeting, venue of the meeting as well as detailed draft of the agenda. The Supervisory Board shall meet when the need arises, however, not less frequently than once in every two months. The Supervisory Board may meet without convening a formal meeting if all members of the Supervisory Board are present and nobody appeals against the fact of holding the meeting or against the agenda.

A change of the proposed agenda may take place when all members of the Supervisory Board are present at the meeting and nobody appeals against the agenda. An issue not included on the agenda shall be included into the agenda of the next meeting.

Taking part in meetings of the Supervisory Board is the Supervisory Board Member's duty. A Member of the Supervisory Board shall give reasons of his/her absence in writing. Justification of the Supervisory Board Member's absence requires the Supervisory Board resolution. Members of the Management Board may take part in the meetings of the Supervisory Board meetings unless the Supervisory Board raises an objection. Participation of the Management Board members in the Supervisory Board meetings is compulsory if they were invited by the Chairperson of the Supervisory Board. Other persons may also take part in the meetings if they were invited in the above mentioned way.

The Supervisory Board may seek opinion of legal advisers who render regular legal advice for the Company, as well as, in justified cases, it may appoint and invite to meetings of the Supervisory Board appropriate experts in order to ask their advice and make an appropriate decision. In the aforementioned cases the Supervisory Board shall pass a resolution concerning commissioning the work to a selected expert (audit or consulting company, law firm) obliging the Company's Management Board to conclude an appropriate agreement.

Meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in case of his/her absence – by the Vice-Chairperson of the Supervisory Board. Due to material reasons, with the consent of the majority of the members of the Supervisory Board present at the meeting, the person chairing the meeting is obliged to submit to voting a motion to stop the meeting and establish a new date of resuming the Supervisory Board meeting. The Supervisory Board makes decisions in the form of resolutions. The Supervisory Board resolutions are passed mainly at the meetings. The Supervisory Board passes resolutions if at least half of its members are present at the meeting and all its members were invited in the way defined in the Regulations. Subject to unconditionally binding regulations of law, including the CCC as well as provisions of the Company's Articles of Association, the Supervisory Board passes resolutions by an absolute majority of votes of the persons present at the meeting, where the absolute majority of votes is understood as more votes submitted "for" than "against" and "abstain". Resolutions cannot be passed in issues not included in the agenda unless all members of the Supervisory Board are present and nobody voices an objection. It shall not apply to resolutions on justifying the Supervisory Board's member absence at the meeting. Voting of the resolutions is open. A secret ballot is ordered:

- 1) upon the request of at least one of the members of the Supervisory Board,
- 2) in personnel-related issues

The Supervisory Board, in accordance with the Articles of Association, may pass resolutions in writing or by using means of direct remote communication. Passing a resolution in such a mode requires a justification and a prior submitting of the draft of the resolution to all members of the Supervisory Board. Passing resolutions in this mode does not apply to the appointing the Chairperson, the Deputy Chairperson and the Secretary of the Board, appointing or suspending in the activities of a member of the Supervisory Board and dismissing these persons as well as other issues the settlement of which requires a secret voting. Voting on a resolution passed in the aforementioned mode, a member of the Supervisory Board indicates the mode of his/her voting, "for", "against" or "abstain". Resolution with a note that it was passed in a written mode or by mode of voting using means of direct distance communication shall be signed by the Chairperson of the Supervisory Board. Resolutions passed in this mode shall be submitted at the first coming meeting of the Supervisory Board with announcing the result of the voting.

A possibility is allowed for members of the Supervisory Board to participate in the meeting and vote on the resolutions adopted within such a meeting using means of direct remote communication, i.e. tele- or videoconferences, provided that at the venue of the session, indicated in the notice of the meeting, at least half of the members is present as well as the technical possibility to ensure secure connection is provided.

Members of the Supervisory Board shall take part in meetings and perform their duties in person, and while performing their duties they are obliged to exercise due diligence. Members of the Supervisory Board are obliged to keep information connected with the Company activity which they have acquired in connection with holding their seat or at other occasion secret. The Supervisory Board performs its obligations jointly.

The Supervisory Board may, due to material reasons, delegate particular members to perform certain actions independently for a defined period of time. The Supervisory Board may delegate its members, for a period no longer than three months, to temporarily perform duties of the members of the Management Board who have been dismissed, submitted their resignation or if due to other reasons they cannot perform their functions. The aforementioned delegation requires obtaining permission from the member of the Supervisory Board who is to be delegated.

The detailed description of activities of the Supervisory Board in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the GM and then published on the Company website <http://www.tauron-pe.pl/>.

The Supervisory Board may appoint among its members permanent or temporary working groups or committees to perform particular actions. The permanent committees of the Supervisory Board include:

- 1) Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. (Audit Committee),
- 2) Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A. (Nominations and Remuneration Committee),
- 3) Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. (Strategy Committee).

Composition, tasks and rules of operation of the aforementioned committees are defined in their regulations adopted by the Supervisory Board.

### 6.11.3. Audit Committee

In connection with the changes in the composition of the Supervisory Board of the Company of the fourth joint term of office performed in 2015, the Supervisory Board changed the composition of the Audit Committee.

#### Composition of the Audit Committee as at 31 December 2015

1. Wojciech Myślecki – Chairman of the Audit Committee,
2. Beata Chłodzińska – Member of the Audit Committee,
3. Michał Czarnik – Member of the Audit Committee,
4. Jacek Szyke – Member of the Audit Committee.

#### Changes in the personal composition of the Audit Committee

As at 01 January 2015 the Audit Committee consisted of the following members: Agnieszka Woś (Chairwoman), Michał Michalewski, Jacek Szyke and Maciej Tybura.

In connection with dismissing of Agnieszka Woś (Chairwoman) and Michał Michalewski from the Supervisory Board by the State Treasury on 12 August 2015, on 26 August 2015 the Supervisory Board appointed Beata Chłodzińska and Grzegorz Barszcz to the Audit Committee. On the same day, the Audit Committee elected Grzegorz Barszcz as the Chairman of the Audit Committee among its members.

In connection with the resignation from the function of the Member of the Supervisory Board submitted by Maciej Tybura on 6 October 2015, effective as of 7 October 2015, and dismissing of Grzegorz Barszcz from the Supervisory Board by the State Treasury on 2 December 2015, and the appointment of new members of the Supervisory Board, on 8 December 2015 the Supervisory Board appointed the following persons to the Audit Committee: Michał Czarnik and Wojciech Myślecki. On the same day, the Audit Committee elected Wojciech Myślecki as the Chairman of the Audit Committee among its members.

In connection with the appointment of new members of the Supervisory Board by the State Treasury on 2 December 2015, on 8 January 2016 the Supervisory Board appointed Anna Biesialska as a member of the Audit Committee.

Until the day of submission of this report, no other changes in the composition of the Audit Committee have taken place.

#### Personal composition of the Audit Committee as of the day of drawing up this report:

1. Wojciech Myślecki – Chairman of the Audit Committee,
2. Anna Biesialska – Member of the Audit Committee,
3. Beata Chłodzińska – Member of the Audit Committee,
4. Michał Czarnik – Member of the Audit Committee,
5. Jacek Szyke – Member of the Audit Committee.

#### Tasks and competences of the Audit Committee

The table below presents the tasks and competences of the Audit Committee as at the day of drawing up this report.

**Table no 35. Competence of the Audit Committee**

Issues requiring the resolution of the Audit Committee as of the date of drawing up this report
1. monitoring of financial reporting process,
2. monitoring of the accuracy of financial information presented by the Company,



**Issues requiring the resolution of the Audit Committee**

**as of the date of drawing up this report**

3. monitoring of the efficiency of internal control, risk management systems, compliance and internal audit functions existing in the Company,
4. monitoring of performing of financial revisions,
5. monitoring of independence and impartiality of the chartered accountant and the entity entitled to examine financial statements, including rendering by them services other than financial audit,
6. recommending of an entity entitled to examine financial statements to perform financial audit to the Supervisory Board.

The detailed description of activities of the Audit Committee in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the GM and then published on the Company website <http://www.tauron-pe.pl/>.

**6.11.4. Nominations and Remuneration Committee**

In connection with the changes in the composition of the Supervisory Board of the Company of the fourth joint term of office performed in 2015, the Supervisory Board changed the composition of the Nominations and Remuneration Committee.

**Personal composition of the Nominations and Remuneration Committee as at 31 December 2015 and as at the day of drawing up this report**

1. Leszek Koziowski – Chairman of the Nominations and Remuneration Committee,
2. Anna Biesialska – Member of the Nominations and Remuneration Committee,
3. Beata Chłodzińska – Member of the Nominations and Remuneration Committee,
4. Renata Wiernik-Gizicka – Member of the Nominations and Remuneration Committee.

**Changes in the personal composition of the Nominations and Remuneration Committee**

As at 1 January 2015 the Nominations and Remuneration Committee consisted of the following members: Antoni Tajduś (Chairman), Andrzej Gorgol, Leszek Koziowski and Marek Ściążko.

In connection with the resignation from the function of the Chairperson of the Supervisory Board submitted by Antoni Tajduś on 7 August 2015, and dismissing of Marek Ściążko from the Supervisory Board by the State Treasury on 7 August 2015, followed by dismissing of Andrzej Gorgol on 12 August 2015, on 26 August 2015 the Supervisory Board appointed the following persons to the Nominations and Remuneration Committee: Beata Chłodzińska, Katarzyna Kosińska and Piotr Ciach. On the same day the Nominations and Remuneration Committee elected Leszek Koziowski as the Chairman of the Nominations and Remuneration Committee among its members.

In connection with the dismissal of Katarzyna Kosińska and Piotr Ciach from the Supervisory Board by the State Treasury on 2 December 2015, and the appointment of new members, on 8 December 2015 the Supervisory Board appointed Anna Biesialska as a member of the Nominations and Remuneration Committee.

In connection with the appointment of new member of the Supervisory Board by the GM of the Company on 9 December 2015, on 17 December 2015 the Supervisory Board appointed Renata Wiernik-Gizicka as a member of the Nominations and Remuneration Committee.

Until the day of submission of this report, no other changes in the composition of the Nominations and Remuneration Committee have taken place.

**Tasks and competence of the Nominations and Remuneration Committee**

The table below presents the tasks and competences of the Nominations and Remunerations Committee as of 31 December 2015 and on the day of this report.

**Table no 36. Competence of the Nominations and Remuneration Committee**

**Issues requiring the resolution of the Nominations and Remunerations Committee**

**as at 31 December 2015 and as at the day of drawing up this report**

1. recommendations to the Supervisory Board on a recruitment procedure for the positions of members of the Company Management Board,
2. assessing candidates for members of the Management Board as well submitting an opinion in this scope to the Supervisory Board,

#### Issues requiring the resolution of the Nominations and Remunerations Committee

##### as at 31 December 2015 and as at the day of drawing up this report

3. recommendations to the Supervisory Board on the form and contents of agreements concluded with members of the Management Board,
4. recommendations to the Supervisory Board on remuneration and bonus system of the members of the Management Board,
5. recommendations to the Supervisory Board on the need to suspend a member of the Management Board due to material reasons,
6. recommendations to the Supervisory Board on 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 together with a proposal of remuneration.

The detailed description of activities of the Nominations and Remuneration Committee in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the GM and then published on the Company website <http://www.tauron-pe.pl/>.

#### 6.11.5. Strategy Committee

In connection with the changes in the composition of the Supervisory Board of the Company of the fourth joint term of office performed in 2015, the Supervisory Board changed the composition of the Strategy Committee.

##### Composition of the Strategy Committee as at 31 December 2015 and as at the day of drawing up this report

1. Jacek Szyke – Chairman of the Strategy Committee,
2. Beata Chłodzińska – Member of the Strategy Committee,
3. Maciej Koński – Member of the Strategy Committee,
4. Anna Mańk – Member of the Strategy Committee,
5. Wojciech Myślecki – Member of the Strategy Committee.

##### Changes in the Strategy Committee personal composition

As at 1 January 2015 the Strategy Committee consisted of the following members: Jacek Szyke (Chairman), Maciej Koński, Michał Michalewski and Marek Ściążko.

In connection with the dismissing of Marek Ściążko from the Supervisory Board by the State Treasury on 7 August 2015, followed by dismissing of Michał Michalewski on 12 August 2015, and the appointment of new members of the Supervisory Board, on 26 August 2015 the Supervisory Board appointed the following persons to the Strategy Committee: Beata Chłodzińska and Jarosław Zagórowski. Beata Chłodzińska and Jarosław Zagórowski.

In connection with the dismissing of Jarosław Zagórowski from the Supervisory Board by the State Treasury on 2 December 2015, and the appointment, on the same day, of new members of the Supervisory Board, on 8 December 2015 the Supervisory Board appointed the following persons to the Strategy Committee: Anna Mańk and Wojciech Myślecki.

Until the day of submission of this report, no other changes in the composition of the Strategy Committee have taken place.

##### Tasks and competences of the Strategy Committee

The table below presents the tasks and competences of the Strategy Committee as at 31 December 2015 and as at the day of drawing up this report.

**Table no 37. Competence of the Strategy Committee**

#### Issues requiring the resolution of the Strategy Committee

##### as at 31 December 2015 and as at the day of drawing up this report:

1. assessment of the Corporate Strategy and presenting its results to the Supervisory Board,
2. recommending the scope and terms of submitting the strategic multi-annual plans to the Supervisory Board,
3. assessment of impact of the planned and undertaken strategic investments on assets of the Company,
4. monitoring the implementation of the strategic investment tasks,
5. assessment of activities concerning availability of significant Company assets,
6. opinion on strategic documents submitted to the Supervisory Board by the Management Board.

The detailed description of activities of the Strategy Committee in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the GM and then published on the Company website <http://www.tauron-pe.pl/>.

#### **6.11.6. Description of activities of the Committees of the Supervisory Board**

A detailed description of the activities of the Supervisory Board is included in the Regulations of individual Committees of the Supervisory Board of TAURON Polska Energia S.A.

The Committees of the Supervisory Board are advisory and opinion-making bodies acting collectively as a part of the Supervisory Board and perform support and advisory functions towards the Supervisory Board. The tasks of the Committees of the Supervisory Board are carried out by submitting motions, recommendations, opinions and statements on the scope of its tasks to the Supervisory Board, by means of resolutions. The Committees of the Supervisory Board are independent of the Management Board of the Company. The Management Board may not issue binding orders to the Committees of the Supervisory Board concerning performing their duties.

The Committees of the Supervisory Board consist of three to five members. The activities of the individual Committees are managed by their Chairpersons.

Meetings of the Committees are convened by the Chairperson of the specific Committee on his/her own initiative or upon the motion of a member of the Committee or Chairperson of the Supervisory Board and they are held as needed. In case of the Audit Committee the meetings are convened at least on a quarterly basis. The Chairpersons of the Committees may invite members of the Supervisory Board, who are not members of the specific Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company to the meetings of the Committees. The Chairperson of the specific Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board.

The Committees of the Supervisory Board pass resolutions if at least a half of their members were present at the meeting and all their members have been duly invited. The resolutions of the Committees of the Supervisory Board are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain". The Committees of the Supervisory Board may pass resolutions in writing or by using means of direct remote communication.

The members of the Committees of the Supervisory Board may participate in meetings and pass resolutions in writing or by using means of direct remote communication, i.e. tele- or videoconferences.

The Company Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the Committees of the Supervisory Board. Every year, the Committees of the Supervisory Board provide public record information, through the Company, on the composition of the Audit Committee, number of meetings held and participation in the meetings during the year as well as on main activities. In addition, the Audit Committee confirms its positive assessment of the independence of financial audit process and submits a short description of steps taken to formulate such a motion.

The Company Management Board provides the possibility to use the services of external advisers by the Committees in the scope required for performing the obligations of the specific Committee.

#### **6.12. Remuneration policy of management and supervisory staff**

##### **6.12.1. Remuneration system of Management Board members and key managers**

###### **6.12.1.1. General information on the adopted remuneration system for members of the Management Board**

The objectives and principles of remuneration of members of the Company Management Board are defined in the *Remuneration Policy for Members of supervisory and management bodies, including the description of the rules of defining the policy in TAURON Polska Energia S.A.* (Remuneration policy) adopted by the Supervisory Board of the Company under Resolution no. 15/II/2011 of 24 February 2011.

The Remuneration policy shapes the remuneration system for members of the Management Board, in connection with outstanding tasks aimed at implementation of the adopted strategy of the Company, development directions and financial plans. The overriding objective of the Remuneration policy is to ensure an incentive-based remuneration of the senior management staff and to create basis for its development.

Remuneration policy objectives

- 1) ensuring an incentive-based and consistent remuneration system,
- 2) linking the remuneration rules with monitoring of implementation of the adopted strategic plans and implementation of the financial plans,
- 3) developing the level of remuneration of Management Board members in connection with the implementation of the delegated tasks,

- 4) growth in the Company value through the development of the senior management staff,
- 5) improvement of remuneration systems translating into implementation of the Company strategy and development directions.

The remuneration and bonus system for Members of the Management Board of the Company applicable in the Company stipulates that the level of remuneration should be tied to the financial situation of the Company and growth in an annual perspective, in connection with the implementation of strategic goals. The said system does not envisage that remuneration shall be tied with instruments associated with the Company shares.

Linking of the remuneration system with the implementation of the allocated tasks supports the implementation of the adopted development strategies and directions and develops a new organisational culture of the Company.

The remuneration model covered by the Remuneration policy assumes a two-component system for determining of the remuneration for members of the Management Board.

In the scope of the remuneration model of the top management staff, remuneration consisting of a fixed and variable part has been adopted, depending on the fulfilment of the specific resultant criteria.

The major assumption of the Remuneration policy is defining of the remuneration system motivating members of the Management Board to achieve their targets arising from the Company strategy and tasks defined in the financial plans.

The remuneration system has been defined taking into consideration the remuneration policy in listed companies and best market practices used in economic undertakings, particularly in the energy and fuel sectors, with the size comparable to the Company.

In order to enable the use of benefits available to the Company employees by members of the Management Board, the remuneration policy was supplemented with a catalogue of additional benefits of social and welfare, communication and insurance nature.

Taking into account the statutory regulations, the rules and the level of remuneration for members of the Management Board are defined by the Supervisory Board.

Members of the Management Board of the Company are neither covered by the bonus programme based on the capital of the Company, nor do they receive any remuneration or awards due to fulfilment of their functions in governing bodies of companies belonging to TAURON Capital Group.

#### **6.12.1.2. General information on the adopted remuneration system for key managers**

The rules concerning remuneration and bonus system for key managers and other employees are defined in the *Regulations on Remuneration of Employees of TAURON Polska Energia S.A.*, adopted for application by the Management Board of the Company.

The remuneration and bonus system for key managers stipulates that the level of remuneration should be tied to the financial situation of the Company in an annual perspective, in connection with the implementation of strategic goals. It assumes a two-component system for defining of the remuneration, comprising the basic monthly salary and a variable incentive component based on the implementation of the assigned tasks, both of financial and non-financial nature.

The overriding assumption of the applicable remuneration system is to ensure the optimum and motivating remuneration level, depending on the value and type of work on a given position as well as the quality of work and effects achieved by employees.

The structure of the remuneration consists of the following elements:

- 1) a fixed part – constituting the basic salary determined in accordance with the table of grade categories applicable in the Company and monthly rates of personal grade. The allocated level of basic salary reflects the value and type of work as well as the quality of employee's work, defined through the assessment of employee's competence level,
- 2) variable part – which depends on performance results, defined through the level of accomplishment of targets and tasks within the MBO bonus system,
- 3) benefits – which are defined in internal regulations of the Company.

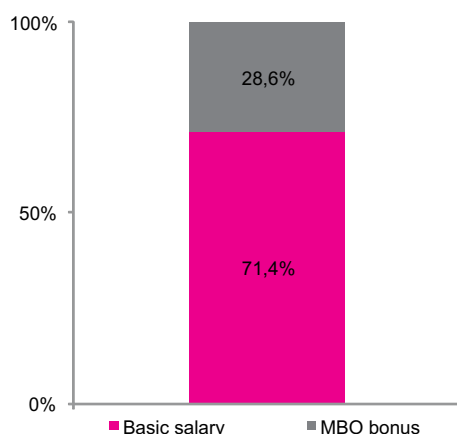
The bonus system based on market bonus mechanisms enables cascading the objectives set by the Management Board at a level of TAURON Capital Group and at a level of the Company, to specific tasks, defined by parameters, assigned to employees at lower levels of the organisation. Accordingly, the culture of managing through objectives applied in the Company reflects the specific nature of individual functions implemented in the Company and allows for application of mechanisms based on dialogue of the supervisor with the subordinate during the process of determining and assessment of implementation of objectives translating into the effectiveness of the overall

organisation. At the same time, this tool enables precise correlating of objectives (KPIs) defined for members of the Management Board with objectives set for key managers of the Company for a given year. The preliminary assessment of accomplishment of the objectives takes place after the first semi-annual period, whereas after the end of the second half of the year members of the Management Board perform the final evaluation of the implementation of the objectives of Company key managers.

Employees of the Company do not receive any remuneration or awards on account of functions fulfilled in governing bodies of companies belonging to TAURON Capital Group.

The figure below presents the structure of remuneration for the position of a key manager.

**Figure no. 24 Structure of remuneration for the position of a key manager**



#### 6.12.1.3. Rules, terms and conditions and level of remuneration of Management Board members

The total amount of remuneration understood as the value of wages, awards and benefits received in cash, in-kind or in any other form, due or paid by the Company to the Management Board members in 2015 amounted to PLN 8.024 thousand gross.

The table below presents the remuneration of members of the Company Management Board for 2015, divided into components.

**Table no 38. Remuneration of members of the Company Management Board for 2015, divided into components (in PLN thousand)**

No.	Name and surname	Period of holding the function 2015	Remuneration*	Bonus*	Other benefits*	Total
1.	Henryk Borczyk	01.10.2015 – 08.12.2015	182	0	52	234
2.	Jarosław Broda	08.12.2015 – 31.12.2015	57	0	42	99
3.	Aleksander Grad	01.01.2015 – 01.10.2015	678	450	149	1,277
4.	Michał Gramatyka	01.10.2015 – 08.12.2015	197	0	37	234
5.	Kamil Kamiński	08.12.2015 – 31.12.2015	57	0	36	93
6.	Piotr Kołodziej	10.10.2015 – 08.12.2015	162	0	14	176
7.	Jerzy Kurella	01.10.2015 – 08.12.2015	223	0	11	234
8.	Dariusz Lubera	01.01.2015 – 01.10.2015	768	510	166	1,444
9.	Remigiusz Nowakowski	08.12.2015 – 31.12.2015	65	0	48	113
10.	Katarzyna Rozenfeld	01.01.2015 – 01.10.2015	678	450	146	1,274
11.	Anna Striżyk	10.10.2015 – 31.12.2015	201	0	49	250
12.	Stanisław Tokarski	01.01.2015 – 01.10.2015	678	450	123	1,251
13.	Krzysztof Zawadzki	01.01.2015 – 01.10.2015	676	450	117	1,243
14.	Piotr Zawistowski	08.12.2015 – 31.12.2015	57	0	45	102
<b>Total</b>			<b>4,679</b>	<b>2,310</b>	<b>1,035</b>	<b>8,024</b>

\* No overheads.

Members of the Management Board did not receive any remuneration or awards in 2015 on account of functions fulfilled in governing bodies of companies belonging to TAURON Capital Group.

The model of remuneration of Board Members consists of two components for determining the remuneration, the fixed part (monthly basic salary) and the floating part, depending on fulfilment of specific target criteria (implementation of the task commissioned). Both the monthly basic salary as well as the result-based criteria, whose fulfilment determines the level of an annual bonus, are defined by the Supervisory Board of the Company.

The annual bonus constitutes up to 50% of the basic salary for the financial year, assuming that ratios for the annual bonus are met, as defined for a given financial year by the Supervisory Board.

The Supervisory Board determines the percentage level of the annual bonus for each of the following ratios:

- 1) consolidated EBITDA derived from the approved consolidated material and financial plan for a given financial year,
- 2) consolidated gross profit derived from the approved consolidated material and financial plan for a given financial year,
- 3) current liquidity ratio measured for TAURON Capital Group derived from the approved consolidated material and financial plan for a given financial year,
- 4) Implementation of non-financial objectives indicated for a given year in the approved Corporate Strategy.

The components of the annual bonus of financial nature are allocated based on the data derived from the audited consolidated financial statements of the Company for the first half of a given financial year and for a given financial year. The component of the annual bonus of non-financial nature is allocated in connection with the achievement of specific objectives in a given financial year, based on the semi-annual and annual assessment of their performance by the Supervisory Board.

The figure below presents the structure of remuneration of Members of the Management Board.

**Figure no. 25 Structure of remuneration for the position of a Management Board member**



#### **6.12.1.4. Agreements concluded with managing persons which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation takes place as a result of the merger of the Company through takeover**

Between the Company and managing persons no agreements were concluded which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation is caused by merger of the Company through takeover.

Members of the Management Board are not entitled to receive the severance pay due to termination of the employment relationship, contract for specific work or other similar legal relationship of similar nature. In connection with the access of members of the Management Board to confidential information whose disclosure could expose the Company and companies of TAURON Capital Group to losses, non-competition agreements are concluded with members of the Management Board in order to protect interests of the Company. Under the aforementioned agreements, persons refraining from conducting competitive activity in the specified period may receive compensation.

Members of the Company Management Board did not hold positions of members of Management Boards of companies included in TAURON Capital Group.

#### **6.12.1.5. Non-financial components of remuneration allocated to members of the Management Board and key managers**

Members of the Management Board and staff members employed at key positions in the Company are entitled to use benefits and non-financial components of remuneration offered by the Company.

Within the additional benefits the aforementioned employees are entitled, inter alia to:

- 1) participate in the Employee Pension Scheme operated by the employer (under the condition of being employed in the Company or one of the companies of TAURON Capital Group over a period of at least one year),
- 2) use the medical package financed from the Company funds,
- 3) use a company car allocated for sole disposal,
- 4) use company accommodation in case if the availability of the employee is required due to the nature of his/her work and scope of responsibilities.

In addition, members of the Management Board are authorised to use the additional civil liability insurance under the concluded employment contract.

#### **6.12.1.6. Information on the lack of changes in the remuneration policy over the last financial year**

In financial year 2015 no changes in the Remuneration policy for members of the Management Board occurred.

#### **6.12.1.7. Assessment of functioning of the remuneration policy in terms of fulfilment of its objectives, in particular, the long-term growth in shareholders' value and stability of the undertaking performance**

The applied remuneration system for members of the Management Board is compliant with the adopted Remuneration policy, which allows for achievement of the adopted objectives. The incentive-based and consistent system is provided, linked with the monitoring of annual financial plans and the adopted Corporate Strategy and development directions.

The form, structure and level of remuneration correspond to market conditions and are oriented towards enabling the recruitment and maintaining of individuals fulfilling the criteria required for running the company in the manner taking into account shareholders' interests (building the Company value for shareholders), as well as prevent conflicts of interest from arising among members of the Management Board and shareholders. At the same time, they are constructed in the manner which is transparent for investors, so that their trust towards the Company is built, and ensure the incentive function for the Management Board.

The disbursement of variable components of remuneration is linked with the pre-defined, measurable result criteria fostering the long-term stability of the Company, including also the criteria other than financial, associated with the generation of the long-term value of the Company.

The indicators determining obtaining and level of variable components of the remuneration are defined in accordance with the SMART principle, thus, they also indicate such features as: precision, measurability, possibility to achieve, significance and defining in time.

The remuneration and bonus system for Members of the Management Board of the Company applicable in TAURON stipulates that the level of remuneration should be tied to the financial situation of the Company and growth in an annual perspective, in connection with the implementation of strategic goals.

#### **6.12.2. Remuneration system of members of the Supervisory Board**

The objectives and rules of remuneration for members of the Supervisory Board of the Company are defined in the Remuneration policy and in the Resolution of the Ordinary GM of TAURON no. 29 of 6 May 2011 *concerning determining of the rules and level of remuneration for members of the Supervisory Board of TAURON Polska Energia S.A.*

The remuneration system of members of the Supervisory Board comprises single-component monthly remuneration, adopting diversification of its level depending on the function in the Supervisory Board (Chairperson, Deputy Chairperson, Secretary).

The remuneration of members of the Supervisory Board is defined at a level comparable to other listed companies, where regulations on limitation of remuneration binding for companies with the majority share of the State Treasury apply.

Members of the Supervisory Board are entitled to receive the remuneration irrespective of the frequency of formally convened meetings.

The remuneration does not apply for a month in which a member of the Supervisory Board was not present at any of the formally convened meetings, for unjustified reasons. The decision on excusing or failure to excuse the absence of a member of the Supervisory Board at its meeting is taken by the Supervisory Board by means of a resolution.

The remuneration is calculated on a pro rata basis, in relation to the number of days when the function was fulfilled in case if the appointment or dismissal occurred during the calendar month.

The Company covers costs incurred in connection with the fulfilment of functions assigned to members of the Supervisory Board, in particular: costs of return transfer between the place of residence and the venue of the Supervisory Board meeting or meeting of the Supervisory Board Committee, costs of individual supervision and costs of accommodation and board.

In financial year 2015 no changes in the Remuneration policy for members of the Supervisory Board occurred.

### Remuneration of key supervising personnel

The table below presents the remuneration of members of the Company Supervisory Board Members for 2015

**Table no 39. Remuneration of members of the Supervisory Board of the Company for 2015 (in thousand PLN)**

No.	Name and surname	Period of holding the function in 2015	Remuneration and awards
1.	Grzegorz Barszcz	12.08.2015 – 02.12.2015	33
2.	Anna Biesialska	02.12.2015 – 31.12.2015	9
3.	Beata Chłodzińska	12.08.2015 – 31.12.2015	55
4.	Piotr Ciach	12.08.2015 – 02.12.2015	33
5.	Michał Czarnik	02.12.2015 – 31.12.2015	9
6.	Andrzej Gorgol	01.01.2015 – 12.08.2015	66
7.	Maciej Koński	01.01.2015 – 31.12.2015	108
8.	Katarzyna Kosińska	12.08.2015 – 02.12.2015	33
9.	Leszek Koziorowski	01.01.2015 – 31.12.2015	108
10.	Anna Mańk	02.12.2015 – 31.12.2015	10
11.	Michał Michalewski	01.01.2015 – 12.08.2015	66
12.	Wojciech Myślecki	02.12.2015 – 31.12.2015	9
13.	Jacek Szyke	01.01.2015 – 31.12.2015	120
14.	Marek Ściążko	01.01.2015 – 07.08.2015	65
15.	Antoni Tajduś	01.01.2015 – 07.08.2015	87
16.	Maciej Tybura	01.01.2015 – 07.10.2015	83
17.	Renata Wiernik-Gizicka	09.12.2015 – 31.12.2015	7
18.	Agnieszka Woś	01.01.2015 – 12.08.2015	81
19.	Jarosław Zagórowski	12.08.2015 – 02.12.2015	40
<b>Total</b>			<b>1,022</b>



## 7. OTHER SIGNIFICANT INFORMATION AND EVENTS

### 7.1. Proceedings pending before the court, competent arbitration authority or public authority body

During the reporting period no proceedings were pending before any court, competent arbitration authority or public authority body, related to the Company or subsidiaries of TAURON Capital Group, whose single or aggregate value would exceed at least 10% of the Company equity.

### 7.2. Important achievements in research and development

In 2015 the Company, jointly with partners from the EU countries, carried out works under the project on *An Integrated Collaborative Platform for Managing the Product-Service Engineering Lifecycle – ICP4Life*. It is the first project in TAURON Capital Group, financed under the Horizon 2020 programme. Project deliveries should open a new platform for companies of TAURON Capital Group for the purpose of cooperation between the energy supplier and the client, where completely new products will be developed.

In 2015, activities were completed, associated with research tasks implemented under the strategic programme of research and development entitled *Advanced Technologies of Energy Acquisition*, co-financed by the NCBiR. The Company, as the member of two winning consortia, participated in the implementation of two research tasks of the programme:

1. the first task – *Development of technologies for high-performing “zero-emission” coal units integrated with CO<sub>2</sub> capturing from exhaust*,
2. the third task – *Development of technology of coal gasifying for high performance production of fuels and electricity*.

The follow-up projects are already, allowing for effective use of the acquired knowledge and research infrastructure developed under the aforementioned projects, in the form of mobile pilot installation.

In the reporting year, activities initiated in 2012 were completed in the Company, resulting from the signed Consortium Agreement – HTRPL High Temperature Nuclear Reactor in Poland. The participation of the Company was associated with the implementation of the stage called, *Analysis of the experience of the energy operator in application of cogeneration systems from the perspective of potential implementation of the technology of high temperature reactors*, under the research project on *Technologies supporting the development of safe nuclear power industry*, within the scope of Research Task no. 1 entitled: *Development of high temperature reactors for industrial application*. The leader of the Consortium was the AGH University of Science and Technology (Akademia Górniczo-Hutnicza) in Kraków.

In 2015, the Company also took part in the preparation and submission of 13 applications for co-financing of research and development activities from the European Union funds (Horizon 2020 and Research Fund for Coal and Steel of the European Union), where the Company acted as a member of international scientific and research consortia. At present, the process of evaluation of some applications submitted is in progress.

In 2015 works related to the *Feasibility Study of the Power Sector Research Programme (PBSE)*, submitted to the NCBiR in December 2014 were ongoing. The PBSE Feasibility Study was developed under the cooperation between TAURON and other undertakings from the energy sector, trade organisations and leading national universities. In June 2015 the evaluation of the content of the PBSE Feasibility Study took place, as a result of which it was modified, in accordance with the recommendations, and as a consequence of the next stage of the evaluation, in October 2015, the study was recommended for establishing of the Sectoral Programme. It is expected that the launch of the Programme shall provide support for the intensification of innovation in the energy sector, and competitions announced under the Programme shall also influence the directions of activities undertaken by TAURON Capital Group. At present, works are ongoing in the scope of defining the ultimate research agenda and preparation of research and development projects to be submitted under the PBSE call for proposals. The launch of the first call for proposals is expected in the 2<sup>nd</sup> quarter of 2016.

The Company was also conducting active measures in the scope of building the cooperation mechanisms between industry and science. In this scope, the Company participated in the activities of the Motorway of Technology and Innovation Institute, established in 2014, representing a new platform for cooperation between industry and Polish universities.

In 2015 the Company continued its activities implemented under KIC InnoEnergy, in particular, the Polish node of CC Poland Plus sp. z o.o. with its seat in Kraków (one of six in the EU). TAURON has the status of Associated Partner in the structures of KIC InnoEnergy. The main area of interest of the Company covers the so-called clean coal technologies. At the same time, conducting research and coordination of activities in this area are the main activities of

the company CC Poland Plus sp. z o.o., in which the Company is one of the shareholders. In 2015, representatives of the Company were involved in the activities of KIC InnoEnergy, associated with the evaluation of projects/initiatives proposed for implementation by other partners acting within KIC InnoEnergy structures.

In 2015, activities in the scope of development and implementation of the *Research and Development Policy in TAURON Group* were continued, which was approved by the Management Board of the Company on 15 September 2015. At the same time, the stage of implementation of provisions of the Policy in the internal corporate regulations was launched. The Policy defines the target model of research and development activity in TAURON Capital Group, in particular, in the scope of:

- 1) indicating future competitive advantages of TAURON Capital Group, associated with the research and development activity,
- 2) indicating priority areas and development directions of the research and development activity, compliant with the current and predicted development trends in Europe and worldwide,
- 3) optimum use of the potential of both companies of TAURON Capital Group and the former economic and scientific partners,
- 4) optimum use of the support for research and development activity available under the public funds.

### **7.3. Issues concerning natural environment**

The Company does not conduct any business activities which would result in infringement of the environmental protection requirements, causing the obligation to pay the fees for economic use of the environment. As a user of company vehicles, the Company is subject to the provisions of the Act of 27 April 2001 *Environmental Protection Law* in the scope of calculating the fee for using the environment due to emission of gases or particulate matter to ambient air. However, due to the level of the fee calculated for 2015, the Company is not bound to pay the fee.

### **7.4. Corporate Social Responsibility (CSR) Policy**

In 2011, acknowledging that communication of non-financial measures is particularly important in case of listed companies, in the *Corporate Strategy of TAURON Group for 2011–2015 with an outlook until 2020*, the need to develop and implement the CSR strategy (within integration of the PR function), at a level of the company and “TAURON Group”. Accordingly, in 2012 the *Strategy of Corporate Social Responsibility, i.e. the Strategy of Sustainable Development of TAURON Group for 2012–2015, with estimates up to the year 2020* was developed (Sustainability Strategy).

The strategic objectives determined by the aforementioned strategy and strategies of Business Areas, provided basis for provisions of this document. The Strategy of sustainable development indicates two leading directions: ensuring the energy safety and client orientation, as well as three supporting directions: involvement of employees in organisation development, environmental protection in the value chain and management of economic and social impacts.

In 2015, TAURON continued the fulfilment of goals of the Sustainability Strategy. In connection with its expiry in 2015 as well as the fulfilment of over 95% of goals assumed in the document, in December 2015 TAURON adopted a new *Strategy of Sustainable Development of TAURON Group for 2016–2018, with estimates up to the year 2020*.

The core of the new Sustainability Strategy remained unchanged, however, the wording of the document has been simplified. This Strategy was developed based on the current trends in the CSR area and it takes into account the opinion of TAURON Capital Group environment as well as future challenges faced by the energy sector. It is still based on five strategic directions – two primary (ensuring energy supply security, customer orientation) and three secondary (ethical culture and engaging workforce, environment protection and social and business partnership). Moreover, the strategic goals were replaced by 18 obligations which TAURON intends to fulfil by the end of 2016. For each of the obligations key initiatives were formulated to support their implementation.

The strategy of sustainable development is directly related to all areas of activities of TAURON Capital Group, streamlining both the approach to the CSR and the methodology for the assessment of effectiveness of measures undertaken based on Global Reporting Initiative indicators. In 2015, the third sustainability report was published, presenting the measures undertaken by TAURON Capital Group in the CSR area in 2014 as well as data summarising the implementation of the goals planned in the sustainability strategy up to 2015. The report was developed in accordance with the latest reporting standards – GRI G.4, which was confirmed by the acquired certificate – GRI Materiality Matters' Check, and submitted for verification by an independent auditor. The Company was also audited in connection with joining the RESPECT Index – the index comprising companies listed at the stock exchange, operating in accordance with the rules of sustainable development. In 2015, TAURON achieved, for the third time, a positive result and was included in this most prestigious ranking of socially responsible companies.

One of the directions of the Sustainability Strategy is the social and business partnership (formerly the management of the economic and social effects). The resulting goals are implemented, among others, through the activities of TAURON Foundation which enables even more effective implementation of CSR actions in the scope of care for safety of local communities and actions for public benefit.



In 2015, TAURON Foundation and the Company implemented, based on the employee voluntary programme, the eleventh issue of the *Houses of Positive Energy* action, addressed to 24-hours custody and caretaking facilities, aimed at improvement of the living conditions of children from orphanages. The action covered all the facilities within the area of operations of TAURON Capital Group. Since 2011 over 380 orphanages from five provinces have taken part in the action. In 2015, the Foundation also continued the project called *Heroes day by day*, the objective of which is to build awareness concerning potential donors of bone marrow and increase the number of its potential donors. The volunteers of TAURON Foundation organised information actions and days of bone marrow donor in companies of TAURON Capital Group, and during events sponsored by TAURON, as a result of which over 3,700 potential bone marrow donors were registered.

TAURON Capital Group, acting in the area of southern Poland, has a leading position in energy sales and generation. These conditions cause that the scope of actions conducted for the benefit of the communities in which companies of TAURON Capital Group operate, is very broad. Many projects are supported which are important for inhabitants of the regions of Upper and Lower Silesia, Opolskie, Małopolska and Podkarpacie Regions. Among others, TAURON cooperates with the Mountain Voluntary Emergency Service (GOPR), the goal of which is to increase safety in the mountains. The Company is the strategic partner of the project, actively participating both in its summer and winter edition.

In 2015, TAURON continued the cooperation with the SIEMACHA Association – one of the leading NGOs in the country focusing on implementation of projects in the area of education, sports and therapy, providing systemic assistance to children and teenagers. In the scope of the established cooperation, TAURON's patronage covered sports activities of the association, gaining the title of *TAURON – SIEMACHA's sports partner*. In 2015, such projects were supported as *Football Children's Day with TAURON, Juliada 2015, TAURON Basket Game* or *I swim with TAURON*.

Activities carried out by companies of TAURON Capital Group are also worth mentioning. In 2015, the campaign called *TAURON Fuses* was continued. Its stage implemented by TAURON Sprzedaż focused on raising awareness of clients on the energy market, in particular, in order to protect against practices of unfair sellers. On the other hand, a part of the project devoted to education of children and teenagers was conducted by TAURON Dystrybucja, teaching the rules of safe electricity use. In 2015, TAURON Dystrybucja also continued the campaign *TAURON Fuses. Switch on at work* initiative, addressed mainly to employees of construction and renovation companies who have contact with electricity and electricity supplied equipment in their daily work.

The Company is also the signatory of the declaration signed on 17 June 2009 during the national conference under the cycle *Responsible Energy*, comprising the principles of sustainable development in energy sector in Poland. In 2013, the Company joined a group of signatories of the *Business declaration for the sustainable development*, consequently undertaking to get involved in the implementation of strategic goals of the *Vision of sustainable development for the Polish business 2050*.

## 7.5. Awards and distinctions

In 2015 TAURON received the following awards and distinctions.

## Figure no. 26 Awards and distinctions

### AWARDS AND DISTINCTIONS GRANTED TO TAURON IN 2015

#### JANUARY

Recognising Intranet of TAURON Capital Group as one of ten best intranet solutions worldwide by the organiser of the competition, Nielsen Norman Group z USA, which appreciated the user-orientation of intranet of TAURON Capital Group.

#### FEBRUARY

Distinguishing TAURON with the title *The one who changes Polish industry*, awarded by the Editor's Office of the Economic Monthly, New Industry and wnp.pl. portal, for business courage and responsibility leading to key decisions in terms of energy security and perspectives of of Polish economy development.

#### MARCH

Recognising TAURON Investor Relations as the best among companies of WIG30 Index in the competition organised by "Parkiet" Exchange Journal and the Chamber of Brokerage Houses. The quality of investor relations was evaluated by representatives of financial institutions (analysts, brokers and managers) as well as Internet users.

#### SEPTEMBER

Distinguishing TAURON with the *Investment of the year* award for the construction of the power unit with the capacity of 910 MW at Elektrownia Jaworzno III, by the Programme Council of the Energy Forum.

Taking the 24th place by TAURON in the list of top 500 comprising the biggest companies from Central and Eastern Europe, developed by *Rzeczpospolita* daily and Deloitte. TAURON has maintained its last year' position in the ranking.

#### OCTOBER

Distinguishing TAURON in the competition on *Top 10 Employers of the Silesian Province*. The winners were selected by local government representatives based on the following criteria: impact of employer's activity on the economic development of the region, contribution in the development of the labour market, innovativeness, relations with employees and cooperation with the local community.

Obtaining by TAURON, for the second consecutive time, of the main award in the category of enterprises for the annual report for 2014 from the jury of *The Best Annual Report* competition organised by the Institute of Accounting and Taxes.

Taking of the 7th place by TAURON in the List 2000 published by *Rzeczpospolita* journal (last year' position in the ranking was maintained).

TAURON was included in TOP 25 of the biggest listed companies (ranking accompanying List 2000). The Company was promoted by one position in relation to the previous year – to the 6th position.

Distinguishing TAURON with the *Feniks 2015* award during the 22<sup>nd</sup> International Conference on *Ashes from energy* in the category *Project* for the *Grey2Green* project. The award was granted for the policy of TAURON activity in the scope of mitigation of the environmental impact.

#### DECEMBER

Accepting TAURON, for the third consecutive time, to the RESPECT Index – a group of listed companies managed in responsible and sustainable manner.

Selection of TAURON to the Golden Six INN: CSR – a group of companies conducting best activities in the area of corporate social responsibility in the country.

## 7.6. Investor relations

The reliable and transparent communication with investors is one of the priorities of TAURON Capital Group. It is conducted both in the form of activities required by law (current and periodical reports) and also through many

additional tools addressed directly to institutional and individual investors. The Company organises itself as well as participates in many investor conferences and roadshows organised by capital market institutions in Poland and abroad, during which the strategy and financial situation of TAURON Capital Group is presented as well as the current standing and perspectives of the energy sector.

In connection with the publication of periodical reports, the company organised conferences for analysts and managers during which members of the Management Board discussed financial results and presented the most important events in the reported periods. The conferences were broadcast on Internet in Polish and in English. A possibility of their listening via telephone was also provided. Owing to such solution, all investors interested in TAURON Capital Group had a possibility to follow those events directly and receive information at the same time.

Besides regular meetings accompanying the publication of periodical reports, in 2015 members of the Management Board and representatives of Investor Relations Office from the Department of Market Communication and PR, took part in twelve conferences and roadshows, during which over 150 meetings with managers and analysts were held. Representatives of TAURON Capital Group met institutional investors not only in Poland, but also in the USA, Great Britain, Austria and Czech Republic.

Particular attention was paid to technical aspects of communication with investors – additional communication channels are used, such as the dedicated application for mobile devices. On the YouTube portal broadcasts of events important for investors are placed: reporting conferences, General Meetings, Investor Days and comments of the President of the Management Board on the results. On the other hand, on Facebook, announcements of significant events are published, including links to websites where the broadcasts may be followed or participation in investor chat is possible.

Being aware that the website is a significant source of information for investors, in particular, the tab on Investor Relations; the company cares for its content and validity of the content contained therein. The Section on Investor Relations contains a lot of useful information on the current events, financial results or general meetings. It also contains presentations and video broadcasts of conferences summarising the financial results.

On 29 September 2015, the Company organised the third issue of the Institutional Investor's Day. Several dozen analysts and managers had an opportunity to meet the Management Board and the management staff of TAURON Capital Group as well as visit a new biomass unit with the capacity of 50 MW on the premises of Elektrownia Jaworzno III. Within this event, a cycle of presentations was also held, concerning the planned changes in the remuneration model of distribution system operators, distribution infrastructure maintenance strategy and impact of renewable energy sources on the performance of TAURON Dystrybucja grid.

In 2015 the company participated in events addressed to individual investors, inter alia, it was the partner of winter and summer sports competitions of the capital market "Capital Market Games" and the "Wall Street" conference in Karpacz. Within the regular communication with this sizeable group of investors, five chats with a representative of the Management Board took place in 2015, in which approximately 100 investors took part each case. Activity in the scope of contacts with individual investors resulted in joining the programme of Individual Investors' Association "10 of 10 – a company friendly to investors" and receiving of the distinction "Hero of the Capital Market" in 2014.

Also in 2015 the company received awards for the high quality of communication with participants of the capital market. In March 2015, within the biggest survey of investor relations in Poland, organised by the Journal of Stock Exchange and Investors, "Parkiet" and the Chamber of Brokerage Houses, participants of the internet questionnaire survey granted the first place to TAURON in terms of investor relations among companies of WIG30 index. On the other hand, in the last year' issue of "The Best Annual Report" competition, organised by the Institute of Accounting and Taxes, TAURON received, for the second consecutive time, the first main award in the category of enterprises for the report in 2014.

The following table presents the timeline of events and activities carried out within investor relations which took place in 2015.

**Table no 40. Timeline of events and activities carried out within investor relations in 2015**

No.	Date	Event
1.	05-06.02.2015	Roadshow in cooperation with Societe Generale, London
2.	12.03.2015	Publication of the separate and consolidated annual report for 2014
3.	12.03.2015	Meeting of the Management Board with analysts managing funds, connected with the publication of the financial results for 2014
4.	12.03.2015	Chat with individual investors
5.	16.03.2015	Publication of recommendations of the Management Board concerning the profit distribution for 2014 and defining of the amount allocated for the payment of the dividend

No.	Date	Event
6.	18.03.2015	Participation in the Polish Capital Market Day, DM PKO BP and GPW, London
7.	17.04.2015	Participation in the conference of Raiffeisen Institutional Investors' Conference, Zürs, Austria
8.	20.04.2015	Participation in the Energy & Mining Conference, Pekao Investment Banking, Warsaw
9.	23.04.2015	Ordinary GM of TAURON
10.	14.05.2015	Publication of the extended consolidated report for the 1 <sup>st</sup> quarter 2015
11.	14.05.2015	Meeting of the Management Board with analysts managing funds, connected with the publication of the financial results for the 1 <sup>st</sup> quarter of 2015
12.	14.05.2015	Chat with individual investors
13.	18.05.2015	Participation in the Polish Capital Markets conference, GPW/Ipopema, New York
14.	22.07.2015	Dividend record day
15.	12.08.2015	Date of dividend payment
16.	20.08.2015	Publication of the consolidated report for the 1 <sup>st</sup> half of 2015
17.	20.08.2015	Meeting of the Management Board with analysts managing funds, connected with the publication of the financial results for the 1 <sup>st</sup> half of 2015
18.	20.08.2015	Chat with individual investors
19.	09.09.2015	Meeting of the Management Board with analysts managing funds, associated with the publication of the financial results for the 1 <sup>st</sup> half of 2015, DM PKO BP, Warsaw
20.	14.09.2015	Participation in the conference of companies of the energy and commodity sector, DM BZ WBK, Warsaw
21.	15.09.2015	Participation in the Annual Emerging Europe Investment Conference Pekao Investment Banking/Kepler Cheuvreux, Warsaw
22.	29.09.2015	Investor Day in TAURON Polska Energia, Jaworzno
23.	30.09.2015	Participation in the conference on Mining and Energy, DM PKO BP, Katowice
24.	08.10.2015	Participation in the Erste Group Investor Conference, Stegersbach (Austria)
25.	09.11.2015	Extraordinary GM of TAURON
26.	10.11.2015	Publication of the consolidated report for the 3 <sup>rd</sup> quarter of 2015
27.	11.11.2015	Meeting of the Management Board with analysts managing funds, connected with the publication of the financial results for the 3 <sup>rd</sup> quarter of 2015
28.	16.11.2015	Chat with individual investors
29.	25.11.2015	Meeting of the Management Board with analysts and fund managers, related to the publication of the financial results for the 3 <sup>rd</sup> quarter of 2015, DM mBank, Warsaw
30.	04.12.2015	Participation in the WOOD's Winter in Prague Conference, WOOD & Company, Prague
31.	18.12.2015	Chat with individual investors

### Company Management Board

Katowice, 8 March 2016

Remigiusz Nowakowski – President of the Management Board .....

Jarosław Broda – Vice-President of the Management Board .....

Kamil Kamiński – Vice-President of the Management Board .....

Marek Wadowski – Vice-President of the Management Board .....

Piotr Zawistowski – Vice-President of the Management Board .....

## APPENDIX A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

Below the glossary of industry terms and the list of abbreviations most commonly used in this report, is presented.

**Table no 41. Explanation of abbreviations and trade terms applied in the text of the report**

No.	Abbreviation and trade term	Full name/explanation
1.	ArcelorMittal	ArcelorMittal Poland S.A. with its seat in Dąbrowa Górnicza
2.	ARE	Agency of Energy Market (Agencja Rynku Energii S.A.) with the seat in Warsaw
3.	Pekao Investment Banking	Pekao Investment Banking S.A. with the seat in Warsaw
4.	bbl	barrel of crude oil
5.	BGK	Bank Gospodarstwa Krajowego with the seat in Warsaw
6.	Biomasa GT	Biomasa Grupa TAURON sp. z o.o. with the seat in Stalowa Wola
7.	BZ WBK	Bank Zachodni WBK S.A. with the seat in Wrocław
8.	CAO	Central Allocation Office GmbH with the seat in Freising, Germany
9.	Cash pooling	Cash pooling operating in the Company – consolidation of balances of bank accounts through physical cross-posting of cash from accounts of TAURON Capital Group in the bank in which cash pooling operates to the bank account of Pool Leader whose function is fulfilled by the Company. At the end of each working day, from cash is cross-posted from the bank accounts of companies of TAURON Capital Group which show positive balance to the bank account of Pool Leader. At the beginning of each working day, bank accounts of companies of TAURON Capital Group are credited from the bank account of the Pool Leader with the amount demanded to maintain cash flow of the company of TAURON Capital Group on a given working day.
10.	CER	(Certified Emission Reduction) – a unit of confirmed emission reduction – reduced emission of greenhouse gases or avoided emission of greenhouse gases, expressed as equivalent, obtained as a result of the project on mechanism of clean development
11.	Coloured certificates	Property rights resulting from certificates of origin of energy generated in the way subject to support, the so-called colour certificates: 1) <b>green</b> – certificates of origin of electricity from renewable energy sources, 2) <b>violet</b> – certificates of origin of electricity generated in cogeneration, burning methane released and captured during underground mining works in active, under liquidation or liquidated hard coal mines, or burning gas acquired from biomass processing, 3) <b>red</b> – certificates of origin of electricity from cogeneration (CHP certificates – Combined Heat and Power), 4) <b>yellow</b> – certificates of origin of electricity generated in cogeneration from sources of total installed capacity below 1 MW or gas-burning
12.	CIRS	(Currency Interest Rate Swap) – transaction of interest rate exchange
13.	CSR	(Corporate Social Responsibility) social responsibility of business
14.	CUW	Centre of Common Services, CUW R – services in the area of accounting
15.	DM	Brokerage House
16.	Best Practice	Best Practice of GPW Listed Companies, effective as of 31 December 2015
17.	Best Practice 2016	Best Practice of GPW Listed Companies 2016, effective as of 01 January 2016
18.	EIB	The European Investment Bank with the seat in Luxemburg
19.	EBIT	(Interest Rate Swap) result on operating activity before taxing
20.	EBITDA	(Earnings Before Interest, Taxes, Depreciation and Amortization) result on operating activity before taxing, increased by amortization and depreciation
21.	EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. with the seat in Stalowa Wola
22.	EDF	EDF Polska Centrala sp. z o.o. with the seat in Warsaw
23.	EEX	(European Energy Exchange) European Energy Exchange with the seat in Leipzig
24.	Elektrownia Blachownia Nowa	Elektrownia Blachownia Nowa sp. z o.o. with the seat in Kędzierzyn Koźle



No.	Abbreviation and trade term	Full name/explanation
25.	ENEA	ENEA S.A. with the seat in Poznań
26.	ERM	Complex System of Enterprise Risk Management
27.	ERU	(Emission Reduction Unit) – unit of emission reduction – reduced emission of greenhouse gases or avoided emission of greenhouse gases, expressed as equivalent, or one mega gram (1 Mg) of absorbed carbon dioxide (CO <sub>2</sub> ), obtained as a result of the execution of the joint implementation project
28.	EU ETS	(European Union Emission Trading System) the European system of CO <sub>2</sub> emission allowances trading
29.	EUA	(European Union Allowances) – allowance to introduce the equivalent to the air, within the meaning of Article. 2 item 4 of the Act of 17 July 2009 on the management system of emissions of greenhouse gases and other substances, carbon dioxide (CO <sub>2</sub> ), which is used for settlements of emission size within the system, which can be managed based on principles stipulated in the Act of 28 April 2011 on the system of greenhouse gases emission allowances trading (Journal of Laws No. 122, item 695).
30.	EUR	Euro – a common European currency introduced in some EU Member States
31.	FITCH	FITCH rating agency
32.	GAZ-SYSTEM	Operator of Transmission Gas Pipelines GAZ-SYSTEM S.A. with its seat in Warsaw
33.	GPW	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) with the seat in Warsaw
34.	GRI	(Global Reporting Initiative) Global Reporting Initiative
35.	TAURON Capital Group	TAURON Polska Energia S.A. Capital Group
36.	“TAURON Group”	TAURON Group established by the Management of the Company pursuant to the Code of TAURON Group, comprising the Company and selected companies of TAURON Capital Group.
37.	GUS	Central Statistical Office (Główny Urząd Statystyczny)
38.	GWh	gigawatt hour
39.	GZE	Górnośląski Zakład Elektroenergetyczny
40.	IRGIT	Izba Rozliczeniowa Giełd Towarowych S.A. (Commodity Exchange Clearing House) with the seat in Warsaw
41.	IRS	(Interest Rate Swap) contract on exchange of interest rate payments, one of the basic derivatives subject to trade at the interbank market
42.	EC	European Commission
43.	KGHM	KGHM Polska Miedź S.A. with the seat in Lubin
44.	KIC InnoEnergy	Community of Knowledge and Innovation – KIC InnoEnergy, with its seat in Kraków
45.	Code of TAURON Group	The document entitled <i>Code of TAURON Group</i> , adopted by the Management Board of the Company
46.	Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.
47.	Nominations and Remuneration Committee	Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A.
48.	Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
49.	Kompania Węglowa	Kompania Węglowa S.A. with the seat in Katowice
50.	KPI	(Key Performance Indicators) key financial and non-financial indicators used as measures in processes of measurement of the level of organisation goal accomplishment
51.	CCC	Code of Commercial Companies
52.	KW Czatkowice	Kopalnia Wapienia Czatkowice sp. z o.o. with the seat in Krzeszowice
53.	KWK Brzeszcze	“Brzeszcze” Coal Mine with the seat in Brzeszcze
54.	mBank	mBank S.A. with the seat in Warsaw
55.	Mg	Megagram – million gram (1,000,000 g) i.e. 1 t

No.	Abbreviation and trade term	Full name/explanation
56.	MSR	(Market Stability Reserve) stabilisation reserve on the market of allowances
57.	IFRS	International Financial Reporting Standards
58.	MW	Megawatt
59.	MW <sub>e</sub>	Megawatt of electric capacity
60.	MW <sub>t</sub>	Megawatt of thermal capacity
61.	MWh	Megawatt hour
62.	NCBiR	National Centre for Research and Development
63.	Nowe Brzeszcze GT	Nowe Brzeszcze Grupa TAURON sp. z o.o. with the seat in Brzeszcze, formerly R S G
64.	Business Area	Area of operations of subsidiaries included in TAURON Group, determined by the Company, constituting the business segment of TAURON Group
65.	Governance Area	Governance Area indicated in the List of Governance Areas, i.e. the document issued by the Management Board of the Company, pursuant to the Code, established based on Corporate Strategy and included in the <i>Business Model of TAURON Group</i>
66.	DSO	Distribution System Operator
67.	OPR	Operating Power Reserve
68.	TSO	Transmission System Operator
69.	OTC (OTC market)	(Over The Counter Market) – the European market operating outside the regulated exchange market
70.	RES	Renewable Energy Sources
71.	PEPKH in liquidation	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. with the seat in Tarnów, in liquidation
72.	PGE	PGE Polska Grupa Energetyczna S.A. with the seat in Warsaw
73.	PGE EJ1	PGE EJ1 sp. z o.o. with the seat in Warsaw
74.	PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. with its registered office in Warsaw
75.	GDP	Gross Domestic Product
76.	PKO BP	Powszechna Kasa Oszczędności Bank Polski S.A. with the seat in Warsaw
77.	PLN	The symbol of Polish currency – Polish Zloty
78.	PMEC	Property rights for certificates of origin confirming generation of electricity in other co-generation sources
79.	PMGM	Property rights for certificates of origin confirming generation of electricity in co-generation, from gas-fired sources or sources with the total installed capacity below 1 MW
80.	PMMET	Property rights for certificates of origin confirming generation of electricity in co-generation, burning methane released and captured during underground mining works in active, under liquidation or liquidated hard coal mines, or burning gas acquired from biomass processing
81.	PMOZE	Property rights for certificates of origin confirming generation of electricity in RES in the period before 1 March 2009
82.	PMOZE_A	Property rights for certificates of origin confirming generation of electricity in RES in the period after 1 March 2009
83.	PSE	Polskie Sieci Elektroenergetyczne S.A. with the seat in Konstancin-Jeziorna
84.	RB	Balancing Market
85.	RDN	Day Ahead Market
86.	Organisational Regulations/ Bylaws	Document entitled <i>Organisational Regulations of TAURON Polska Energia S.A.</i>
87.	RESPECT Index	Exchange index where companies operating in accordance with the sustainable development rules are listed

No.	Abbreviation and trade term	Full name/explanation
88.	ROIC	Return On Invested Capital
89.	R S G	R S G sp. z o.o. with the seat in Katowice, currently Nowe Brzeszcze Grupa TAURON
90.	SRK	Spółka Restrukturyzacji Kopalń S.A.(Coal Mine Restructuring Company, Joint Stock Company) with the seat in Bytom
91.	SPOT (SPOT Market)	In relation to electricity, it is the place of concluding of trade transactions for electricity, for which the period of delivery falls at the latest, three days after the date of transaction (usually one day before the date of delivery). Functioning of SPOT market for electricity is strongly linked with RB operating provided by the TSO
92.	Company	TAURON Polska Energia S.A. with the seat in Katowice
93.	Corporate Strategy	The document entitled <i>Corporate Strategy of TAURON Group for 2014–2017 with estimates until the year 2023</i> , being the update of the document <i>Corporate Strategy of TAURON Group for 2011–2015 with estimates until the year 2020</i> .
94.	Sustainability Strategy	The document entitled <i>Corporate Strategy of TAURON Group for 2016–2018 with estimates until the year 2020</i> , being the update of the document <i>Corporate Strategy of TAURON Group for 2012–2015 with estimates until the year 2020</i> .
95.	EBI System	Electronic Information Base system
96.	TAMEH Czech	TAURON Czech s.r.o. with the seat in Ostrava, Czech Republic
97.	TAMEH HOLDING	TAMEH HOLDING sp. z o.o. with the seat in Dąbrowa Górnicza
98.	TAMEH POLSKA	TAMEH HOLDING sp. z o.o. with the seat in Dąbrowa Górnicza
99.	TAURON	TAURON Polska Energia S.A. with the seat in Katowice
100.	TAURON Ciepło	TAURON Ciepło sp. z o.o. with the seat in Katowice
101.	TAURON Czech Energy	TAURON Czech Energy s.r.o. with the seat in Ostrava, Czech Republic
102.	TAURON Dystrybucja	TAURON Dystrybucja S.A. with the seat in Kraków
103.	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. with the seat in Tarnów
104.	TAURON Dystrybucja Serwis	TAURON Dystrybucja Serwis S.A. with the seat in Wrocław
105.	TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with the seat in Jelenia Góra
106.	TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław
107.	TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with its seat in Kraków
108.	TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with the seat in Gliwice
109.	TAURON Sweden Energy	TAURON Sweden Energy AB (publ) with the seat in Stockholmm, Sweden
110.	TAURON Wydobycie	TAURON Wydobycie S.A. with the seat in Jaworzno
111.	TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with the seat in Jaworzno
112.	TAURON Wytwarzanie GZE	TAURON Wytwarzanie GZE sp. z o.o. with the seat in Gliwice
113.	TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange) with the seat in Warsaw
114.	TWh	Terrawatt hour
115.	EU	European Union
116.	UOKiK	Office for Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
117.	USD	(United States Dollar) international abbreviation of American dollar
118.	ERO	Energy Regulatory Office (Urząd Regulacji Energetyki)
119.	WFOŚiGW	Regional Fund of Environmental Protection and Water Management in Katowice or in Kraków
120.	GM/SM	General Meeting/ Shareholders' Meeting
121.	ZW Tychy	Zakład Wytwarzania Tychy in Tychy (formerly: Elektrociepłownia Tychy S.A.)

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