



**REPORT OF THE MANAGEMENT BOARD
ON OPERATIONS OF
TAURON POLSKA ENERGIA S.A.
FOR THE FINANCIAL YEAR 2016**

MARCH 2017

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1. TAURON POLSKA ENERGIA S.A.

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.

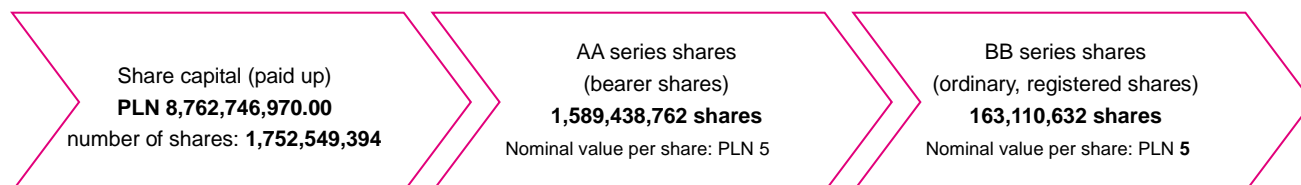
The table below presents general information on the Company and the basic types of activities conducted by the Company.

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.	Registered Office: Katowice	1) Activities of head offices and holdings, excluding financial holdings (PKD 70.10 Z),
4.	Website: www.tauron.pl	2) trading in electricity (PKD 35.14 Z),
5.	National Court Register: 0000271562 District Court Katowice - Wschód in Katowice	3) wholesale of fuels and derivative products (trading in coal and biomass) (PKD 46.71 Z),
6.	NIP: 9542583988	4) trading in gas fuels (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 2016, divided by the quantity of shares.

Figure no. 1 Share capital of TAURON (paid up) as at 31 December 2016, divided by the quantity of shares



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

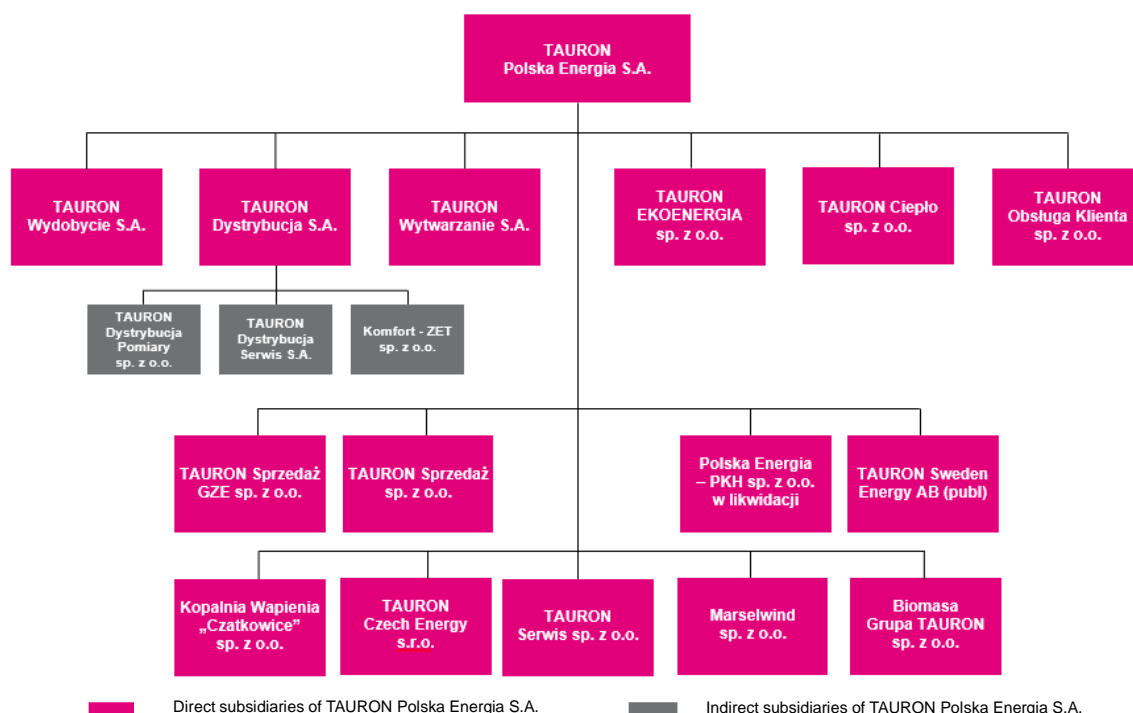
1.2. Organisation and structure of TAURON Capital Group

As of 31 December 2016, the key companies of TAURON Capital Group, besides the parent company, TAURON, included 18 subsidiaries subject to consolidation, indicated in item 1.2.1. hereof. Moreover, as at 31 December 2016 the Company held, directly or indirectly, shares in other 34 companies and as at the day of drawing up this report the Company held, directly or indirectly, shares in other 35 companies.

1.2.1. Entities subject to consolidation

The figure below presents the structure of TAURON Capital Group, including the companies subject to consolidation, according to the status as at 31 December 2016.

Figure no. 2. Structure of TAURON Capital Group, including companies subject to consolidation as at 31 December 2016



* On 8 March 2017 the Extraordinary Meeting of Shareholders of the company PEPKH in liquidation adopted the resolution on continuation of the company business and waiving its liquidation

Moreover, TAURON Capital Group has investments in joint projects: Elektrociepłownia Stalowa Wola S.A. (EC Stalowa Wola), Elektrownia Blachownia Nowa sp. z o.o. w likwidacji (Elektrownia Blachownia Nowa in liquidation) 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.

Detailed information concerning companies covered by consolidation and TAURON's share in their initial capital and in their governing body, is presented in subsection 1.2.4 of this report.

In connection with the changes in the organisation of TAURON Capital Group, as at the day of drawing up this report, the Company held, directly or indirectly, shares in 53 companies.

1.2.3. 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 2016

Table no 2. Specification of significant subsidiaries covered by consolidation as at 31 December 2016 in which the Company holds direct and indirect share

No.	Company name	Registered Office	Core business area	Share of TAURON in the capital and governing body of the company
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	Generation of electric energy,	100.00%
4.	Marselwind	Katowice	Generation, transmission and trading in electricity	100.00%
5.	TAURON Ciepło	Katowice	Production and distribution of heat	100.00%
6.	TAURON Dystrybucja	Kraków	Distribution of electricity	99.72%
7.	TAURON Dystrybucja Serwis**	Wrocław	Services	99.72%

No.	Company name	Registered Office	Core business area	Share of TAURON in the capital and governing body of the company
8.	TAURON Dystrybucja Pomiary**	Tarnów	Services	99.72%
9.	TAURON Sprzedaż	Kraków	Trading in electricity	100.00%
10.	TAURON Sprzedaż GZE	Gliwice	Trading in electricity	100.00%
11.	TAURON Czech Energy	Ostrava, Czech Republic	Electric energy trade	100.00%
12.	TAURON Obsługa Klienta	Wrocław	Services	100.00%
13.	KW Czatkowice	Krzeszowice	Mining of limestone rocks and stone extraction	100.00%
14.	PEPKH in liquidation	Warsaw	Trading in electricity	100.00%
15.	TAURON Sweden Energy	Stockholm, Sweden	Services	100.00%
16.	Biomasa Grupa TAURON	Stalowa Wola	Biomass sourcing and trading	100.00%
17.	TAURON Serwis***	Katowice	Services	95.61%
18.	KOMFORT-ZET**	Tarnów	Services	99.72%

*On 1 December 2016 the merger of companies TAURON Wydobycie and Nowe Brzeszcze GT was registered.

**Share in TAURON Dystrybucja Serwis sp. z o.o. (TAURON Dystrybucja Serwis), TAURON Dystrybucja Pomiary sp. z o.o. (TAURON Dystrybucja Pomiary) and KOMFORT-ZET is held by TAURON indirectly, through its subsidiary, TAURON Dystrybucja. (TAURON Dystrybucja). In addition, TAURON is the user of shares/stocks of TAURON Dystrybucja Serwis and TAURON Dystrybucja Pomiary companies.

***On 2 November 2016 the merger of companies TAURON Serwis sp. z o.o. (TAURON Serwis) with TAURON Wytwarzanie Serwis 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 2016.

Table no 3. Specification of significant subsidiaries covered by consolidation as at 31 December 2016 in which the Company holds direct and indirect share

No.	Company name	Registered Office	Core business area	Share of TAURON in the capital and governing body of the company
1.	EC Stalowa Wola*	Stalowa Wola	Electricity generation	50.00%
2.	Elektrownia Blachownia Nowa in liquidation*	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 trading in electricity and heat	50.00%
5.	TAMEH Czech**	Ostrava, Czech Republic	Production, trade and services	50.00%

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

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

Other most significant investment in capital financial assets as at 31 December 2016 comprise engagement in the f: PGE EJ 1 with the value of PLN 23,046 thousand,

1.2.4. Major domestic and foreign investment

Purchase of equity securities

The main investments of the Company in equity securities, performed by the Company in 2016 and until the day of drawing up this report included:

Acquisition of Nowe Brzeszcze Grupa TAURON sp. z o.o. company shares (Nowe Brzeszcze GT)

In 2016 TAURON took up new shares in the increased share capital of Nowe Brzeszcze GT company three times, in the total amount of PLN 182,900 thousand, including:

- 1) On 29 January 2016 the District Court for Katowice – Wschód, 8th Commercial Department, registered the increase in the share capital of Nowe Brzeszcze GT company in the National Court Register, as adopted by the Extraordinary Shareholders' Meeting (SM) of Nowe Brzeszcze GT on 31 December 2015. The share capital of the company was increased 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, by way of issuance 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. The shares were taken up by TAURON as the existing 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 of the company over its nominal value, in the total amount of PLN 26,100,000 was transferred to the supplementary capital of the company which had been established under the aforementioned resolution.

- 2) On 6 May 2016 the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Department of the National Court Register, registered the increase in the share capital of the Nowe Brzeszcze GT company in the National Court Register, as adopted by the Extraordinary SM of Nowe Brzeszcze GT on 22 March 2016. The share capital of the company was increased from the amount of PLN 5,000,000 to the amount of PLN 55,000,000, i.e. by the amount of PLN 50,000,000 by way of issuance of 500,000 new shares with the nominal value of PLN 100 per share, with the total nominal value of PLN 50,000,000. The shares were taken up by TAURON as the existing sole shareholder of the company, in exchange for the cash contribution at a price of PLN 300 per share, i.e. for the total amount of PLN 150,000,000.

The surplus of price for taking up each share in the increased share capital of the company over its nominal value, at a level of PLN 200 per share, i.e. in the total amount of PLN 100,000,000 was transferred to the supplementary capital of the company.

- 3) On 25 August 2016 the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Department of the National Court Register, registered the increase in the share capital of the Nowe Brzeszcze GT company in the National Court Register, as adopted by the Extraordinary SM of Nowe Brzeszcze GT on 11 August 2016. The share capital of the company was increased from the amount of PLN 55,000,000 to the amount of PLN 55,078,000, i.e. by the amount of PLN 78,000 by way of issuance of 780 new shares with the nominal value of PLN 100 per share, with the total nominal value of PLN 78,000. The shares were taken up by TAURON as the existing sole shareholder of the company, in exchange for the cash contribution at a price of PLN 5,000 per share, i.e. for the total amount of PLN 3,900,000.

The surplus of price for taking up of each share in the increased share capital of the company over its nominal value, at a level of PLN 3,822,000 was transferred to the supplementary capital of the company.

Purchase of shares in TAURON Wydobywanie S.A. (TAURON Wydobywanie)

In 2016 TAURON took up new shares in the increased share capital of TAURON Wydobywanie twice, in the total amount of PLN 347,000 thousand, including:

- 1) On 28 June 2016 the District Court for Katowice – Wschód, 8th Commercial Department, registered the increase in the share capital of TAURON Wydobywanie company in the National Court Register, as adopted by the Extraordinary Shareholders' Meeting (SM) of TAURON Wydobywanie on 29 April 2016. The share capital of the company was increased from the amount of PLN 352,040,780 to the amount of PLN 354,540,780, i.e. by the amount of PLN 2,500,000, by way of issuance of 250,000 new shares with the nominal value of PLN 10 per share, with the total nominal value of PLN 2,500,000. The shares were taken up by TAURON as the existing 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 250,000,000.

The surplus of the issue of each new share in the increased share capital of the company over its nominal value, at a level of PLN 990 per share, i.e. in the total amount of PLN 247,500,000 was transferred to the supplementary capital of the company.

- 2) On 27 October 2016 the District Court for Katowice – Wschód, 8th Commercial Department, registered the increase in the share capital of TAURON Wydobycie company in the National Court Register, as adopted by the Extraordinary SM of TAURON Wydobycie on 28 September 2016. The share capital of the company was increased from the amount of PLN 354,540,780 to the amount of PLN 355,510,780, i.e. by the amount of PLN 970,000, by way of issuance of 97,000 new shares with the nominal value of PLN 10 per share, with the total nominal value of PLN 970,000. The shares were taken up by TAURON as the existing 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 97,000,000.

The surplus of the issue price in the increased share capital of the company over its nominal value, at a level of PLN 96,030,000 was transferred to the supplementary capital of the company.

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

On 4 August 2016, TAURON purchased 63,910 shares of TAURON Wytwarzanie Serwis company, so far used by TAURON, from TAURON Wytwarzanie (TAURON Wytwarzanie), with the nominal value of PLN 50 per share and the total nominal value of PLN 3,195,500, constituting 95.54% interest in the share capital of TAURON Wytwarzanie Serwis company.

The acquisition of shares of TAURON Wytwarzanie Serwis was one of the stages of implementation of the programme on *Reorganisation of service area in TAURON Group*. On 2 November 2016 the merger of the following companies took place: TAURON Serwis, as the acquiring company, with TAURON Wytwarzanie Serwis, as the acquired company.

Purchase of ElectroMobility Poland S.A. company shares (ElectroMobility Poland)

On 19 October 2016, TAURON and PGE Polska Grupa Energetyczna S.A. (PGE), ENEA S.A. (ENEA) and ENERGA S.A. (ENERGA) established the company under the enterprise name *ElectroMobility Poland S.A.* (ElectroMobility Poland) with its registered office in Warsaw, where TAURON took up 2,500 shares with the nominal value of PLN 1,000 per share and the total nominal value of PLN 2,500,000, constituting 25% share in the share capital of the company. ElectroMobility Poland was registered in the National Court Register on 7 December 2016.

The core area of the company activity will include conducting of research and analyses in the scope of development, promotion and popularisation of electromobility and development of electromobility industry in Poland.

Subsidies to the capital of PEPKH in liquidation

On 8 November 2016 the Extraordinary SM of PEPKH in liquidation adopted the resolution on contribution of subsidies to the company capitals in the amount of PLN 6,000 thousand. The subsidies were contributed with the aim of ensuring funding opportunities for the company operations. Funds within subsidies were contributed by TAURON on 9 November 2016.

Purchase of shares in Magenta Grupa TAURON sp. z o.o..

On 15 December 2016 a company under the enterprise name of Magenta Grupa TAURON sp. z o.o. (Magenta Grupa TAURON) with its registered office in Katowice was established, where all 10,000 shares with the nominal value of PLN 50 per share and the total nominal value of PLN 500,000 were taken up by TAURON. The company was registered in the National Court Register on 31 January 2017.

Magenta Grupa TAURON was established in order to support the long-term development of TAURON Capital Group through investment in enterprises in the seed and start-up phase and conducting development projects responding to the needs of TAURON Capital Group.

Purchase of PGE EJ 1 company shares

On 21 December 2016 the Extraordinary SM of the PGE EJ 1 sp. z o.o. company (PGE EJ 1) adopted the resolution on the increase of the share capital from the amount of PLN 275,859,450 to the amount of PLN 310,858,470, i.e. by the amount of PLN 34,999,020 through creating 248,220 new shares with the nominal value of PLN 141 per share and the total nominal value of PLN 34,999,020. TAURON will take up 10% of new created shares, i.e. 24,822 shares with the total nominal value of PLN 3,499,902.

The increase of the share capital was registered in the National Court Register on 15 February 2017.

Events after 31 December 2016

Purchase of shares of Nowe Jaworzno Grupa TAURON sp. z o.o. in organisation

As a result of demerger of TAURON Wytwarzanie conducted pursuant to the resolution of the Extraordinary GM of TAURON Wytwarzanie of 31 January 2017, through separation, pursuant to Article 529 § 1 item 4 of the KSH, i.e. through the transfer of a part of TAURON Wytwarzanie assets in the form of an organised part of the enterprise comprising the investment process of construction of the new 910 MW unit at Elektrownia Jaworzno III, carried out in TAURON Wytwarzanie Oddział Jaworzno in Jaworzno, to the newly established company, Nowe Jaworzno Grupa TAURON sp. z o.o., TAURON will take up 37,000 shares of the company Nowe Jaworzno Grupa TAURON sp. z o.o., with the nominal value of PLN 50 per share and the total nominal value of PLN 1,850,000, in exchange for the transfer of the aforementioned assets.

Upon adopting of the aforementioned resolution, the company - Nowe Jaworzno Grupa TAURON sp. z o.o. In organisation was established.

At the same time, on 31 January 2017 the resolution was adopted by Nowe Jaworzno Grupa TAURON sp. z o.o. in organisation shareholders, concerning the aforementioned division.

The demerger process demonstrates the implementation of the *Strategy of TAURON Group for 2016 - 2025*, pursuant to which the project on construction of 910 MW unit at Elektrownia Jaworzno III will be implemented under a new financing formula, assuming the separation of an organised part of the enterprise from TAURON Wytwarzanie company and sale of a part of shares to external partners.

Until the day of drawing up this report, the demerger of TAURON Wytwarzanie has not been registered in the National Court Register.

Waiver of liquidation of the company PEPKH in liquidation

On 8 March 2017, pursuant to Article 273 of the KSH, the Extraordinary SM of the company PEPKH in liquidation adopted the resolution on continuation of the company business and waiving its liquidation.

The waiver of the company liquidation resulted from the change in circumstances associated with the ongoing liquidation proceedings indicating the pertinence of continued existence of the company.

Major investment in financial assets

Major investments of TAURON Capital Group in financial assets in the year ended on 31 December 2016 include:

1. Acquisition of participation units in investment funds for the total amount of PLN 25,000 thousand by TAURON as a parent entity. The carrying amount of units measured at a fair value amounted to PLN 25,316 thousand as at 31 December 2016.
2. Granting of loans to the co-subsidiary, EC Stalowa Wola in the total amount of PLN 23,575 thousand by TAURON as a parent entity. As at the balance sheet day the value of loans granted to EC Stalowa Wola amounted to PLN 256,067 thousand.
3. Concluding transactions hedging the interest rate swap (IRS) by TAURON as a parent entity, for the period from 4 to 5 years, hedging a part of interest rate risk in relation to cash flows associated with exposure to WIBOR 6M, determined under the dynamic risk management strategy, i.e. interest on securities with the nominal value of PLN 2,100,000 thousand. The carrying amount of the aforementioned instruments measured as at the balance sheet day reached PLN 36,641 thousand.

1.3. Strategy and Strategic Priorities of TAURON Capital Group

Until 1 September 2016 the *Corporate Strategy of TAURON Group for 2014 - 2017 with an outlook until 2023* was binding in TAURON Capital Group. Activities undertaken under this Strategy focused on 4 principal goals: growth in the most attractive areas of operations, operational and investment effectiveness at a level of best practice, management of exposure to market and regulatory risks, effective organisation building.

In 2016, works related to the implementation of strategic programmes were continued, such as: the construction of a power unit with the capacity of 910 MW_e at Elektrownia Jaworzno III, including the heat generation component with the heat capacity of 240 MW_t, preparation to commencement of the construction of the CCGT unit with the capacity of 449 MW_e at Elektrownia Łagisza, the construction of "Grzegorz" shaft including the infrastructure and the construction of the 800 m level at ZG Janina. Restructuring activities associated with the improvement of management processes, integration of companies and integration of support functions were continued.

On 2 September 2016 the TAURON Management Board adopted and the Supervisory Board issued a positive opinion on the document entitled *TAURON Group's 2016-2025 Strategy* (the Strategy). The new Strategy is a response to the challenges stemming from the current and forecast situation on the market and in the power sector. Within the process of the Strategy preparation an in-depth analysis of the macroeconomic, market and regulatory environment as well as sector development forecasts was performed, translating them into opportunities and risks for TAURON Capital Group within the perspective of the nearest ten years. The capacity of TAURON Capital Group to finance current and planned

investment projects was analysed to the extent enabling their implementation from funds generated by operating activity and by acquisition of debt financing. The aforementioned analyses and market trends provided basis for verification of market, macroeconomic assumptions and the investment plan.

1.3.1. Mission, vision and new values of TAURON Capital Group

The new Strategy defines the new Mission and Vision and determined key values of TAURON Capital Group:

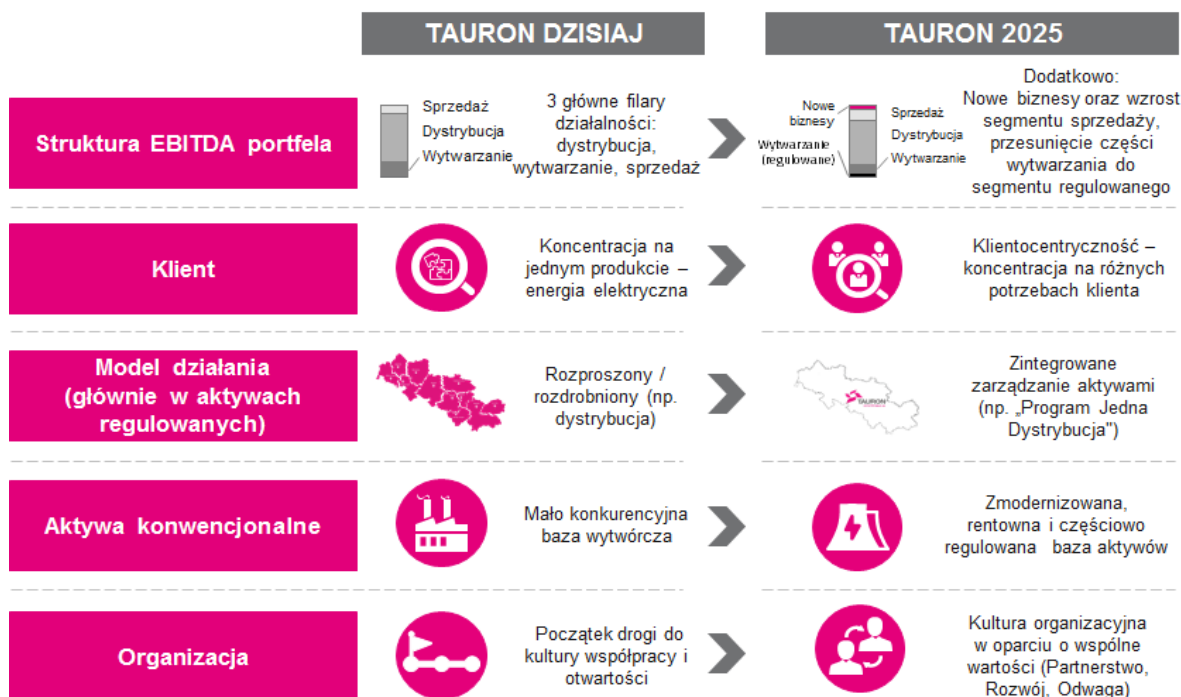
Mission of TAURON Capital Group
"With passion and commitment we are delivering modern solutions that provide energy in the constantly changing world"

Vision of TAURON Capital Group
"We are a company that best meets customer needs in the Polish energy industry".

The mission and vision best describe strategic plans of TAURON Capital Group. The Sales Segment as well as new products and services constitute the area of activity to be intensively developed by TAURON Capital Group. TAURON Capital Group adjusts its profile with the purpose of full concentration on the client, recognising the potential of new products, compatible services, new contract channels as a response to clients' needs.

The figure below presents vision of TAURON Capital Group in 2025.

Figure no. 3 Vision of TAURON Capital Group in 2025



Key values to support the implementation of the Strategy include “Partnership”, “Development” and “Courage”. The values reflect the method to be applied by TAURON Capital Group in order to achieve its objectives. Within the partnership, client orientation, building of sustainable relations and commitment is essential. The development means orientation towards innovation, development of competence, skills and knowledge as well as searching for increasingly better solutions, to meet clients' expectations and enhance the quality of services. Courage means boldness and openness, determination as well as commitment and passion in achieving common goals.

The combination of those values shall lead to better understanding of clients' expectations, response to market challenges and development of organisational culture of TAURON Capital Group.

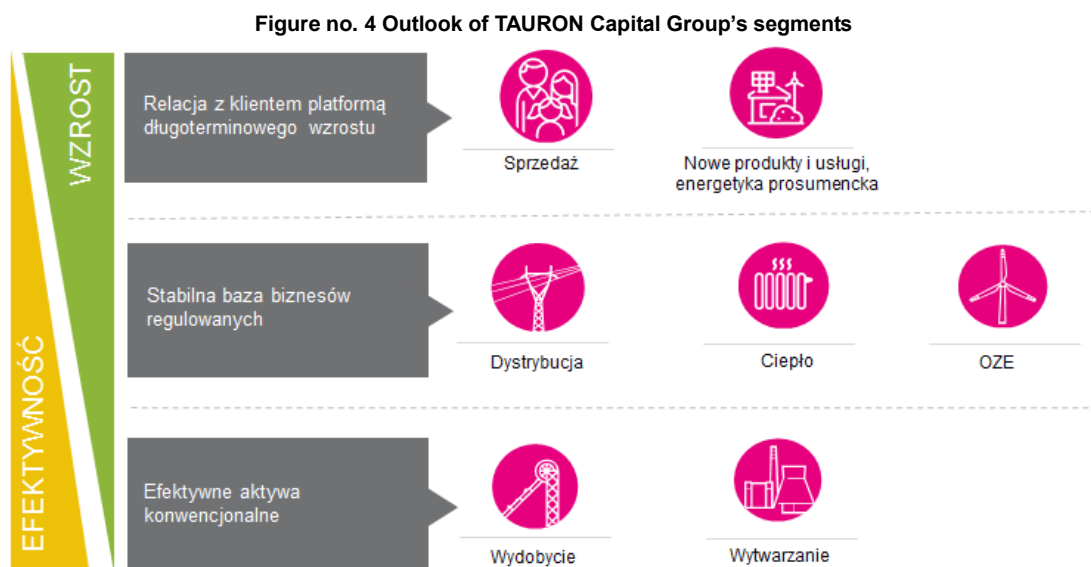
1.3.2. Strategy of the TAURON Capital Group for 2016-2025

The Strategy adopted for the years 2016-2025 presents the optimum expansion path that will ensure financial stability and growth perspective, at the same time providing support for ensuring stability of the power system. The long term

growth will be driven by solutions based on customer relations. The adopted mission and vision reflect new management philosophy and are in line with the customer-oriented growth concept.

The Strategy changes the approach of individual segments of activity of TAURON Capital Group to development, dividing them to those to be strongly developed by TAURON Capital Group, those to provide basis for financial stability and those in which strong emphasis on cost-effectiveness is needed. The above mentioned approach reflects the new management philosophy and emphasises the turn towards customer and its needs as well as building of innovative TAURON Capital Group open to new challenges.

The figure below shows the outlook of TAURON Capital Group's segments



The Strategy determines three priorities which will transform the Group into an innovative energy concern, adjusted to market and client's needs, that ultimately guarantees the return on invested capital to its shareholders.

1. Ensuring the financial stability of TAURON Capital Group is implemented through the following actions:
 - a) The *Efficiency Improvement Programme in TAURON Group for 2016-2018*, adopted in March 2016 and assuming achieving PLN 1.3 billion in savings in 2016-2018. The above savings comprise measures resulting in the cumulative EBITDA increase by approximately PLN 1 billion and consisting in CAPEX reduction by approximately PLN 0.3 billion in 2016-2018.
 - b) Strategic Initiatives and CAPEX reduction in 2017-2020 will generate a financial effect at a level of PLN 1.9 billion. It will be achieved as a result of measures leading to the cumulative EBITDA increase by approximately PLN 1.2 billion and the CAPEX reduction by approximately PLN 0.7 billion. These are additional financial outcomes, besides the effects included in the Efficiency Improvement Programme
 - c) Suspension of the investment in the new CCGT unit at Łągisza Power Plant, resulting in not incurring CAPEX in the amount of approximately PLN 1.5 billion. It will be possible to resume the project in the case the regulatory and market environment turns favourable.
2. Building a strong capital group.

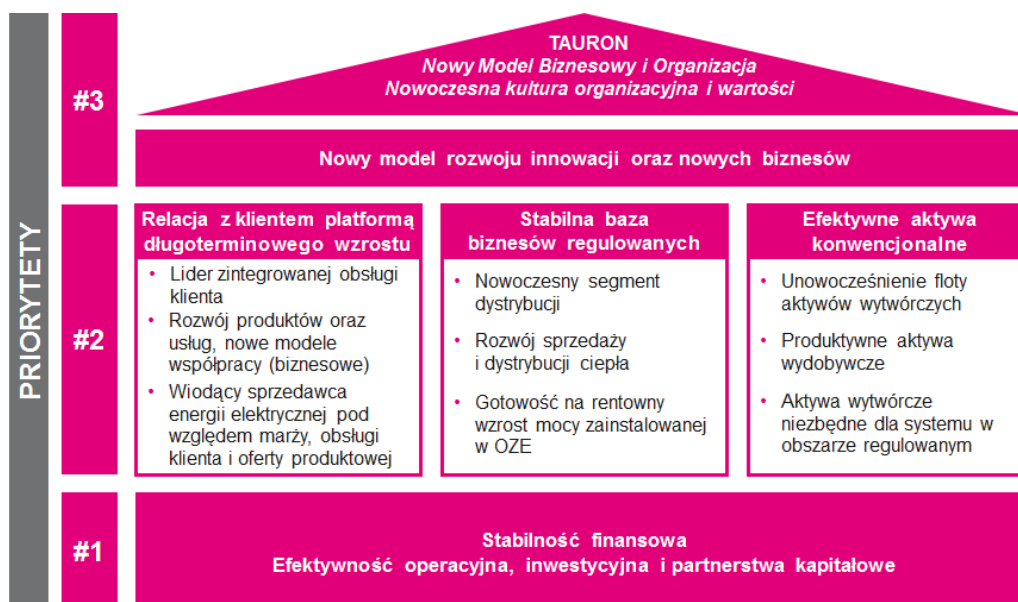
The Strategy determines a new approach to the value chain where key tasks are set for each line of business. The Strategy does not assume balanced growth along each link of the value chain. Sales and development of new products and services are to constitute a strong base for growth of TAURON Capital Group. In this segment, TAURON is planning rapid development of its offer for customers, which will allow for retaining the existing base of customers purchasing TAURON products and increasing profitability. Electricity distribution as well as heat generation and distribution segments are to constitute a stable base of regulated business of TAURON Capital Group. Mining and conventional generation segments have tasks related first of all to efficiency improvement. The following three pillars of building the strong capital group were defined:

- a) Customer relations based on integrated high quality service with the use of modern sales and customer service channels as well as developing a product and service offer.
- b) Stable base of regulated assets based on the refurbished electricity distribution and heat segments as well as readiness to develop renewable energy sources in case of favourable regulatory environment.

- c) Effective conventional assets, i.e. mining and conventional generation segments, which as a result of improving cost efficiency and productivity will be competitive on the market or, in case of generation assets, will be shifted to the regulated segment of the power system.
3. Implementation of organisational changes supporting the implementation of the Strategy which will transform the TAURON Capital Group into a modern and innovative organisation:
 - a) Implementing a new, process-oriented operational model. Five priority process streams have been identified around which operations of TAURON Capital Group will be concentrated, i.e. Strategy, Finance, Assets Management and Development, Client and Corporate Governance and Support. Such approach will allow for placing a greater emphasis on cross-sectional issues that will determine the competitive advantages of TAURON Capital Group in the future.
 - b) Expanding research and development as well as innovative activities for which expenditures equal to 0.4% of the consolidated annual revenue are envisaged.
 - c) Developing innovative projects based on the Corporate Venture Capital (CVC) type fund dedicated for this purpose or other similar solutions.

The figure below presents the implementation of the priorities based of pillars of the TAURON Capital Group's Strategy.

Figure no. 5 The figure below presents the implementation of the priorities TAURON Capital Group's Strategy.



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

Within streamlining of CAPEX, the expenditures planned for 2016-2020 were reduced from PLN 20.2 billion to approx. PLN 18 billion. The Strategy assumes that the commenced and well advanced investment projects will be continued. The detailed analysis has indicated that 75% of the investment plan up to 2020 includes tasks continued or representing the implementation of the commitments undertaken. Those tasks include the investment in the 910 MW unit at Jaworzno III Power Plant and tasks in the Distribution Segment contracted or arising from regulatory requirements. Abandoning or postponing of those tasks would have an adverse impact on the value of TAURON Capital Group or is impossible due to legal or security requirements.

In the Mining segment investments at ZG Janina, the construction of "Grzegorz" shaft at ZG Sobieski will be continued and the planned investment projects at ZG Brzeszcze will be carried out. CAPEX in this line of business is approximately PLN 1.3 billion until 2020.

In the Generation Segment investment in construction of the 910 MW unit at Jaworzno III Power Plant, the CCGT unit at EC Stalowa Wola and investments in the heating networks will be continued. TAURON assumes implementation of construction of the 910 MW unit at Jaworzno III Power Plant under a new financing formula envisaging separation of an organised part of the enterprise and selling its shares to third party partners, provided they do not acquire a controlling

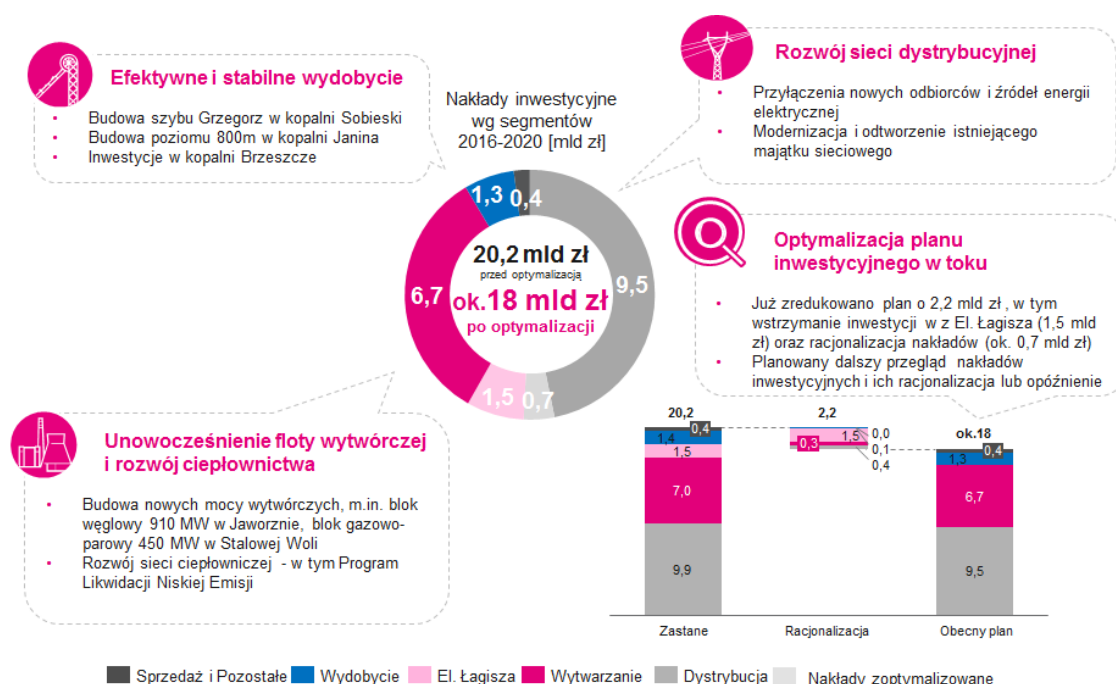
stake. The change in the method of the unit construction would affect the decline in the net debt/EBITDA ratio, consequently, it would significantly mitigate the risk of exceeding the threshold level of this covenant (3.5x) contained in financing agreements.

The Strategy assumes that financial stability will be maintained and the net debt/EBITDA covenant at a level of 3.5x will not be exceeded, excluding sales of the minority share in the project on 910 MW unit construction at Jaworzno III Power Plant to external partners. It means that the planned change in the financing formula of this project is an additional element stabilising the financial situation of TAURON Capital Group. CAPEX in the Generation Segment amount to PLN 6.7 billion up to 2020.

More than 50% of the entire expenditure pool, i.e. PLN 9.5 billion by 2020, represents investments in distribution comprising connecting new customers and electricity sources as well as upgrading and replacing grid assets.

The figure below presents the capital expenditure by segments in 2016-2020.

Figure no. 6 Capital expenditure by segments in 2016-2020



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

In the area of investment the adjustment of the investment portfolio to market needs is the overarching objective.

In particular, activities will be oriented to:

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

Assumed investment directions beyond 2020 include mainly the area of regulated power sector (i.e., inter alia, electricity distribution, heat generation and distribution) and the new power industry (i.e. e-mobility, dispersed heat and electricity generation, power generation by prosumers, Smart Home, Smart City solutions and energy-related services). The Company assumes that in the years 2020-2025 it will hold an investment capacity estimated at over PLN 6 billion.

In the long-term perspective, TAURON plans to pay out a dividend at a level of minimum 40% of the consolidated net profit. The intention of the Company is to ensure a dividend yield that would be competitive towards the yield offered by long-term debt instruments issued on the Polish market by investment grade rated companies.

1.3.3. Key challenges for TAURON Capital Group

The Strategy is a response of TAURON Capital Group to challenges posed by the business environment and requirements of the energy sector clients which have been changing dynamically over the recent years.

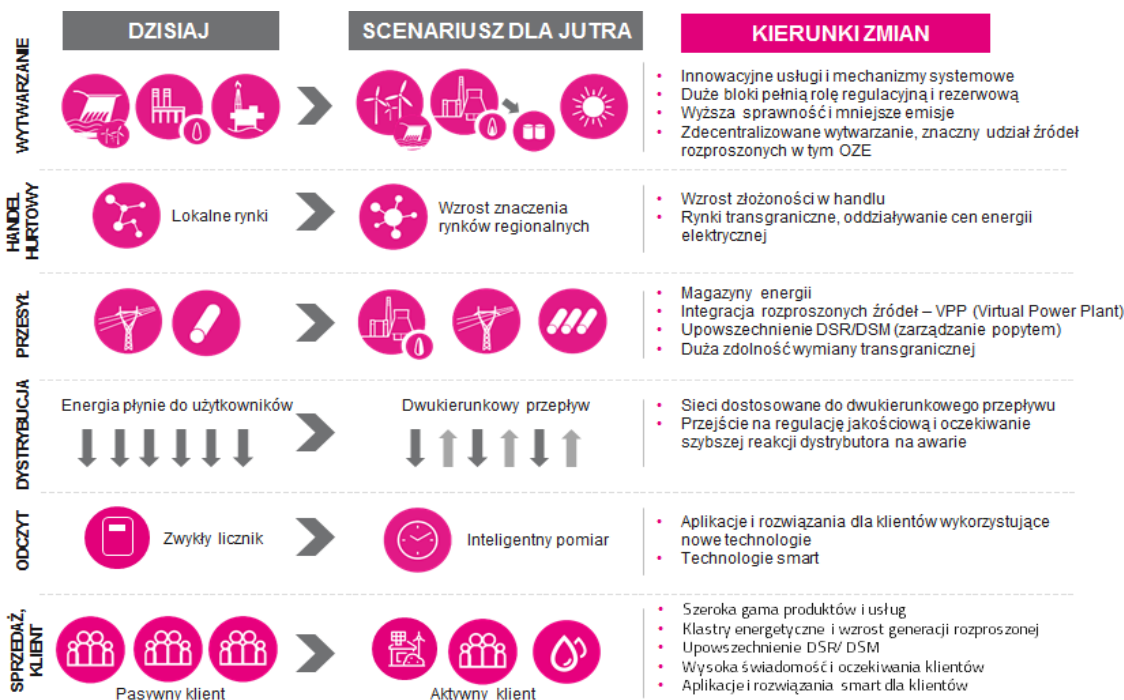
In the Strategy four key challenges for TAURON Capital Group have been defined: regulations, market, client and technologies.

- 
Regulacje Introduction of a dual commodity market - capacity market, decarbonisation policy of the European Union (EU) and successive regulations aiming at emission abatement, introduction of the qualitative regulation model in distribution, changes in the support system for RES installations as well as EU activities oriented towards a single electricity market.
- 
Rynek Changing forecasts of electricity prices, over-supply and prices of coal, demand for electricity, demand for capacity, growing competition on the retail market, growing level of generation from RES, accompanied by simultaneous diversion of European players and limiting financing for conventional energy.
- 
Klient Growth of clients' awareness and requirements in the scope of satisfying the needs and complexity of the offer, growth of expectations in the scope of quality and availability of customer service.
- 
Technologia Declining prices of renewable and scattered technologies, growing competitiveness of those sources in relation to conventional sources, change in the role of distribution in connection with the development of scattered energy, development of smart technology, microgeneration and energy storage.

In a long-term perspective, thorough changes of the overall power sector towards the so-called “energy of tomorrow” are important. The transformation of the systemic energy sector is foreseen towards decentralised generation, growing role of cross-border connections, energy storage and new energy services, such as “virtual power plants”, demand management, scattered generation. It also results in the change of the role of distribution which has to face smart technologies, scattered generation, including prosumers, bi-directional flows, with simultaneous growth in quality and security of supplies.

The figure below shows key challenges for TAURON Capital Group.

Figure no. 7 Key challenges for TAURON Capital Group



1.3.4. Opportunities and threats

Defined key challenges for TAURON Capital Group create both opportunities and threats for operations of TAURON Capital Group.

The table below presents opportunities and threats for operations of TAURON Capital Group.

Table no 4. Opportunities and threats for operations of TAURON Capital Group.

Opportunities	Threats
Regulations	
<ul style="list-style-type: none"> • Introduction of a dual commodity market - additional revenues for maintaining the generation capacity. • Possible support to electrical mobility (growth in electricity consumption). • Introduction of legal solutions supporting low emission abatement (e.g. electric heating, systemic heating). 	<ul style="list-style-type: none"> • Growth in costs of conventional assets accompanied by growing environmental fees and further tightening of the decarbonisation policy. • Adverse impact of EU regulations related to the single energy market. • Potential lack of possibility to participate in the capacity market for units with emission exceeding 550 kg/MWh. • Changes in remuneration policy for distribution may limit investment in the area. • Lack of stability and predictability of regulations for RES sources, including the growth of maintenance costs of wind farms and hydroelectric power plants as well as uncertain future of RES sources based on biomass burning and co-burning (draft RES Directive). • Loss of support for co-generation after 2018.
Market	
<ul style="list-style-type: none"> • Cost-effective own mining base, competitive on the Polish market enabling stabilisation and predictability of fuel cost. • Access to the largest client base among energy companies in Poland. • Entering market segments surrounding the energy sector (e.g. service of equipment, IT services, etc.) • Commercialisation of innovative solutions developed within the research-development activity. 	<ul style="list-style-type: none"> • Decline in the margin and decreased burden on conventional assets (worse profitability or the necessity to decommission old generation units due to entering the system of new high efficiency units and due to BAT requirements). • Loss of volume and profitability of the Sales Segment, in particular, in B2B. • Pressure on energy prices accompanied by growing volumes of cross-border exchange. • Growth of costs and limiting the access to financing.
Client	
<ul style="list-style-type: none"> • Competitive advantage in the scope of customer service quality. • Client segmentation and offering additional products in accordance with clients' needs. • Greater client awareness and expectations towards a comprehensive, personalised offer of additional services and products (increased product use by clients). • Expanding the offer of services for clients based on competence and trust in TAURON brand. • Growth through focusing on the client not generating large capital investments. • Development of modern and integrated sales and customer service channels. • New competence and business models based on research and development. • Maintaining the growth trend in electricity consumption by end consumers. 	<ul style="list-style-type: none"> • Potential loss of clients associated with the growth in the number of competitors offering similar products to clients and due to low barriers of market entry of electricity sales. • Decline in customer loyalty - growing number of vendor's changes. • Greater awareness and requirements of clients in relation to the quality of service and product offer. • Energy independence of customers (prosumers, energy islands, clusters). • Construction of own generation sources by energy-intensive consumers, as a result of savings in electricity costs. • "Carbon leakage" - moving business operations to other countries due to energy costs".
Technologies	
<ul style="list-style-type: none"> • Decline in prices of renewable technologies. • Development of storage technology, smart technologies and technologies related to scattered generation. • Additional services for clients associated with new technologies (internet of things, dynamic tariffs, virtual power plants). • Development of scattered energy, including prosumer energy. • Development and implementation (commercialisation) of own innovative solutions providing competitive advantage. 	<ul style="list-style-type: none"> • Need to adjust the grid to the growth in scattered generation (bi-directional flows). • Emergence of new, cost competitive technologies of electricity generation in our neighbouring countries.

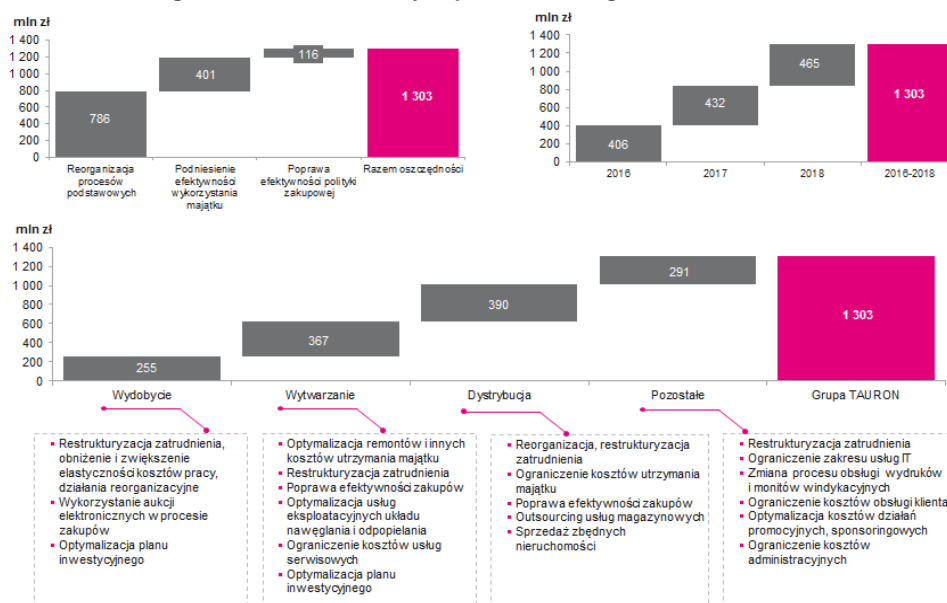
1.3.5. Implementation of the Strategy and priorities of TAURON Capital Group in 2017.

2017 will be the period when materialisation of first effects of the new Strategy is planned. In accordance with the assumptions, the top priority will be to ensure financial stability in order to create solid foundations for the development of TAURON Capital Group. The efficiency improvement programme will be continued through reorganisation of core processes in the whole TAURON Capital Group and increasing the effectiveness of assets use. The Strategy will be implemented through:

- a) The Efficiency Improvement Programme, adopted in March 2016 and assuming achieving financial effects at a level of PLN 1.3 billion in 2016-2018. The above savings comprise measures resulting in the cumulative EBITDA increase by approximately PLN 1.0 billion and consisting in CAPEX reduction by approximately PLN 0.3 billion in 2016-2018 in three areas of operations.

The figure below presents the Efficiency Improvement Programme in 2016-2018.

Figure no. 8 The Efficiency Improvement Programme in 2016-2018

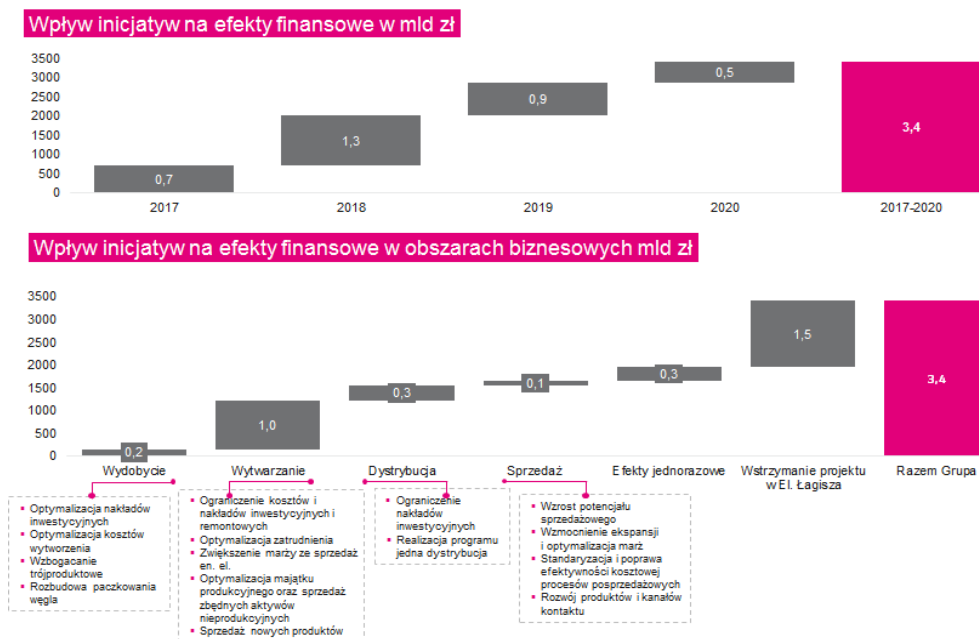


W 2016, under the Efficiency Improvement Programme savings of PLN 478 million were achieved in the Group, which constitutes 37% of planned savings, including PLN 263 million affecting EBITDA, PLN 215 million - CAPEX savings. The Generation Area has the highest share in achieved savings. The highest level of savings, amounting to PLN 272 million, was gained in the scope of effectiveness in assets use.

- b) Strategic Initiatives and rationalisation of investment in 2017-2020 assuming gaining the financial effect at a level of PLN 3.4 billion. The above effects comprise measures affecting the cumulative EBITDA increase by approximately PLN 1.2 billion and consisting in CAPEX reduction by approximately PLN 0.7 billion and PLN 1.5 billion due to suspension of investment in the new unit in Elektrownia Łagisza in 2017-2020, with the breakdown into individual areas of operations.

The figure below presents strategic initiatives and rationalisation of investment in the years 2017-2020.

Figure no. 9 Strategic initiatives and rationalisation of investment in the years 2017-2020.



In accordance with the determined objectives, TAURON Capital Group will develop the Sales Area and customer service. In this scope, introduction of consistent high standards of customer service is planned in each area of the value chain as well as the development of modern and integrated sales and customer service channels.

In the Distribution Area the programme on “Single Distribution” will be continued, based in activities associated with harmonisation of processes and system and implementation of the optimum and consistent structure of TAURON Dystrybucja in order to improve the operating and investment effectiveness of this Area.

In the Mining and Generation Areas tasks associated with further improvement of cost effectiveness and investment effectiveness will be continued. Introduction of regulations related to the capacity market in Poland and the announced reform of the European Emissions Trading System (EU ETS) will be significant for the generation assets.

In 2017 the following strategic investment projects will be continued: the construction of the 910 MW coal-fired unit at Elektrownia Jaworzno III, the construction of the 450 MW gas unit at EC Stalowa Wola, the construction of the “Grzegorz” shaft at ZG Sobieski, the construction of the 800m level at ZG Janina and the investment programme at ZG Brzeszcze. Significant expenditure will be allocated for connecting of new consumers as well as for modernisation and development of the distribution grid.

1.4. Characteristics of the policy and development directions of TAURON Capital Group

The Strategy of TAURON Capital Group determines its development in a shorter and longer-term perspective. Tasks for individual Business Areas of TAURON Capital Group have been defined in detail up to 2020 and financial effects of those tasks have been determined. The priority is to maintain the stable financial situation and to build solid foundations for growth in the changing environment. The implementation of this priority is fostered by the efficiency improvement programme and strategic initiatives aimed at cost and investment optimisation. In the period up to 2020 significant capital expenditure is planned, with the value of approximately PLN 18 billion, including over a half to be allocated for distribution assets generating the most stable revenues of TAURON Capital Group. At the same time, the Strategy determined priority directions of innovative and research-development activity which will provided basis for the development of new products and services in a longer-term perspective. In order to achieve this goal TAURON Capital Group adopted a new model of innovative and research-development activity, by creating a dedicated central organisation for the management and coordination of the said activity and allocating a budget at a level of 0.4% of revenue.

In a longer-term perspective, the Strategy assumes full use of the potential contained in assets of TAURON Capital Group, fostering innovation, organisational culture and predominantly, a broad client base. The Strategy assumes that in the years 2020-2025 TAURON Capital Group will gain the additional investment capacity at a level of approximately PLN 6 billion, to be allocated for projects which will generate value for TAURON Capital Group in a longer-term perspective. Investment is assumed in regulated areas, such as electricity distribution as well as heat distribution and generation, RES (provided that the stable support system is available), regulated conventional generation and in the area of new energy, i.e., for example, electromobility, scattered electricity and heat generation, smart solutions.

The figure below presents the outlook of investment directions after 2020.

Figure no. 10 Outlook of investment directions after 2020



The major competitive advantage of TAURON Capital Group is the base of 5.5 million clients. The most important activities in a short-term and long-term perspective will comprise relatively low capital-intensive activities associated with the development of products and services offer for consumers as well as the development of new activities based on TAURON Capital Group competence. The Strategy assumes that in 2025 new businesses will generate approximately 25% of the total margin or revenues on sales of the Sales Segment.

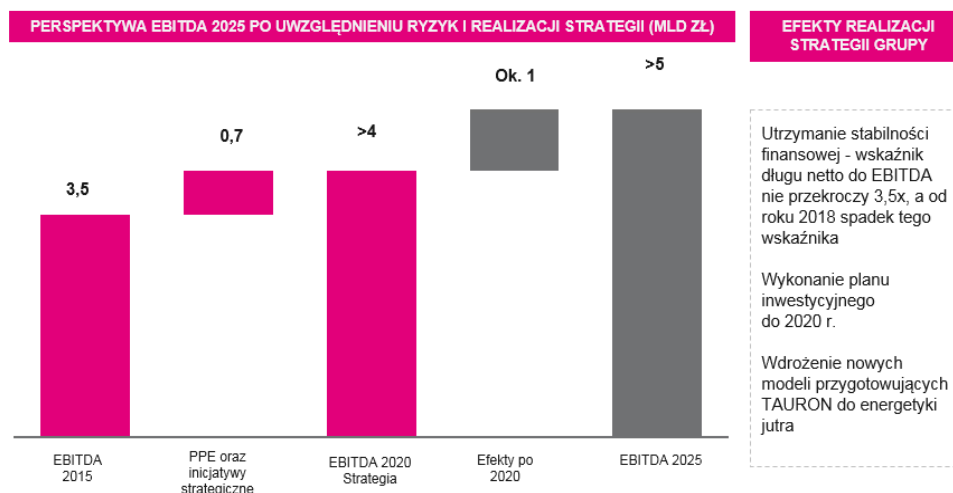
1.4.1. Perspective objectives and financial assumptions of the Strategy

Activities defined in the Strategy will enable the accomplishment of key objectives determined for TAURON Capital Group:

- 1) EBITDA over 4 billion in 2020.
- 2) Keeping the net debt/EBITDA covenants below 3.5.
- 3) Maintaining the high level of Customer Satisfaction Index (CSI).
- 4) Power plants with positive financial flows by 2020.
- 5) Maintaining the client base.
- 6) Leader in unit margin among 4 biggest energy vendors in Poland.
- 7) The new businesses will constitute at least 25% of the revenue/margin in 2025.

The figure below shows EBITDA 2025 outlook after considering risks and implementation of the Strategy and effects of the Strategy implementation.

Figure no. 11 EBITDA 2025 outlook after considering risks and implementation of the Strategy and effects of the Strategy implementation



Activities planned for the nearest years will enable to curb the decline in profitability. This will take place through increasing the production of electricity, coal and, to a minor extent, heat, simultaneously maintaining the stability in the Distribution Area.

1.4.2. Implementation of investment projects

Project associated with the construction of the nuclear power plant

In relation to earlier activities arrangements concerning the joint implementation of the nuclear energy project in Poland, on 15 April 2015, TAURON, KGHM Polska Miedź S.A. (KGHM) and ENEA, as Business Partners, and PGE 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_e (the Project). Business Partners acquired 10% of shares each (30% of shares in total) in PGE EJ 1 company from PGE. TAURON paid the amount of PLN 16,044,000 for the shares purchased. At the same time, one of the commitments arising from the Shareholders' Agreement concluded between Business Partners and PGE on 3 September 2014 was fulfilled.

Pursuant to the Shareholders' Agreement, the parties committed, proportionally to the number of shares they hold, to finance the activities falling to the stage of the project development.

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 consecutive stage of the Project, will be made after the completion of the preliminary stage.

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 the total nominal value of PLN 6,999,945, which were covered by the cash contribution in the amount of PLN 6,999,945.

On 16 October 2015 the increase in the share capital of the PGE EJ 1 sp. z o.o. company was registered in the National Court Register.

On 21 December 2016 the Extraordinary SM of PGE EJ 1 special purpose vehicle adopted the resolution on increasing of the share capital from the amount of PLN 275,859,450 to the amount of PLN 310,858,470, i.e. by the amount of PLN 34,999,020 through creating 248,220 new shares with the nominal value of PLN 141 per share and the total nominal value of PLN 34,999,020. Accordingly, TAURON took up 24,822 new shares with the nominal value of PLN 141 per share and with the total nominal value of PLN 3,499,902, which it covered by the cash contribution at a level of PLN 3,499,902.

On 15 February 2017 the increase in the share capital of the PGE EJ 1 sp. z o.o. company was registered in the National Court Register.

Project on construction of the CCGT unit at Elektrownia Blachownia Nowa

On 28 July 2016 TAURON, KGHM and TAURON Wytwarzanie signed the agreement under which they jointly decided to withdraw from execution of the project for the construction of CCGT unit at Elektrownia Blachownia Nowa Sp. and terminate the Shareholders' Agreement binding KGHM and TAURON Wytwarzanie, and commence the liquidation of Elektrownia Blachownia Nowa company. The project has been suspended since 2913. The Parties started the liquidation of the company.

Detailed information concerning the aforementioned event is included in subsection 7.2.1 hereof.

Purchase of ElectroMobility Poland company shares

On 19 October 2016, TAURON and PGE Polska Grupa Energetyczna S.A. (PGE), ENEA S.A. (ENEA) and ENERGA S.A. (ENERGA) established the company under the enterprise name ElectroMobility Poland S.A. (ElectroMobility Poland) with its registered office in Warsaw, where TAURON took up 2,500 shares with the nominal value of PLN 1,000 per share and the total nominal value of PLN 2,500,000, constituting 25% share in the share capital of the company. ElectroMobility Poland was registered in the National Court Register on 7 December 2016.

The core area of the company activity will include conducting of research and analyses in the scope of development, promotion and popularisation of electromobility and development of electromobility industry in Poland. Electromobility is one of the areas to affect the electricity market. The level of preparation of the energy sector to popularise electric vehicles will determine whether electromobility creates the opportunities for growth of power sector innovation and the stimulus for its development. For the above reasons, energy groups decided to undertake a joint venture in this area.

1.4.3. Assessment of implementation capacity of investment projects

Strategic investment of TAURON Capital Group as well as its financing is managed centrally at a level of TAURON. On the basis of conducted analyses, the Management Board of the Company assesses that TAURON Capital Group is able to finance the current and future investment projects included in the Strategy from funds generated from operating activities and by acquisition of debt financing. The aforementioned assessment includes the change of the formula for financing of the 910 MW unit at Jaworzno III Power Plant assuming the separation of an organised part of the enterprise and selling the shares to third party partners, provided they do not acquire a controlling stake. The planned change in the financing formula of this project is an additional element stabilising the financial situation of TAURON Capital Group.

1.4.4. Building of TAURON Capital Group value

TAURON Capital Group conducts activities in all key segments of the energy market, i.e. in the area of coal mining, generation, distribution as well as trading in electricity and heat. The Strategy assumes that each Business Area will build the value of TAURON Capital Group, however, in the manner adjusted to market conditions for a given segment. The Sales Segment as well as new products and services constitute this area of activity which will be intensively developed by TAURON Capital Group. TAURON Capital Group is changing its profile towards full concentration on the customer. It means, through building sustainable relations with customers, introduction of harmonised high customer service standards in each link of the value chain, modern and integrated sales and customer service channels (omnichannel and e-commerce) adapted to the current highest standard. The Sales Area and customer service will be the main areas of building the value of TAURON Capital Group. The area of electricity Distribution is the most stable area in terms of share in generating EBITDA of TAURON Capital Group. TAURON Capital Group plans to maintain the stable role of the Distribution Area and continue the existing investment policy. Through further modernisation and extension of the distribution grid, TAURON Capital Group will be able to fulfil the requirements in the scope of security and quality of supplies. The Generation and Mining Areas will continuously improve cost effectiveness and operating efficiency, while the potential development of conventional generation will depend on the market situation or regulations favourable for conventional generation, i.e. introduction of such solutions as the dual commodity market.

1.4.5. Directions of innovation development and research and development activity.

In the Strategy adopted in September 2016 TAURON Capital Group focuses on the dynamic development of the research and development area as well as innovation (R&D&I), identifying it as a path to new revenues in the future. As of 2017, allocation of minimum 0.4% of consolidated revenue for R&D&I is assumed, as well as the development based on, inter alia, Corporate Venture Capital (CVC) and the long-term return on the portfolio, as well as the annual revision in relation to the financial situation.

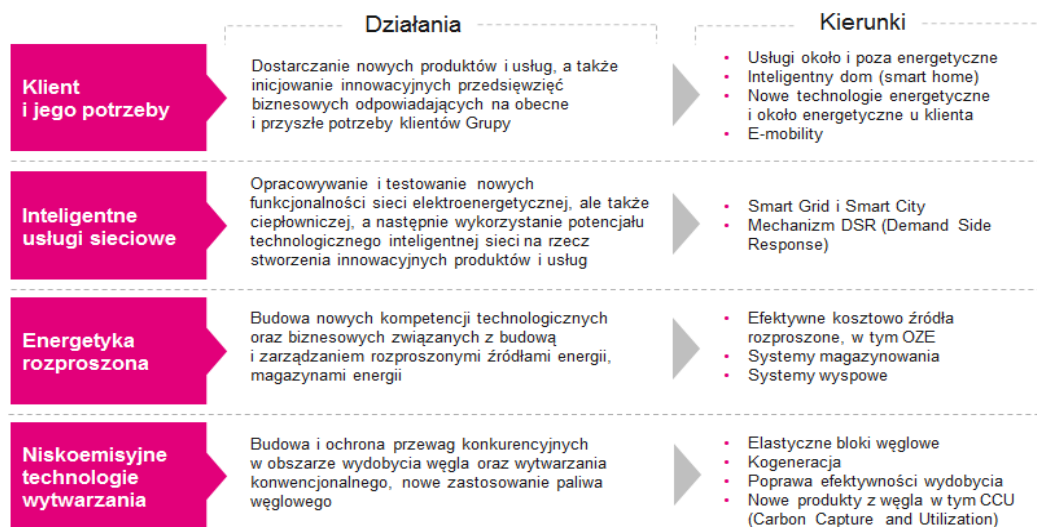
The Strategy also defines four priority directions of innovative and research-development activity:

1. Customer and its needs.

2. Smart grid services.
3. Scattered energy.
4. Low-emission generation technologies.

The figure below shows priority directions of innovative and research-development activity.

Figure no. 12 Priority directions of innovative and research-development activity



In the fourth quarter of 2017 works concerning the development of the Strategic Research Agenda (SAB) were undertaken. The document will translate the goals indicated in the Strategy Document into a “roadmap” of the R&D&I activity in TAURON Capital Group, capturing the specific challenges in each of the aforementioned four directions, simultaneously going beyond the perspective of the currently applicable Strategy within the adopted timeframe.

1.4.6. Important achievements in research and development

In 2016 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 the past year the *MOBISTYLE* project received a positive decision on co-financing from the Horizon 2020 programme. The full name of the project is: *Motivating end-users behavioural change by combined ICT based tools and modular information services on energy use, indoor environment, health and lifestyle*. The overriding goal of the project is to introduce technological solutions to the market which will enable to affect positively customers' behaviour through raising the awareness and ownership feeling among consumers. The implementation of the project started in October 2016 and its results will be tested in five demonstration facilities in five different EU countries, including the area of implementation of AMIPlus initiatives in Wrocław.

Along the *MOBISTYLE* project, in 2016, the Company also took part in the preparation and submission of 7 applications for co-financing of research and development activities from the Horizon 2020 funds, where the Company acted as a member of international scientific and research consortia.

In 2016 works concerning launching of the Research Programme for the Power Sector (PBSE) by National Research and Development Centre (NCBR) were carried out. The Feasibility Study of PBSE was submitted to NCBR in December 2014 by TAURON in cooperation with other enterprises from the energy sector, trade organisations and leading national universities. As a result of the multi-stage process of preparation and negotiations on, inter alia, the scope, the schedule and the budget of PBSE, in September 2016 NCBR launched the first call for proposals under this programme. The two-year period of preparation of companies of TAURON Capital Group resulted in elaboration and submission of 18 applications for co-financing of research and development projects under this programme, including 3 applications submitted by the Company. It is expected that the Programme shall provide support for the intensification of innovation in the energy sector, and consecutive competitions announced under the Programme will also support the directions of activities undertaken by TAURON Capital Group. At present, works in the scope of evaluation of submitted applications are in progress. NCBR decision on co-financing of individual projects is expected in the 2nd quarter of 2017.

The Company also conducted 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 2016 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. One of the areas of TAURON's interest 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 2016, 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, both on the national and on the international level.

In response to the Scale Up competition announced in mid-2016 by the Polish Agency for Enterprise Development (PARP), the application concerning the Pilot Maker Programme was submitted to the competition. This programme, combining the potential of start-ups with the infrastructure, experience and resources of large enterprises, received a positive opinion of PARP and a co-financing of almost six million. The leader of the programme is the techBrainers company, TAURON is the main partner and other partners include well-known Kross S.A and Amplus sp. z o.o. companies.

From the point of view of TAURON, the Pilot Maker programme is the first tool for building the area of cooperation between TAURON Capital Group and Start-Ups. At the same time, creating innovative product solutions in cooperation with Start-Ups is the area of activities to be undertaken by the special purpose vehicle, Magenta Grupa TAURON, established by TAURON in 2016. The business model of the new company was based on the latest methodologies of work demonstrating a possibility of integrating ideas and projects of Start-Ups with large enterprises. The company will deal, inter alia, with preparation of projects in the scope of smart technologies for home and solutions for transport supplied with electricity.

1.5. Business Model of TAURON Capital Group

TAURON Capital Group comprises selected companies managed jointly as a uniform economic body consisting of independent commercial law companies, led by TAURON as the parent entity.

Considering changes taking place in the surroundings of TAURON Capital Group and challenges faced by TAURON Capital Group, on 4 May 2016 the Management Board of the Company adopted a new *Business Model of TAURON Group* (Business Model).

The Business Model determines the business structure of TAURON Capital Group, defines the high-level architecture of processes and contains guidelines concerning key performance indicators of units constituting TAURON Capital Group. In this way, it describes the assumptions of organisation building and it is an element of the Strategy implementation.

1.5.1. Assumptions of the Business Model

The Business Model is based on assumptions understood as a set of general guidelines driving the works on the document. These assumptions include building of TAURON Capital Group value, focusing on Clients, transparent distribution of duties and responsibilities, effective information exchange, use of employees' knowledge, volatility of the Business Model, organisational cohesion of TAURON Capital Group.

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

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

In addition, within TAURON Capital Group, permanent Committees operate, including:

- 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 performing of operations in accordance with principles of operating consistency, in compliance with the law and interests of TAURON Capital 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 underlying task of the Committees is to monitor the implementation of coherent actions compliant with the *TAURON Group Code* and for the benefit of TAURON Capital Group business. The specific tasks of the Committees are defined in detail in the by-laws of their activity adopted by the Company Management Board.

1.5.2. Changes in the management rules of the Company and TAURON Capital Group

Changes in the 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 affairs 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 General Meeting 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 item 6.8.1. of this report.

In 2016 changes in the rules of managing the Company were introduced, arising from the new adopted Business Model, defined in the *Organisational Regulations of TAURON Polska Energia S.A. (Organisational Regulations)*. In accordance with the Organisational Regulations, the Company is managed directly by the Management Board of the Company as well as through proxies, Executive Directors, Managing Directors or attorneys.

In accordance with the amended Organisational Regulations, the Company implements its tasks through:

- 1) **selected business units:**
 - Divisions comprising independent positions and business units reporting to individual members of the Management Board and supervised by them.

- Offices, constituting business units reporting directly to individual members of the Management Board. The activities of the office are managed by the Office Manager.
- Teams, constituting business units reporting directly to Executive Directors or Managing Directors . The activities of the team are managed by the Team Leader.

2) **independent positions:**

- The Managing Director manages and leads the work of subordinated Executive Directors and Teams.
- The Executive Director manages and leads the work of subordinated Teams.
- Other independent positions which may be entrusted to Attorneys, Coordinators, Consultants or Specialists.

3) **temporary organisations** – Project Teams established with the aim of implementation of tasks and projects of the Company.

The **President of the Board** manages current business 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.

In particular, the President of the Management 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 current business operations of the Company within the scope delegated as well as supervise the performance of the divisions which report to them directly,
- 2) take decisions concerning issues which are not subject to the competence of the Management Board, within the scope of functions delegated to the subordinated independent positions and 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, as well as:
- 3) manage the internal business of the Company and represent it within the external contacts,
- 4) supervise the performance of divisions which report directly to them,
- 5) take decisions related to managing of the Company business as usual,
- 6) perform all the real functions and legal acts, taking into consideration implementation of the Company's goals and targets,
- 7) undertake any other activities providing for effective and efficient performance of the Company.

Managing Directors and Executive Directors:

- 1) manage organisational units and/or independent positions reporting to them, being responsible for their performance results,
- 2) determine the goals, targets and tasks of subordinated business units or independent positions within their subjective competence,
- 3) coordinate the structures reporting to them, in accordance with the Company's interest and in compliance with the legal regulations,
- 4) implement the guidelines and recommendations of the relevant Member of the Management Board and keep them informed of the performance of subordinated business units / independent positions,

- 5) undertake any other necessary activities providing for effective and efficient performance of the tasks assigned,
- 6) Cooperate with other Members of the Management Board, separated business units and independent positions in the scope of tasks performed.

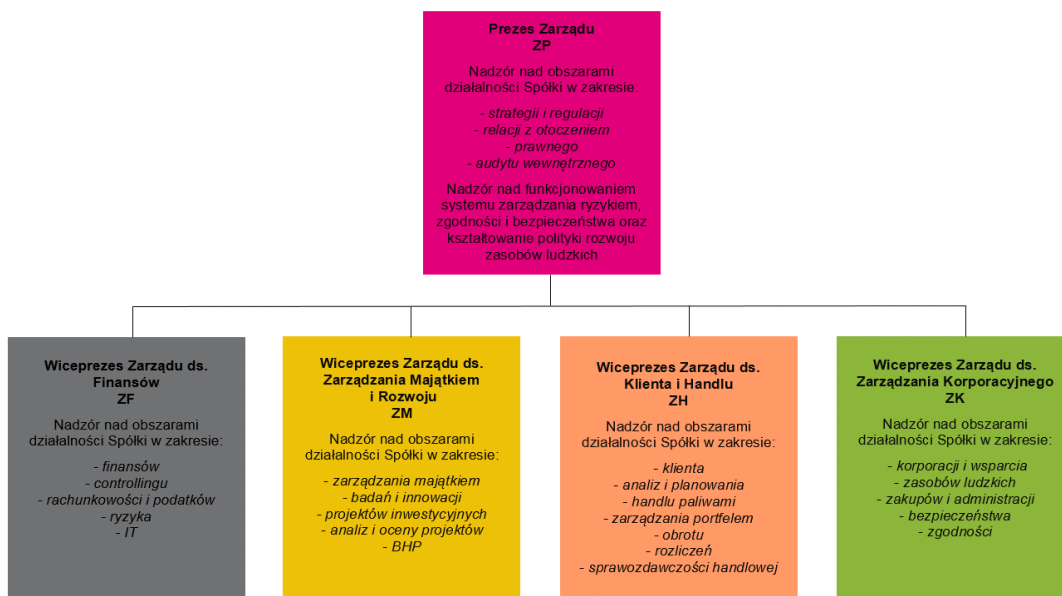
Business relations in the Company are based on the principle of a single person management which means that each employee has a single direct supervisor in business relations from whom he/she receives instructions and assignments and to whom he/she is responsible for their execution. An employee receiving an instruction from a superior should execute such instruction notifying the direct supervisor thereof. Moreover, establishing of an additional reporting line is admitted in relation to independent positions and business units directly reporting to Members of the Management Board. The reporting line is based on a possibility to acquire direct information and issue individual official instructions.

A separate reporting type is the project reporting which is of temporary nature. Such reporting occurs in relations among employees of the Company or employees of the Company and companies of TAURON Capital Group, regardless their business relations, and applies to persons who are members of a project team.

Changes in the organisational structure of the Company performed in accordance with the Business Model were aimed at optimisation of operations of the Company and TAURON Capital Group. Areas assigned to individual members of the Management Board of the Company were verified.

The figure below presents the distribution of responsibilities of Management Board Members.

Figure no. 13 Scheme of distribution of responsibilities of Management Board Members



The figure below presents the **structure of divisions reporting to individual Members of the Company Management Board**, to the level of business units and independent positions reporting directly to the Members of the Management Board, according to the status as at the day of drawing up this report.

Figure no. 14 Organisational chart of TAURON as at the day of drawing up this report

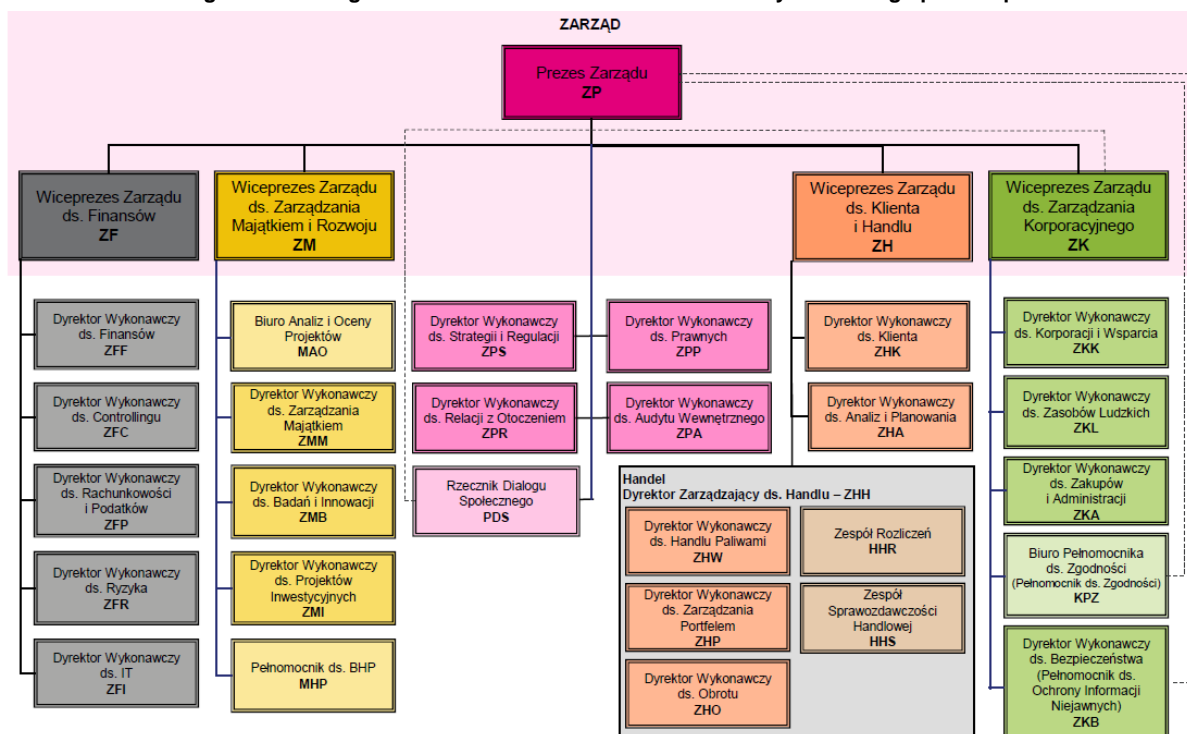


Fig. 14 Legend:

ZP - President of the Management Board	
ZF - Vice-President of the Management Board for Finance	ZPS - Executive Director for Strategy and Regulations
ZFF - Executive Director for Finance	ZPR Executive Director for Public Relations
ZFC - Executive Director for Controlling	PDS - Social Dialogue Ombudsman
ZFP - Executive Director for Accounting and Taxes	ZPP Executive Director for Legal Affairs
ZFR - Executive Director for Risk	ZPA - Executive Director for Internal Audit
ZFI - Executive Director for IT	ZH - Vice-President of the Management Board for Customer and Commercial Affairs
ZM - Vice-President of the Management Board for Asset Management and Development	ZHK - Executive Director for Customer
MAO - Office for Analysis and Project Assessment	ZHA - Executive Director for Analysis and Planning
ZMM - Executive Director for Asset Management	ZHW - Executive Director for Fuel Trade
ZMB - Executive Director for Research and Innovation	ZHP - Executive Director for Portfolio Management
ZMI - Executive Director for Investment projects	ZHO - Executive Director for Trade
MHP - Representative for H&S	ZHH - Executive Director for Commercial Affairs
HHR - Team for Settlements	ZK - Vice-President of the Management Board for Corporate Management
HHS - Team for Commercial reporting	ZKK - Executive Director for Corporation and Support
KPZ - Office of Representative for Compliance (Representative for Compliance)	ZKL - Executive Director for Human Resources
ZKB - Executive Director for Security (Representative for protection of classified information)	ZKA - Executive Director for Procurement and Administration

Changes in the management rules of TAURON Capital Group

Adopting of the new Business Model by the Management Board on 4 May 2016 started activities changing the organisation of operation of TAURON Capital Group business units. The Business Model defines the assumptions of operation (management) of TAURON Capital Group and indicates the distribution of tasks and responsibilities among defined units:

Corporate Centre	the superior business unit responsible for management of TAURON Capital Group activities and taking the most important decisions affecting TAURON Capital Group, Business Areas, Centres of Common Services and companies belonging to TAURON Capital Group.
Business Areas	seven areas of TAURON Capital Group core activity, defined in accordance with the links of electricity and heat production value chain, i.e.: Trade, Mining, Generation, Renewable Energy Sources (RES), Heat, Distribution and Sales.
Centre of Common	units responsible for provision of specific support services (e.g. accounting, IT, HR and payroll, insurance, customer service) in favour of other entities of TAURON Capital Group.

Five defined process streams around which activities of TAURON Capital Group shall concentrate underpin the construction of the Business Model, i.e.: Strategy, Finance, Asset Management and Development, Client, Corporate Governance and Support. The objective of distinguishing process streams is to pay greater attention to cross-sectional issues, referring to more than one Business Area, which will significantly determine the value of the Group in the future against other entities operating in the energy sector.

The figure below presents process streams around which operations of TAURON Capital Group shall be concentrated.

Figure no. 15 Process streams



1.5.3. Key process streams

The new Business Model identifies 23 mega processes passing through all units of TAURON Capital Group. In 2016, within the implementing activities, their owners were determined and the processes were decomposed to the lower level processes fully implemented in companies of TAURON Capital Group. For the processes implemented in TAURON company, a preliminary version of process documentation was elaborated, including diagrams showing the process and decision-making competence in detail. In the 1st half of 2017 intensive works related to improvements and common points will be were continued. By the end of the 1st half of 2017, issuance of new corporate regulations is planned, implementing the new Business Model in the scope of distribution of responsibilities and decision-making competence determining roles divided between the headquarters of TAURON Capital Group and the subsidiaries. Throughout 2017

the decomposition of the processes will continue and process documentation in companies of TAURON Capital Group will be developed.

The figure below shows the structure of processes in TAURON Capital Group (mega processes).

Figure no. 16 Structure of processes in TAURON Capital Group (mega processes)

Procesy zarządcze	
1.1 Strategia	1.5 Audyt
1.2 Controlling	1.6 Zarządzanie majątkiem
1.3 Komunikacja korporacyjna	1.7 Badania i innowacje
1.4 Zarządzanie ryzykiem	

Procesy operacyjne	
2.1 Wydobycie	2.4 Dystrybucja energii elektrycznej i ciepła
2.2 Produkcja energii elektrycznej i ciepła	2.5 Sprzedaż i obsługa klienta
2.3 Handel	

Procesy wsparcia	
3.1 Zarządzanie korporacyjne	3.7 Wsparcie IT
3.2 Fuzje i przejęcia	3.8 Obsługa prawna
3.3 Zarządzanie finansami	3.9 Zakupy
3.4 Rachunkowość	3.10 Zapewnienie bezpieczeństwa
3.5 Zarządzanie podatkami	3.11 Realizacja projektów
3.6 Zarządzanie kapitałem ludzkim	

1.5.4. Business Areas of TAURON Capital Group

The operating activity of TAURON Capital Group is implemented based on seven Business Areas defined in accordance with the links of electricity and heat production value chain: Mining, Generation, Heat, Renewable Energy Sources (RES), Trade, Distribution and Sales.

The figure below shows the structure of TAURON Capital Group Business Areas.

Figure no. 17 Structure of TAURON Capital Group Business Areas



1.5.5. Centres of Common Services of TAURON Capital Group

Centres of Common Services (CUW) are the separated business units responsible for provision of specific support services, e.g. accounting, IT, HR and payroll, insurance, customer service, in favour of other units of TAURON Capital Group. The centralisation of support services is aimed at relieving the Corporate Centre and Business Areas from execution of processes which are not directly associated with the operations they conduct (so-called support processes) as well as at reducing costs of implementation of such processes owing to the benefits of scale and growth of operating effectiveness. Within the formal structure of TAURON Capital Group, CUW have been assigned to TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta).

2. OPERATIONS OF TAURON POLSKA ENERGIA S.A.

2.1. Factors and unusual events significantly affecting the financial result achieved

2.1.1. Internal factors and their assessment

In 2016, no material internal factors occurred which would have a significant impact on the financial result achieved.

2.1.2. External factors and their assessment

The following internal factors affected the operations and results of TAURON Capital Group in 2016:

- 1) Macroeconomic environment.
- 2) Market environment.
- 3) Regulatory environment.
- 4) Competitive environment.

2.1.2.1. Macroeconomic environment

The basic area of TAURON operations is the Polish market within which the Company takes advantage of 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 influencing the results achieved by the Company and TAURON Capital Group.

The GDP growth in Poland for 2016 reached the level of 2.8% (as compared to 3.9% in 2015). The domestic economy was predominantly driven by consumption of households, fostered by the favourable situation in the labour market and lack of growth in prices. At the end of 2016 the unemployment rate reached 8.3%, against 9.8% at the end of 2015, whereas the average level of wage in the national economy exceeded PLN 4,000 (against PLN 3,900 for 2015). The inflation rate for 2016 reached the value of -0.6% (deflation for 2015 amounted to -0.9%). A significant decline in the level of investment was the factor for which the GDP growth for 2016 reached a level significantly lower than in 2015.

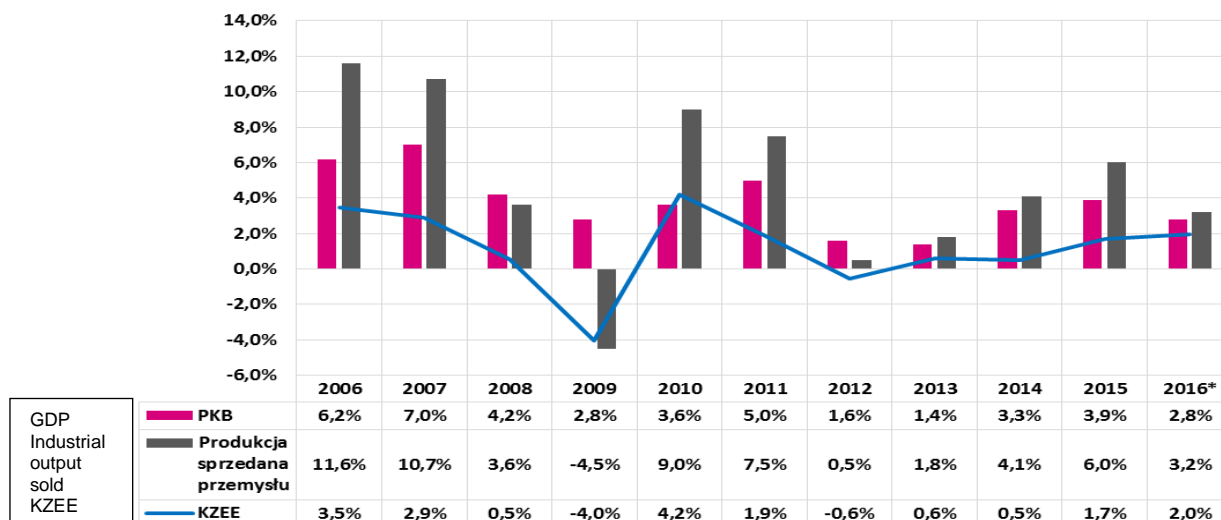
Throughout 2016 the average currency exchange rate increased – the EUR/PLN rate reached the average level of PLN 4.40 (against PLN 4.26 for 2015), whereas the USD/PLN rate reached the average level of PLN 4.20 (against PLN 3.90 for 2015).

A key factor affecting the results of the Company and TAURON Capital Group, depending largely on the economic growth rate, is the domestic demand for electricity and heat.

According to the data of Polskie Sieci Elektroenergetyczne S.A. (PSE), in 2016 a significant growth (1.97% YoY) in the domestic gross electricity consumption (KZEE) occurred, with the simultaneous growth of production in domestic power plants (0.53% YoY) - contrary to 2015, imports prevailed in the balance of interconnector exchange amounting to -2.0 TWh.

The figure below shows the growth of GDP, industrial output sold and change in KZEE.

Figure no. 18 Growth of GDP, industrial output sold and change in KZEE.



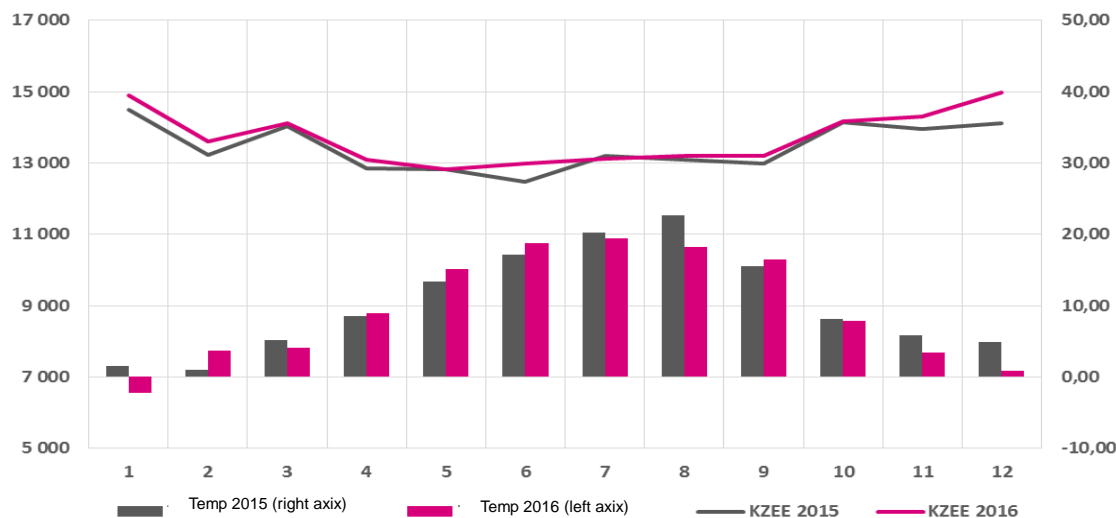
Data concerning GDP and industrial output sold for 2016 are based on preliminary estimates

Source: GUS, PSE

In 2016 a lower growth in industrial output sold was recorded as compared to 2015 (3.2% YoY according to the GUS preliminary forecasts), which was a phenomenon analogical to the scale of changes in GDP. At the same time, the growth in KZEE was stronger than in 2015, which occurred despite a slower pace of economic growth. The key non-economic reason included the average air temperatures in January, June, November and December 2016, as well as the fact that in August 2015 constraints in power supply occurred (power supply levels).

The figure below shows the KZEE process depending on the average monthly temperature.

Figure no. 19 KZEE process depending on the average monthly temperature.



Source: PSE

In 2016, photovoltaic energy was the most dynamic area of the power industry, where the estimated growth in the capacity reached approximately 90 MW (approximately 95% YoY) and the total output reached approximately 120 GWh (growth by ca. 124% YoY). Wind energy developed dynamically, although at a slower pace than in 2015, where the growth in the capacity installed by approximately 750 MW translated into the output in the range of 11.6 TWh (growth in production by 15.8% YoY).

A significant growth in production (by approximately 37.8% YoY) was also recorded in case of gas energy sector - in 2016 this area generated the total of 5.8 TWh. Production in coal-fired power plants (the basic fuel of TAURON Capital Group) amounted to 81.3 TWh at the national level, which means a minor decline in relation to 2015 (-0.65% YoY), whereas lignite-fired sources produced the total of 51.2 TWh in 2016, which makes a decline by 4.4% YoY.

Simultaneously, heat production increased at the national level. According to the data of Agencja Rynku Energii S.A.f or three quarters of 2016, the total of 183.95 PJ of heat was produced (by 1.2% more than in the corresponding period of 2015). Taking into account temperatures of November and December 2016 it should be expected that the heat production for the entire 2016 will show a higher growth rate.

2.1.2.2. Market environment

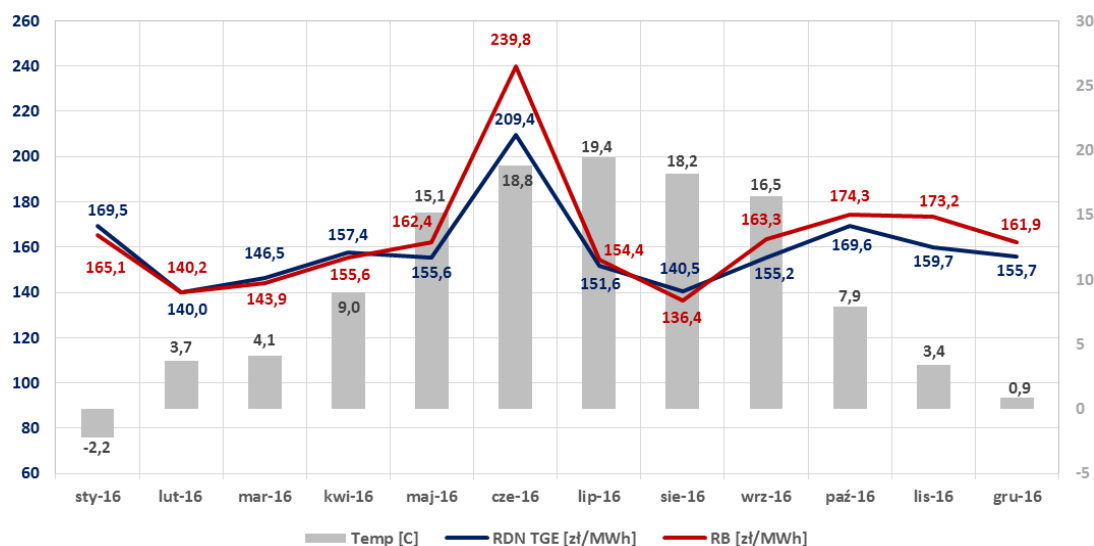
Electricity

In 2016 wholesale prices of energy in Poland recorded a slight growth in relation to 2015. The average price on the Day-Ahead Market (RDN) of Towarowa Giełda Energii S.A. (TGE) for 2016 amounted to PLN 159.22/MWh (+ PLN 2.27/MWh in relation to 2015), whereas the so-called CRO price on the balancing market (RB) reached PLN 164.19 /MWh(+ PLN 6.88/MWh on an annual basis). The major reason of slight growths in market prices in 2016 was the increased systemic demand for capacity which, on an annual basis, resulted in the growth of electricity consumption by over 3 TWh, to the level of 164.6 TWh. The impact of growth in electricity consumption was not set off even by relatively low coal prices, which dropped by PLN 0.99/GJ to the level of PLN 8.79/GJ. The growth of prices was also caused by the change in the electricity generation structure.

Despite commissioning of approx. 730 MW of new capacity in wind farms in 2016, a minor growth of production in RES did not result in the expected growth of production in this subsector. At the same time, in the previous year, a significant decline of production from cheap lignite-fired power plants was recorded, by as much as 4.4%, which had to be set-off by the growth of production in more expensive power plants, e.g. gas-fired, where production on an annual basis increased by 37.8% to the level of 5.8 TWh. In addition, the National Power System (KSE) was supported by imported energy at a quantity of almost 2 TWh.

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

Figure no. 20 Average monthly energy prices on the SPOT and RB markets and the average temperatures



On the forward market, contracts for 2017 were subject to relatively dynamic changes even at the beginning of the year. Traditionally, the beginning of the year demonstrates market optimism which is transferred from the SPOT area to the forward area. As a result of closing the BASE_Y-16 contract at a level of PLN 167.50/MWh, the BASE_Y-17 contract was the first to close the gap in January. Until the middle of the month its price increased from PLN 164.24/MWh to almost PLN 170/MWh, declining to the area of PLN 155/MWh by the end of the month. This was caused both by increasingly cheaper energy price on the SPOT market as well as a significant discounts on the CO₂ market where prices dropped from EUR 8.5/Mg to approximately EUR 5.7/Mg at the beginning of February. The increasingly cheaper CO₂ accompanied by low coal prices in the global markets maintained low prices on the Commodity Forward Market (RTT) by the end of March, supported by stable SPOT prices. Significant price volatility in April converted the declines in the BASE_Y-17 contract prices into an upward trend, continuing until June 2016, reaching the level of PLN 165.50/MWh.

High SPOT prices in June maintained prices at a level of PLN 162/MWh until the second decade of July, when the market started to discount consecutive price drops in the CO₂ market. Low CO₂ prices which occurred in the summer, reached their all-time lows in the 1st half of September, gaining levels ranging from EUR 4-4.2/Mg. The combination of low CO₂ prices and very cheap energy on the SPOT market, the price of which declined to PLN 155/MWh, reaching its all-time low in August, at the average monthly level of PLN 140/MWh, led to the decline in the BASE_Y-17 prices to approximately PLN 155.5/MWh.

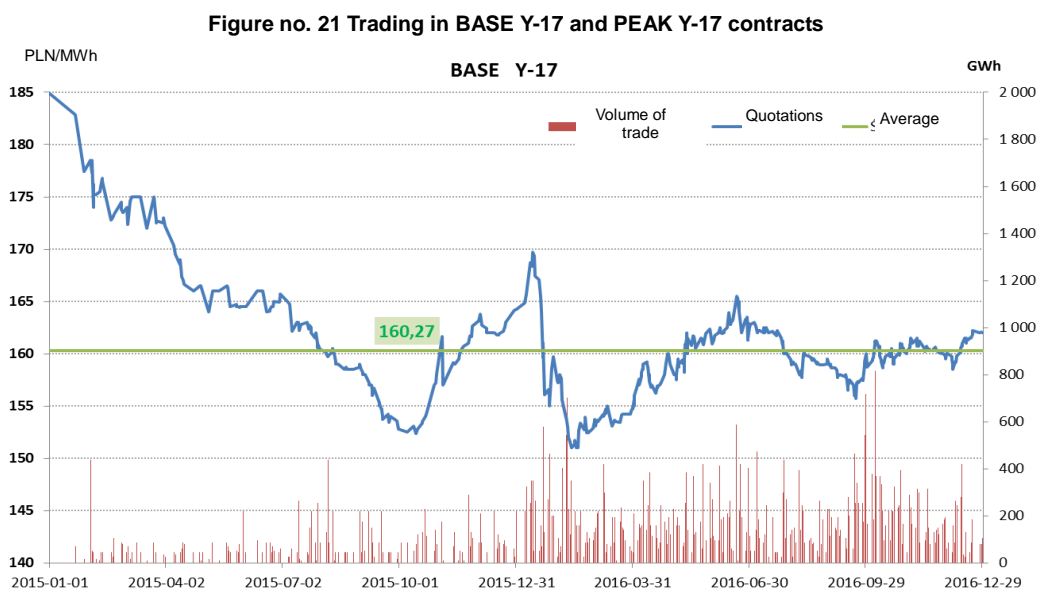
The last quarter of 2016 was marked by the growth of prices. High coal prices maintained throughout the summer (approx. USD 58-60/Mg), accompanied by the dynamic growth in CO₂ prices whose direction of quotations indicated a

possibility to return to the value of EUR 6/Mg, resulted in the growth of prices to approx. PLN 160/MWh. In addition the October growth in SPOT prices as a result of the failure in Turów and lower temperatures than forecast, allowed for breakthrough and growth in prices to approx. PLN 161-161.50/MWh. At the end of 2016 energy prices on the said market amounted to PLN 162/MWh.

The average volume-weighted price for the BASE Y-17 product amounted to PLN 160.27/MWh, whereas over 76.7 TWh was sold in total. As compared to trading in the BASE Y-16 product, the trade was almost two-fold lower. The average price on TGE amounted to PLN 159.77/MWh, at a volume of 51.5 TWh, whereas it was higher outside TGE, amounting to PLN 161.29/MWh for the volume of 25.2 TWh. The share of the volume sold with the participation of TGE in 2016 in the overall pool, reached almost 72% (43.7 TWh), and - with the participation of broker platforms - over 28% (17.1 TWh). The average volume-weighted prices obtained in 2016 for the exchange segment and brokers reached, respectively, PLN 159.30/MWh and PLN 159.32/MWh, which set the average price of the BASE Y-17 product at a level of PLN 159.32/MWh in 2016.

In case of the PEAK Y-17 contract, the quotations were very similar to the quotations for the base contract. The peak of quotations in 2016 occurred on 18 January 2016, reaching PLN 227.85/MWh, whereas the minimum level was recorded on 16 February 2016, amounting to PLN 202/MWh. The total trading volume recorded in 2016 for this product reached 7.3 TWh, including 70% (5.1 TWh) in the exchange segment, at the average price of PLN 209.94/MWh, and the share of brokers amounted to 30% (2.2 TWh), with the average price of PLN 209.98/MWh. In total, throughout the entire period of trading in the PEAK Y-16 product, 7.75 TWh of energy was sold, at an average price of PLN 209.93/MWh.

The figures below show the results of trading in Base Y-17 and PEAK Y-17 contracts.





Crude oil and coal

Year 2016 was significant for crude oil. Throughout the year, a significant surplus of the commodity occurred, which resulted in sales on the oil market and the decline of prices to level of 2000-2003. This situation was the effect of the policy of oil manufacturers based on the protection of market share and the price war resulting from such policy. Another factor affecting the situation in the oil market was also the so-called shale revolution in the USA; oil production in the USA increased by 65% over 5 years. Due to lifting of international sanctions, a significant quantity of oil from Iran, successively increasing the volume of exported oil throughout 2016, has also appeared on the market.

In February 2016 Brent oil was quoted at USD 27/bbl. The low price of the commodity resulted in suspension of many investments in new infrastructure; problems were also experienced by banks crediting this type of investment. Concerns appeared that such a situation will lead to very high oil prices in the future. In the 2nd and 3rd quarter prices started to recover, inter alia, owing to the standing of the Chinese economy, which was better than expected, and due to increased oil demand associated with the so-called holiday season. Oil prices were also positively affected by extraordinary situations, e.g. a huge fire in Canada nearby the largest oil fields, or the military actions and destruction of the oil sector infrastructure in the Middle East and in Nigeria.

At the same time, OPEC countries, in particular, Saudi Arabia, launched their efforts aimed at controlling oil supply in order to stabilise prices. The consensus was extremely difficult to achieve due to divergent interest of member states. It became possible only before the end of 2016. At a meeting of OPEC producers in Vienna on 12-13 December 2016 a solidarity-based limitation of oil production by 1.2 million bpd was agreed. Russia and other smaller countries, non-members of OPEC, also entered into the agreement. The total cut in production was agreed at a level of approximately 1.8 million bpd. Oil prices increased to the level of approximately USD 55-57/bbl, i.e. by 100% in relation to the lowest prices recorded in February 2016. Analysts expect that the average cost of Brent oil in 2017 will reach USD 57-58/bbl.

A similar situation occurred in the coal market. In the 1st quarter of 2016 coal price has reached its lowest level for over a decade. In February 2016 coal in ARA ports was quoted at only USD 36/Mg. The decline in prices was affected by such factors as the economic crisis in China or the shale revolution in the USA (cheap shale gas forced out coal). Both China and Europe are oriented towards the replacement of the energy mix and acquiring increasing energy quantities from renewable sources.

Starting from the 2nd quarter of 2016, the situation in the coal market started to improve due to disruptions in the supply side worldwide. As a result of low prices several spectacular bankruptcies of coal giants occurred, e.g. one of the biggest coal producers in the world, the American Peabody Energy company, or the Czech producer, OKD a.s. The Polish mining sector also experienced significant financial problems. In Columbia, which is the fifth biggest coal producer in the world, employees of the mining sector were on strike starting in March whereas in Australia the majority of operating coal mines were shut down. China introduced regulations aimed at limiting own coal output (closing unprofitable coal mines, followed by reduction of working days for the coal mine).

In Europe, due to decommissioning of the significant quantity of generating capacity in the nuclear power sector in France, the demand for coal increased in autumn, strengthening the demand side. Coal prices on the SPOT market with the delivery in winter months increased to the level of over USD 85/Mg. The price of contract with the delivery in 2017 reached the level of USD 70/bbl, which means a growth by almost 100% as compared to prices in February 2016.

Improvement of business conditions in the global coal market will certainly have a positive effect on the situation in the Polish mining sector. However, the growth of coal prices on the Polish market will only materialise in 2017.

In 2016 the index of Polish steam coal prices, PSCMI1 was contained in the range of PLN 188-201/Mg (PLN 8.52-8.93/GJ).

It is worth noting that the so-called backwardation phenomenon occurs in the global coal market, which means that coal with the delivery for the nearest periods is cheaper than coal with the delivery in the future.

Natural gas

2016 was the year of all-time lows in prices on the gas market. As early as in the first month, the average price on the spot market reached the level of almost PLN 30/MWh lower than in the previous year, amounting to approximately PLN 72.54/MWh. The peak of the downward trend was reached in March when the average price on the TGE Day-Ahead Market (RDN) amounted to only PLN 60.11/MWh. Following slight growths in the 2nd quarter, gas price in the 3rd quarter also turned out very low, in particular, in the last two months. On 11 September 2016 the price on this market reached a level of PLN 49.61/MWh. Throughout the summer period, contracts with the delivery on the following day (day-ahead) stayed around PLN 60 /MWh, as compared to PLN 85-90/MWh in the previous year. However, upon the start of the gas winter season a significant growth in prices was noticeable. In December day-ahead contracts were already priced at PLN 84.95/MWh, on average.

On the forward market, following low prices in the first quarter, quotations moved upwards, similar to the SPOT market. The same trend was again recorded in the 2nd half of 2016 when it demonstrated strong growth after the decline in the 3rd quarter. Ultimately, the reference annual contract gained the value of slightly over PLN 15/MWh throughout the year.

In terms of the development and liquidity of the domestic TGE, mainly almost two-fold growth in the trade volume on gas RDN is worth noting. The majority of 16 TWh was traded in the period of the gas winter season, i.e. in the period of the highest demand for gas.

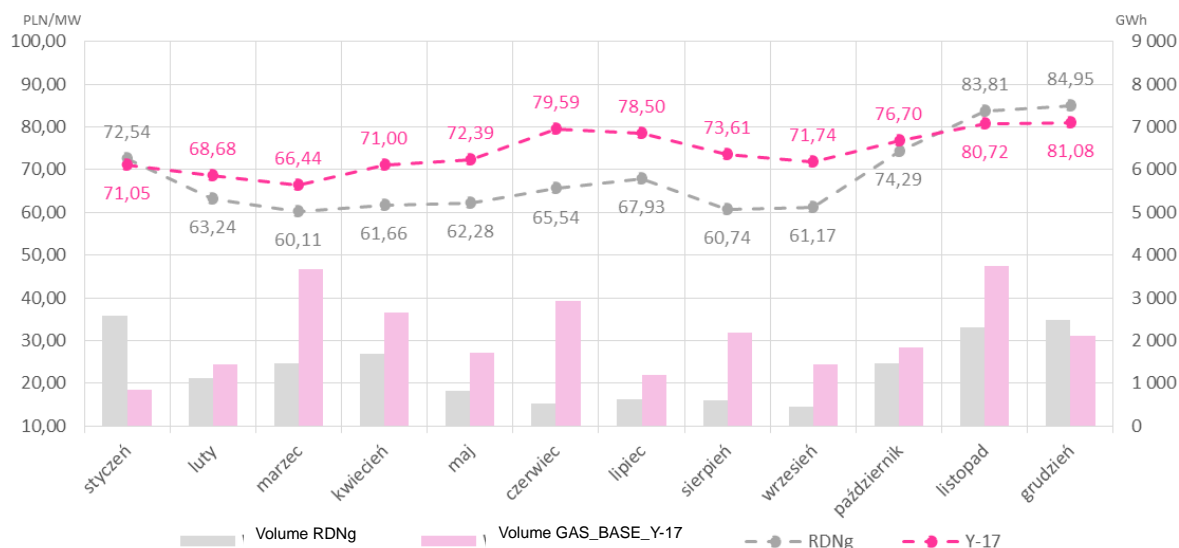
In 2015, it was only 8.7 TWh and a year earlier - less by a half. Such a dynamic growth in trade on the spot market did not translate into the forward market where a decline in the volume by over 3% was recorded as compared to the previous year. In quantitative terms, however, trade in forward contracts continued to exceed significantly the trade in the market with immediate delivery. In 2016 it was almost 90 TWh, i.e. almost 5-fold the volume of the day-ahead contract.

2016 was an exceptional year not only due to all-time lows in prices. In the middle of the year the LNG terminal in Świnoujście received first vessels with commercial gas supplies in liquid form. Owing to commissioning of the regasification port, Poland gained access to the international market, consequently, it may purchase gas practically at any place worldwide, strengthening its negotiation position towards suppliers.

Moreover, in the November amendment to the energy law, gradual waiver of the obligation of traders to determine and submit tariffs for gas for approval was endorsed. These activities were associated with the necessity to execute the verdict of the European Union Court of Justice of September 2015, which held that the system of regulating natural gas prices is not compliant with the requirements of the EU law. Other change of key importance for the market was the waiver of the privilege related to the lack of obligation to maintain natural gas reserved for so-called "small vendors". Since the moment of entry into force of the amendment, each vendor importing gas from abroad, regardless the volume, shall be obliged to secure its sales by maintaining the specific volume in storage facilities.

The figure below presents the average monthly SPOT prices and prices for Y-17 contract in 2016 on the TGE.

Figure no. 22 Average monthly SPOT prices and Y-17 contract prices in 2016 on the TGE.



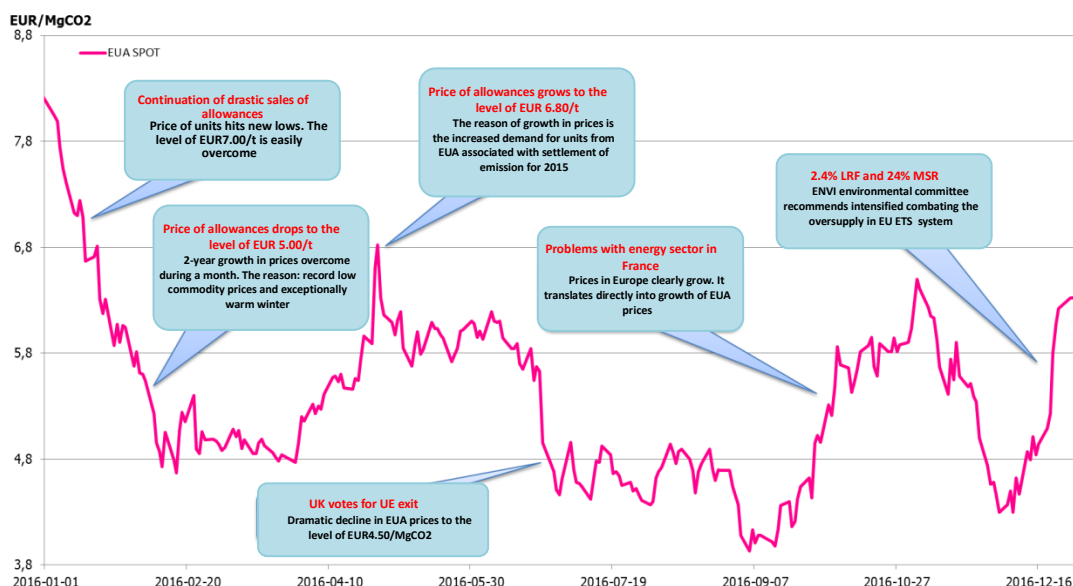
CO₂ emission allowances

The market of CO₂ emission allowances in 2016 demonstrated exceptionally high volatility of prices. The decline of prices in January from the level of EUR 8.30/Mg to the level of EUR 4.90/Mg resulted from overlapping of several events unfavourable for the EU ETS market. The first of those factors was the record warm winter which contributed to visible declines in prices of electricity contracts in Germany, France and United Kingdom. Another factor fostering the decline were the data confirming the economic downturn coming from China. Reduced demand for coal affected record declines in coal prices in ARA ports at the beginning of the previous year (to the level of USD 37/Mg, the lowest since 2003). The third driver of the decline was the backloading mechanism which led to withdrawal of the last 200 million out of 900 million of EUA units throughout 2016. It translated directly to the increase in the volumes of allowances sold in auctions. The temporary rebound in prices occurred only after three months, i.e. in April, and it was only the result of increased demand for EUA units in connection with the need to clear emissions for 2015.

Continuing a high volatility of prices, in June the EU ETS market responded with the successive clear sales to the positive result of the referendum concerning the exit of Great Britain from the EU – the price dropped from EUR 6.00/Mg to the level of EUR 4.40/Mg. Such low prices continued throughout the holiday season, to recover to the level of EUR 6.60/Mg as a response to the (nuclear) energy crisis in France. In connection with the detection of irregularities in nuclear power plants, ASN (the Nuclear Safety Authority) ordered 12-13 of 58 reactors to suspend any work immediately. France secured the missing energy for the country through its import from Great Britain, Austria, Germany and Belgium. This situation resulted in the growth of electricity prices, increased generation from conventional sources (coal and gas-based), which translated directly into the growth in prices of commodities and CO₂ emission allowances. The situation improved as late as in December last year, when ASN conditionally permitted to resume operations of several reactors due to the concern that the French power system will not cope with the increased winter demand. The last significant event which affected EUA prices was the December voting in the ENVI environmental committee concerning the proposed shape of Phase 4 of EU ETS and the functioning of the Stabilisation Reserve. According to the proposal of ENVI committee, the Reserve mechanism should withdraw a double quantity of allowances over the first three years of its operation (24% instead of original 12%). In addition, in order to achieve 43% emission reduction, adopting of a higher linear reduction coefficient is proposed - at a level of 2.4%. Despite such tight proposals explicitly aiming at the growth in prices of EUA units, the price ultimately closed 2016 below its initial opening level - EUR 6.57/Mg.

The figure below presents the impact of political events and the environment on quotations of the forward product, EUA SPOT in 2016.

Figure no. 23 Impact of political events and the environment on quotations of the EUA SPOT product in 2016.



Property rights

Year 2016 was a period of decline in prices of “green” certificates, triggered mainly by information on the new system of RES support. The implementation of the new system was planned at the beginning of 2016, however, in accordance with the Act of 29 December 2015, the deadline was postponed to 1 July 2016. The final shape of the RES support system was defined in the *Act of 22 June 2016 on the amendment to the Act on renewable energy sources and certain other acts of law*. Market uncertainty and the continued high surplus in the system of certificates caused that prices of property

rights, confirming energy generation recorded the decline in prices in 2016. During the October session, the OZEX_A index reached its all-time low: PLN 32.57/MWh.

The average weighted session price amounted to PLN 73.63/MWh, i.e. by PLN 49.98/MWh less than in 2015. The PMOZE_A balance since the beginning of the register, amounted to 29.1 TWh at the end of December; the surplus, as compared to the previous year, increased by 2.04 TWh. At the end of 2016, the surplus amounted to 19.8 TWh, taking into consideration the rights blocked for redemption.

The level of the substitution fee determined for 2016 amounted to PLN 300.03/MWh, and the obligation to submit PMOZE_A certificates for redemption amounting to 15% in the first half of the year decreased to 14.35%. Along the reduction of the obligation in the scope of "green" certificates, as of the second half of the year a new type of certificates was introduced, confirming energy generation from agricultural biogas, so-called "blue" certificates, for which the scope of the obligation was 0.65% (equal to the reduction in the obligation for "green" certificates). The average weighted session price of PMOZE-BIO in 2016 was very close to the substitution fee of PLN 300.03/MWh and amounted to 295.52/MWh. The balance of register of this instrument at the end of the year amounted to PLN 48.01 GWh.

According to the *Act of 10 April 1997 on Energy Law*, amended in 2016, until 30 June 2015 it is possible to redeem property rights issued to co-generation units for the production in the previous year. Accordingly, until the end of the first half of the year, property rights from co-generation in 2015 were quoted. Since July 2016, only property rights confirming energy generation in 2016 have been quoted.

In 2016, the average price of property rights confirming energy generation in high-performance coal co-generation (PMEC-2016 - "red" certificates) amounted to PLN 10.76/MWh, whereas PMEC-2016 property rights at the end of 2016 reached the average level of PLN 10.68/MWh. The KECX index demonstrated high stability and ranged around the substitution fee amounting to PLN 11/MWh.

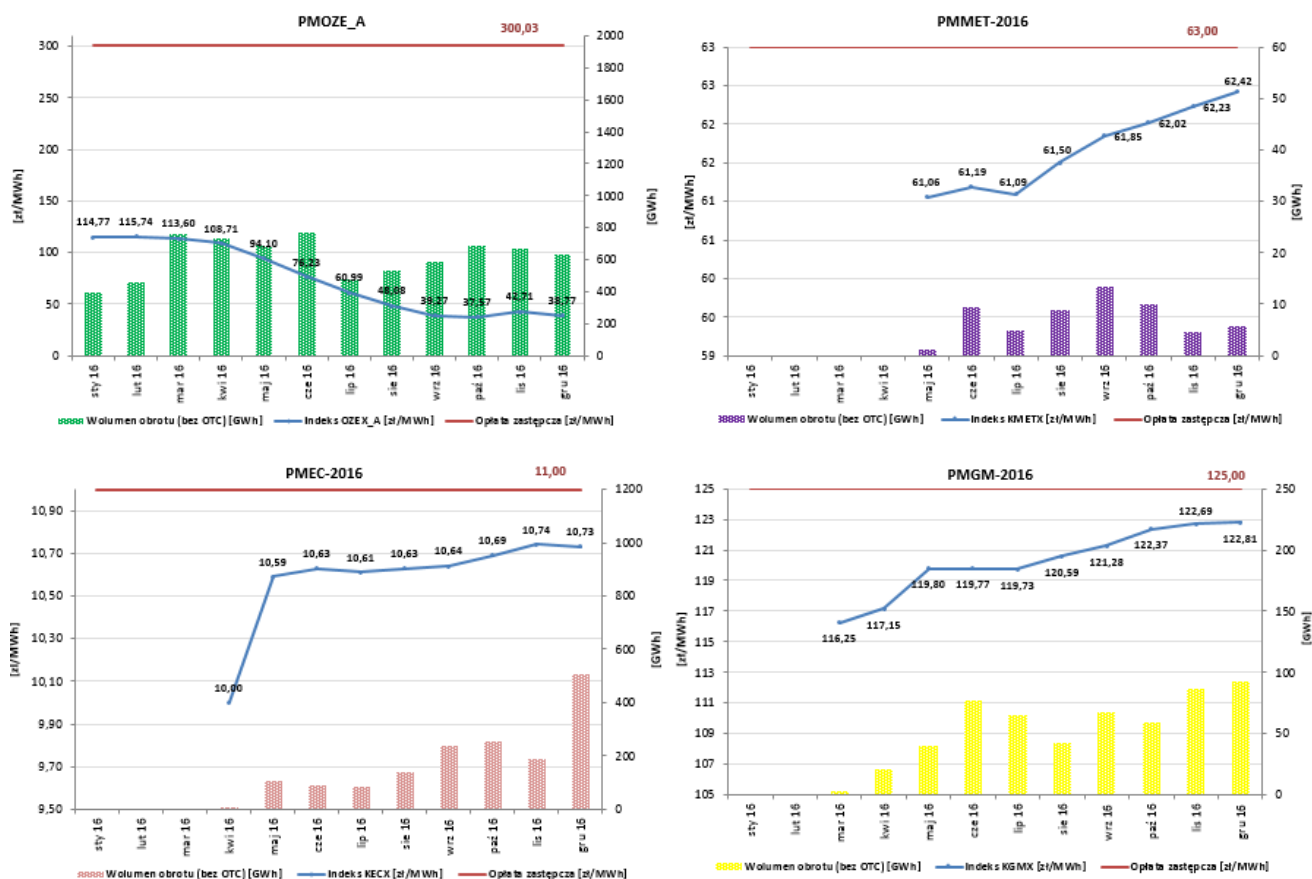
Analogically, the average price for PMGM-2015 gas co-generation amounted to PLN 118.85/MWh, with the substitution fee at a level of PLN 121.63/MWh, whereas the average price of "yellow" certificates, PMGM-2016 also oscillated around the substitution fee amounting to PLN 125/MWh, reaching PLN 121.13/MWh at the end of 2016.

"Violet" certificates representing co-generation rights confirming electricity generation during methane removal from coal mines throughout 2016 were quoted around the substitution fee amounting to PLN 63.26/MWh in the first half of the year, and their average weighted price, PMMET-2015 amounted to PLN 62.24/MWh. On the other hand, PMMET-2016 was traded, on average, at PLN 61.73/MWh at the end of December 2016, with the substitution fee at a level of PLN 63/MWh.

Property rights arising from the PMEF energy efficiency certificates, i.e. so-called "white" certificates, also demonstrated low volatility. With the substitution fee amounting to PLN 1,000/toe the average weighted price of the EFX index reached PLN 977.35/toe. The prices ranged from PLN 958.30 a 1,001.76/toe.

The figures below shows indices of property rights, so-called "green", "violet", "red" and "yellow" certificates.

Figure no. 24 Indices of property rights



Legend Figure 24	
Wolumen obrotu (bez OTC)	Volume of trade (excluding OTC)
Indeks/ zł/MWh	Index / PLN/MWh
Oplata zastępcza	Substitution fee

2.1.2.3. Regulatory environment

Changes in the regulations of the energy sector

In 2016, the President of the Energy Regulatory Office (ERO) maintained the obligation to submit tariffs for households for approval, as a consequence, traders had a limited impact on margins generated in the Sales Segment (G tariff).

Arrangements in the scope of CO₂ emission allowances

2016 was the consecutive year when works on the reform of the CO₂ emission allowances trading system were continued in the European Parliament. The key issues considered during the works include so-called compensation mechanisms which could be used, inter alia, by Poland in the period 2021-2030, i.e. the rules of allocation of free CO₂ emission allowances for the energy sector and the rules of using the resources of the Modernisation Fund dedicated to investment in the energy sector. During the EU climate summit in October 2014, the European Council determined, inter alia, that the CO₂ emission reduction target for 2030 shall be 40% in relation to 1990, including 43% within installations covered by EU ETS, in relation to 2005. Within the arrangements adopted at that time, it was agreed that Poland would be able to provide maximum 40% of the pool of CO₂ emission allowances granted for the period 2021-2030 to the energy sector free of charge.

On 15 December 2016, the Committee on Environment, Public Health and Food Safety (ENVI) adopted a package of amendments to the draft EU ETS directive proposed by the European Commission (EC). The major proposals of amendments to the draft directive voted in the ENVI Committee refer to the elements presented below.

Distribution of the pool of allowances

1. The linear factor was proposed at a level of 2.4% (contrary to 2.2% in the Commission proposal of July 2015 and Council conclusions of October 2014).
2. The auction pool would amount to 57% (as in the original version of the project), however, a possibility would exist to reduce it by 5% due to the intention to limit the cross-sectoral correction factor; in addition, a possibility to eliminate 200 million allowances from the auction pool at the end of the 4th period was included, in case the allowances were not used for free allocation.
3. 2% of 57% of the auction pool would be allocated for the Modernisation Fund.
4. 3% of the total pool would be allocated for compensation of emission indirect costs.
5. 2% of the auction allowances pool would be allocated for the fund supporting economic transformation in countries with high employment in sectors based on coal use and GDP lower than the EU average.
6. 100% of revenue from auctions should be allocated for combating climate change.
7. Voluntary permanent removal of allowances from the auction pool by Member States would be possible, corresponding to the level of emission from decommissioned power units.
8. A possibility of permanent removal of any number of allowances from the auction pool - at the Member State's discretion.

Free allowances

1. Benchmarks would be determined based on real data on the improvement of production capacity from 2016-2017 for allocation for 2021-2025 and, analogically, from the data for years 2021-2022 benchmark levels would be determined in the consecutive five years of the 4th period; the changes in the value of benchmarks related to the improvement of production capacity would range from 0.25% to 1.75%.
2. Sectors exposed to the risk of carbon leakage would have to meet the quantitative criterion at a level of 0.12 in order to receive 100% of allowances free of charge (in the original project, the level is 0.18), whereas sectors which are not exposed would not receive allowances, except for the network heating sector for which the limit of 30% was included throughout the period 2021-2030.
3. The cross-sectoral correction factor – CSCF, would only comprise selected sectors (sectors where the criterion of trade intensity would fall below 15% and the criterion of carbon intensity would remain below 7 kg CO₂/EUR GVA).
4. A new protective mechanism for cement and clinker was proposed - importers of those products would be charged with fees but, at the same time, producers inside the EU would not receive free allowances; the mechanism could apply from 2019.
5. 400 million allowances for the needs of the NER reserve would originate from the pool of allowances for the 4th period, instead of the stabilisation reserve (MSR) on the allowances market, as proposed by the EC in the draft of July 2015.
6. The allocation of allowances would be more dynamic and dependent on real production levels - the allowances would include changes above 10%.

Funds

1. The Innovation Fund would amount to 600 million allowances and besides, inter alia, the CCS technology, it would also comprise the CCU technology Carbon Capture and Utilisation,
2. Authorised Member States would be able to transfer allowances from the derogation pool (Article 10 c) to the Modernisation Fund,
3. Neither the Modernisation Fund nor derogations could finance the construction of new coal-fired units (the emission factor of new installations would have to be lower than 450 gCO₂eq/kWh),
4. Greece would obtain a possibility to use 40% of allowances from its auction pool for purposes compliant with the goals of the Modernisation Fund.

MSR

1. Over the first 4 years of MSR functioning the number of allowances transferred from the auction pool to the MSR would be doubled to the level of 24% of the surplus available on the market;
2. 800 million allowances from the MSR would be permanently removed from the market.

The next stage of works in the Parliament will involve voting on compromise amendments at the plenary forum, whereas in the EU Council - the voting on the general approach to the draft EU ETS directive will be performed, scheduled in June 2017.

In 2016, pursuant to the *Act of 12 June 2015 on the greenhouse gas emission allowance trading scheme*, activities were undertaken, aiming at launching of the national auction platform, where CO₂ emission allowances would be traded under the EU ETS system. The Polish Financial Supervision Authority approved the auction platform to be operated by TGE and sales of allowances under the EU ETS system. However, prior to that, the exchange has to win the tender for the operator of the national auction platform to be organised by Poland.

At present, Poland, as one of three countries (besides Germany and Great Britain), in accordance with the auction regulation (*Regulation of the European Commission no. 1031/2010 of 12 November 2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances*) has been using a possibility of derogation from the rule of allowances sales at a single harmonised auction platform and as a state from the "opt-out" group, until the target platform is selected, sales of allowances through the EEX exchange. Currently, only two auction platforms conduct sales of emission allowances by means of auctions – the European Energy Exchange - EEX established in Leipzig, which arranges community auctions (for 24 EU Member States and Poland) and German auctions, whereas the ICE/ECX established in London conducts auctions for Great Britain.

The Ministry of Environment has informed that in the 1st quarter of 2017 the tender for conducting auctions of emission allowances at the national platform will be announced. It is estimated that in the years 2017-2020 Poland will have approximately 314 million CO₂ emission allowances for sale. With this reservation, the distribution of sales of the indicated pool of CO₂ emission allowances for individual years is as follows: in 2017 - 71 million allowances, in 2018 - 78 million allowances, in 2019 - 67 million allowances and in 2020 - 98 million allowances.

Act on Renewable Energy Sources (RES)

On 1 July 2016 the amendment to the *Act on Renewable Energy Sources (RES)* entered into force. The objective of the amendment was to eliminate interpretation doubts concerning the provisions of the Act of 20 February 2015 on renewable energy sources which have not yet entered into force.

In particular, the amendment was to streamline the situation of generators of electricity from RES and rules of granting public aid to such generators. Accordingly, the definition of prosumer was introduced into the Act - the end consumer purchasing electricity under a comprehensive agreement, generating electricity only from RES in a micro installation in order to use it for own needs not associated with the conducted economic activity.

The regulation covered a wide range of entities, including small and medium-sized entrepreneurs. The existing support system based on feed-in tariffs for the smallest generators in micro installations was abandoned in favour of clearing of electricity surplus generated by a given micro installation, so-called discounts by a prosumer.

In accordance with the amendment to the Act, a new support system for electricity generators in RES was introduced, the so-called auction system. New installations, established after the entry into force of the amendment, may receive support only by means of submission of the relevant electricity sales bid at an auction arranged by the ERO President. In case of winning the auction, the generator shall have a guaranteed support at a level of energy price offered throughout the period of support defined in the relevant regulation. RES installations operating prior to the entry into force of the amendment may either remain in the existing support system and receive certificates of origin or transfer to the auction system.

On 30 December 2016 the first RES auction was carried out. The auction sequence, eligible auction baskets and maximum volumes and the value of energy purchased, were defined in the relevant regulations. The regulation was also issued concerning the calculation of the value of public aid for generators of electricity from RES, defining the method of calculating the public aid received, required to be presented in the processes of submission of the energy sales bid in the auction.

Act on investment in the scope of wind farms

The *Act on investment in the scope of wind farms* adopted on 20 May 2016 defines a permissible distance between residential buildings and location and construction of wind farms. In accordance with its provisions, the minimum distance of a wind farm from a residential building or a building with a residential function, as well as from natural protection forms and promotional forest complexes, should be equal to or higher than ten-fold total height of a wind turbine. In case of power plants existing before the day of entry into force of the aforementioned Act which do not fulfil the condition of the minimum distance, it will be only possible to perform overhauls and activities required for the due utilisation of a power plant, excluding a possibility to increase useful parameters of a power plant or increase its environmental impact. Deployment of new wind farms will be possible only on the basis of the local spatial development plan. Consequently, investment in new wind farms will be much more difficult due to the necessity to search for appropriate location meeting the distance criterion and included in the land use plan. In addition, due to the change of the definition of a wind farm and

recognising the whole facility as a construction facility, the principles related to the assessment of a real estate tax will change and, consequently, the resulting costs will increase.

New Draft Act on Energy Efficiency

As of 1 October 2016 the *Act on energy efficiency* entered into force, replacing the Act of 15 April 2011, extended by half a year. The new Act implements the provisions of *Directive 2012/27/EU of 25 October 2012 on energy efficiency*. The provisions of the Act envisage measures in areas of increasing energy savings by end users and increasing energy savings in the scope of energy generation, transmission and distribution. The market mechanism leading to accomplishment of the objectives of the Act will be a system of energy efficiency certificates ("white" certificates) submitted for redemption by energy undertakings as a fulfilment of the obligation to implement projects aimed at energy efficiency improvement.

The Act waives the obligation to conduct a tender as a result of which the ERO President selected projects aimed at energy efficiency improvement, for which energy efficiency certificates could be obtained. It increases the flexibility in acquisition of efficiency investment. In addition, enterprises will have a possibility to clear the obligation within 3 years.

The new regulations also stipulate gradual waiver of a possibility to pay the substitution fee for the failure to fulfil the obligation. Undertakings using at least 100 GWh per year will have a possibility to use an alternative mechanism of energy efficiency improvement.

The Act introduces a new obligation to conduct an energy audit every four years for an energy undertaking defined in the Act on freedom of establishment, excluding micro, small and medium-sized entrepreneurs. The circle of entities subject to this obligation is very broad, since it includes large entrepreneurs, irrespective of the industry and electricity, heat or natural gas consumption. The audit should take into account at least 90% of the energy consumed. An obliged undertaking must perform the first audit within a period of 12 months as of the entry into force of the Act.

The Act defines the principles of development of the national action plan related to energy efficiency improvement by the Minister of Energy every three years.

Operating Power Reserve (ORM)

In 2016 the ORM did not change in the functional area. However, the parameters of the model have significantly changed, which is associated with the change of the base for model calculation. The hourly budget of the ORM was increased from PLN 106.2 thousand to PLN 128.8 thousand and the hourly reference price - CRRM, from PLN 37.28/MWh to PLN 41.20/MWh. The hourly quantity of required operating capacity reserve increased from 3,451.09 MW/h to 4,155.37 MW/h. Changes in the aforementioned parameters did not significantly affect electricity prices in the current market. The average CRR price in 2016 increased by PLN 1.70/MWh, i.e. to PLN 32.76/MWh.

Draft Act on the Capacity Market

Considering low electricity prices affecting the lack of binding investment decisions which may generate future problems related to the provision of security of energy supply to the KSE, in 2016 works related to the mechanism ensuring maintaining of the generation capacity at an adequate level in a medium- and long-term perspective were carried out in Poland. At the beginning of July the Ministry of Energy, jointly with PSE, presented the proposal of functional solutions of the dual commodity market introducing, besides payment for energy, payments for preparedness to provide the service of capacity supply or reduction.

Following the consultations with the industry, on 30 November 2016 the draft *Act on the capacity market* was published, assuming creation of the capacity market centralised within the KSE, with auctions for capacity supply or reduction in annual and quarterly periods. Further works on the draft will proceed in the current year and as early as at the end of this year the first auction contracting the capacity shall be held, whereas the mechanism itself will be launched in 2021.

The objective of the capacity market is to ensure the security of electricity supplies to end consumers in a medium and long-term perspective. The mechanism shall constitute the incentive to construct new and modernise existing generation capacity, instead of its decommissioning, simultaneously creating conditions for the development of the demand reduction services - DSR. Costs of the capacity market shall be incurred by consumers within the component of the transmission tariff referred to as the capacity fee.

Draft European Regulations under so-called "Winter package"

On 30 November 2016 the EC published a set of proposals (EU Strategy on Heating and Cooling) related to draft directives and regulations intended to improve the transformation of the EU energy policy towards the model focusing on customer and clean energy. The overall proposal was defined as the "Winter package" and it has been the biggest single amendment to the EU energy regulations since 2011 when the Third energy package entered into force.

The main assumptions of the current package include further integration and development of RES sources, strengthening of competitiveness and client's role as well as increasing the harmonisation and integration of wholesale

energy markets in the EU. In addition, the Commission relies on the growth of energy efficiency, security of supplies and harmonisation of energy union management rules.

From the point of view of Poland, the most important provisions refer to strengthening of the role of the Agency for the Cooperation of Energy Regulators - ACER, establishment of regional operating centres for transmission grid operators - ROC, establishment of the Agency Associating Distribution Grid Operators - EU-DSO and introduction of a number of constraints for Member States intending to introduce the capacity market. According to the new rules, in order for a country to be able to introduce the capacity market mechanism, it has to agree on its principles with its neighbouring countries, demonstrate that the interconnectors are incapable to set off the potential capacity deficit and open the mechanism introduced for suppliers from areas of other Operators. In addition, the draft contains a provision which has not been consulted earlier, stating that sources emitting more than 550 gCO₂/kWh, will not be permitted to take part in capacity markets, which in practice undermines Polish plans of revitalising power plants producing energy based on domestic coal deposits. The battle for amendments to the unfavourable provisions of the regulation is already ongoing at the forum of trade associations, and the waiver of the carbonisation criterion will certainly be one of the priorities for the Polish energy sector.

Amendment to the Act on natural gas reserves

On 2 September 2016 the amendment to the *Act of 22 July 2016 on the amendment to the Act on Energy Law and certain other acts* of law, entered into force. According to the assumptions of the legislator this act should contribute to liquidation of the shadow fuel market, strengthen market competition and improve the state energy security. In particular, the amendments introduced under the Act refer to the market of natural gas and liquid fuel.

The amended Act introduced the following changes:

- 1) The entity importing natural gas is obliged, by 1 October 2017, to maintain required natural gas reserves. Under the current legal status, the requirement to maintain mandatory reserves of natural gas refers to energy undertakings carrying out economic activity related to import of natural gas from abroad for the purpose of its further resale to consumers. In accordance with the amendment to the Act, the requirement to maintain mandatory reserves of natural gas shall refer to energy undertakings carrying out economic activity in the scope of foreign natural gas trade as well as to any other entities importing natural gas.
- 2) Entities which did not maintain gas reserves will determine the size of required reserves based on the level of corresponding to at least 30-day average daily gas import in the period from 1 January 2017 to 30 September 2017. The currently applicable provisions of the Act on reserves grant the exemption from the obligation to maintain natural gas reserves to energy undertakings with the number of consumers not exceeding 100 thousand, whose natural gas import does not exceed 100 million m³ during a calendar year. This exemption used to be granted by the Minister of Energy pursuant to an administrative decision. In accordance with the provisions of the amended Act, the obligation to maintain natural gas reserves will be unconditional and a possibility to obtain the exemption will be waived. Exemptions from the obligation to maintain natural gas reserves granted earlier will apply until 30 September 2017.
- 3) Entities carrying out economic activity in the scope of foreign natural gas trade and entities importing natural gas may outsource, having obtained the approval of the ERO President, performing of tasks in the scope of maintaining the required natural gas reserves to other entity carrying out economic activity in the scope of foreign natural gas trade or entity importing natural gas - this service is known as so-called "ticket service".

2.2. 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 Consumers Protection (UOKiK), ERO and 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) planned introduction of the mechanism for generation capacity compensation (so-called capacity market) and decisions concerning the future shape of ORM and intervention cold reserve,

- 5) situation in the electricity sector, including the activity and measures undertaken by competition in the energy market,
- 6) the support system of electric energy generation in high performance co-generation ("red" and "yellow" certificates),
- 7) a new system of RES support, so-called RES auctions,
- 8) geological and mining conditions of extraction,
- 9) number of CO2 emission allowances allocated free of charge after 2013, and prices of the allowances acquired,
- 10) prices of electric energy and fuel,
- 11) environmental protection requirements,
- 12) research and technical progress,
- 13) demand for electricity and other products of the energy market, considering the changes arising from seasonality and weather conditions.

2.3. What can be expected in 2017

Forecasts of the macroeconomic situation of Poland for 2017 allow for anticipation of a moderate economic recovery, with the GDP growth in the range of 2.7%-3.6%¹ and the unemployment rate at a level of 8%², against estimated values for 2016 amounting to 2.3%-2.8%³ and 8.9%, respectively.

According to the forecasts, the economic situation in 2017 will be driven by domestic demand, development of entrepreneurship and innovation as well as the inflow of the EU funds from the 2014-2020 perspective, providing hopes of stimulating the investment, in particular, in the 3rd and 4th quarter of 2017.

The above mentioned conditions allow for assumption that the growth rate of KZEE in 2017 will be at least maintained. According to the TSO operating data, KZEE for 11 months of 2016 increased by 1.59% as compared to the corresponding period of 2015.

In connection with the implementation of the Efficiency Improvement Programme, in 2017 TAURON Capital Group plans to reach savings at a level of PLN 432 million (including PLN 338 million to affect the level of EBITDA, and PLN 94 million to refer to CAPEX savings). In addition, due to the implementation of strategic initiatives, TAURON Capital Group plans to reach additional financial effects at a level of PLN 273 million (including PLN 155 million to affect the level of EBITDA, and PLN 118 million to refer to limitation of CAPEX savings).

2.4. Basic products, goods and services

The table below shows the statement of comprehensive income for the financial year 2016, divided into basic segments of activities, as compared to 2015.

Table no 5. Statement of comprehensive income for the financial year 2015, divided into segments of Company activities

Specification (PLN thous.)	Financial year ended 31 December 2016				Financial year ended 31 December 2015 (data converted)			
	Total activities	Sales	Holding activities	Unallocated items	Total activities	Sales	Holding activities	Unallocated items
Revenues								
Revenue on sales outside the Group	1,669,734	1,669,734	-	-	2,069,889	2,069,889	-	-
Revenue on sales in the Group	6,325,594	6,325,594	-	-	6,992,357	6,992,357	-	-
Total revenue of the segment	7,995,328	7,995,328	-	-	9,062,246	9,062,246	-	-
Profit /(loss) of the	79,265	79,265	-	-	(28,026)	(28,026)	-	-

¹ The forecast of the World Bank of 11 January 2017 estimates the GDP growth of Poland for 2017 at a level of 2.7%, the forecast of Standard & Poor's of 10 January 2017 indicates the level of 3.3%, the assumptions to the draft Budget Act for 2017 - 3.6%.

² According to the assumptions of the draft Budget Act for 2017:

³ The forecast of the World Bank of 11 January 2017 and the forecast of Standard & Poor's if 10 January 2017.

Specification (PLN thous.)	Financial year ended 31 December 2016				Financial year ended 31 December 2015 (data converted)			
	Total activities	Sales	Holding activities	Unallocated items	Total activities	Sales	Holding activities	Unallocated items
segment								
Unallocated costs	(113,868)		-	(113,868)	(96,341)	-	-	(96,341)
EBIT	(34,603)	79,265	-	(113,868)	(124,367)	(28,026)	-	(96,341)
Net financial revenues (costs)	(114,531)	-	(101,050)	(13,481)	(3,326,427)	-	(3,348,322)	21,895
Profit/ (loss) before tax	(149,134)	79,265	(101,050)	(127,349)	(3,450,794)	(28,026)	(3,348,322)	(74,446)
Income tax	(17,119)	-	-	(17,119)	(3,114)	-	-	(3,114)
Net profit / (loss)	(166,253)	79,265	(101,050)	(144,468)	(3,453,908)	(28,026)	(3,348,322)	(77,560)
EBITDA	(27,078)	86,790	-	(113,868)	(115,856)	(19,515)	-	(96,341)

Activities of the Company are recognised in two segments: "Sales" and "Holding activity".

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 Business Area.

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 TAURON Capital Group companies and it currently carries out operations, among others, in the following areas:

- 1) wholesale trading in electricity and related products, in particular, in the scope of commercial service provided to companies, securing the needs in the area of fuels, CO₂ emission allowances and certificates of energy origin,
- 2) procurement management,
- 3) financial management,
- 4) enterprise risk management,
- 5) management of IT model functioning,
- 6) coordinating research and development activities executed 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 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 trading in wholesale electric energy on the territory of the Republic of Poland, based on the concession on trading in electricity issued by the ERO President for the period from 1 June 2008 until 31 May 2018.

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 electric energy performed by the Company in the financial year 2016 was mainly addressed to the following companies: TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż) and TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE)

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

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

In addition, TAURON also acts as the Market Operator and the entity responsible for trade balancing for companies of TAURON Capital Group and for external customers. 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 plays a governing function in the scope of production fuel procurement management for the needs of the generating entities included in TAURON Capital Group.

In 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. Gasoil products demonstrate high liquidity and prices of contracts refer to prices for all trade distillates in Europe and outside.

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.

TAURON uses trading in derivative products as a commercial tool in order to accomplish additional margin mass.

2.5. Sales markets and sources of supply

2.5.1. Sales markets

Wholesale trade

TAURON conducts wholesale electric energy 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 electric energy, natural gas, CO₂ 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 also 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 1 February 2016 TAURON concluded the agreement with TGE for fulfilment of a market maker function in the scope of instruments for electricity at the RTT. 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 transaction market share, 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 EEX exchange. On the other hand, in the Czech and Slovakian markets trade is performed through the subsidiary - TAURON Czech Energy s.r.o. Moreover, the Company operates on exchanges of KOTE a.s. (Czech Republic) and OKTE a.s. (Slovakia).

TAURON has been successively building its competence in the scope of gas fuel wholesale trade. 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. In February 2016 the company extended its activity on the POWERNEXT gas exchange by new hubs: New

Connect Germany (NCG) and Tittle Transfer Facility (TTF). Besides prop trading, entering new NCG hubs (German market) will also enable physical gas deliveries to the Czech Republic and to Poland via the Czech Republic. On the other hand, entering TTF hub (Dutch market) provides access to the most liquid market on the continent, which will enable prop trading activity and increasing of gas trading volumes. The access to new hubs is a competence of the activity aimed increasing of TAURON gas competence and access to new sources. The volume of OTC transactions concluded by the Company is also 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 protrading 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.

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 s.r.o. company, gas trading in the Czech and Slovak market is 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 electric energy 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 CO₂ emission allowances for the companies of the TAURON Capital Group and the external customers. The management of CO₂ emission allowances is based on defining the demand for CO₂ 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 CO₂ emission settlements of individual facilities through the redemption of allowances in the 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 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 CO₂ emission. While implementing the above goals in the area of CO₂ 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.

2.5.2. Supply sources - fuel

With the purpose of implementing the tasks in the scope of fuel trading (coal and gas), in 2016 the Company continued fuel supplies for TAURON Wytwarzanie and TAURON Ciepło sp. z o.o. (TAURON Ciepło).

In 2016, about 59.5% 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 Polska Grupa Górnicza sp. z o.o. had the highest share (about 30% of the demand).

Fuel purchases - coal

In 2016 the Company continued coal purchases for the needs of: TAURON Wytwarzanie, TAURON Ciepło i TAMEH POLSKA, under agreements concluded with:

1. TAURON Wydobycie,
2. Nowe Brzeszcze GT,
3. Polska Grupa Górnicza sp. z o.o. (former Kompania Węglowa S.A.),
4. Jastrzębska Spółka Węglowa S.A.,
5. Katowicki Holding Węglowy S.A.,

6. Spółka Restrukturyzacji Kopalń S.A.

The table below presents the quantity of coal purchased in 2016.

Table no 6. Quantity of coal purchased in 2016

No.	Type of Supplier	unit	Coal quantity	Share (%)
1.	Suppliers outside TAURON Capital Group	Mg	3,402,216	43.2%
2.	Supplier from TAURON Capital Group	Mg	4,476,918	56.8%
Total		Mg	7,879,134	100.0%

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 for gas fuel supply and the agreement with PGNiG. In addition, some part of gas came from purchases on TGE. The said gas was purchased by TAURON from ArcelorMittal Poland S.A. Oddział in Zdzeszowice, under the multi-annual agreement for the supplies of the 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. (PSG) Oddział w Zabrze, Zakład w Opolu.

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 Oddział Elektrownia Blachownia 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 Polska S.A.

The table below presents the level of fuel supplies delivered by TAURON in 2016 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 Heat	TAURON Sprzedaż	TAMEH POLSKA
1.	Coal	PLN Mg	6,480	814		234
2.	Coke-oven gas	thous. m ³	366,539			
3.	Natural gas	thous. m ³	1,356	682	1,003	

2.6. Timeline

The figure below shows the timeline presenting selected events associated with the operations of TAURON which took place in 2016.

Figure no. 25 Timeline

EVENTS IN TAURON IN 2016

JANUARY - FEBRUARY

- Changes in the composition of the TAURON Management Board.
- Commencement of effectiveness of the updated Sustainability Strategy
- TAURON's declaration concerning the application of Best Practice of GPW Listed Companies 2016.
- Launching the programme covering the reorganisation of service area in TAURON Capital Group.
- Issue of 22,500 shares with the total value of PLN 2 500 000 000

MARCH - APRIL

- Publication of TAURON and TAURON Capital Group financial results for 2015.
- Adoption of the efficiency improvement programme in TAURON Group for 2016-2018.
- Holding Bondholders' Meeting for issued bonds series TPEA1119.
- Concluding agreements with TGE concerning reporting of transaction data.
- Adoption of a new Business Model of TAURON Group
- Concluding the agreement by TAURON, PGE, Enea, Energa, PSE and Association of Private Employers of the Energy Sector concerning the rules of participation in the Tripartite Team for the Energy Sector.

MAY - JUNE

- Publication of TAURON and TAURON Capital Group financial results for 2016 Q1.
- Launching the programme comprising reorganisation of CUW in TAURON Obsługa Klienta.
- Launching the programme covering building of Customer-oriented organisation in TAURON Capital Group.
- Concluding a Letter of Intent by TAURON, the National Centre for Nuclear, Warsaw University of Technology, ENEA, ENERGA, PGE aimed at commencement of the cooperation oriented to conducting studies and analyses in the scope of development, promotion and dissemination of electromobility in Poland.
- Launching the TAURON PRO Programme.
- Holding the Ordinary GM of TAURON
- Adopting the amendments to TAURON Articles of Association aimed at implementation of Best Practice of GPW Listed Companies 2016.
- Changes in the composition of the TAURON Supervisory Board.
- Launching the project aimed at centralisation of HR common services in TAURON Capital Group.

JULY - AUGUST

- Publication of TAURON and TAURON Capital Group financial results for the first half of 2016.
- Concluding the Agreement concerning suspending the implementation of the project to build CCGT unit in Elektrownia Blachownia Nowa by TAURON with KGHM and TAURON Wytwarzanie.
- Acquisition of TAURON Wytwarzanie Serwis shares by TAURON from TAURON Wytwarzanie.
- Establishment of the Polish National Foundation foundation, jointly with other founders .
- Commencement of TAURON activity in the scope of natural gas trade on the ICE exchange.

SEPTEMBER - OCTOBER

- Adoption of the TAURON Group's 2016-2025 Strategy.
- Adoption of the dividend policy for 2016-2025
- Withdrawal from execution of project concerning the construction of the CCGT unit at Elektrownia Łagisza.
- Concluding the agreement by TAURON with Fitch Polska S.A. concerning determining of the rating for the issue of subordinated bonds.
- Establishment of the ElectroMobility Poland company jointly with PGE, ENEA and ENERGA.
- Concluding the investment agreement by TAURON, ENEA, ENERGA, PGE and ElectroMobility Poland regulating the rules of cooperation in order to implement a joint project.
- Granting the main award for *The Best Annual Report* to TAURON, for the third time, for the best annual report for 2015.
- Concluding the agreement concerning the conditions for further execution of the project on the "Construction of a CCGT Unit at Stalowa Wola"

NOVEMBER - DECEMBER

- Publication of TAURON and TAURON Capital Group financial results for 2016 Q3.
- Changes in the composition of the TAURON Management Board.
- Confirmation of the long-term foreign and local currency ratings of TAURON at "BBB" level, and the change of the outlook from negative to stable by the Fitch rating agency.
- Holding the Extraordinary GM of TAURON.
- Concluding the programme agreement by TAURON with the European Investment Bank (EIB) concerning the hybrid financing, with the value of EUR 190 million in the form of bonds.
- Establishment of the company Magenta Grupa TAURON.
- Changes in the composition of the TAURON Supervisory Board

2.7. Important events and achievements of TAURON Capital Group significantly affecting its operations

The most important events significantly affecting the operations of TAURON Capital Group, which occurred in 2016, as well as until the day of drawing up this report are as follows:

Important corporate events in 2016

Changes in the personal composition of the Management Board

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.

On 14 November 2016, the Supervisory Board dismissed Remigiusz Nowakowski - the President of the Management Board from the Management Board.

As of 15 November 2016, the Supervisory Board appointed Filip Grzegorzczak as the President of the Management Board.

The Company informed of the changes in the personal composition of the Management Board in current reports: no. 2/2016 of 8 January 2016, no. 5/2016 of 29 January 2016 and no. 39/2016 of 14 November 2016.

Changes in the personal composition of the Supervisory Board.

On 6 June 2016 the Supervisory Board Members, Maciej Koński and Renata Wiernik-Gizicka submitted their resignations from the function of Member of TAURON Polska Energia S.A. Supervisory Board.

On 8 June 2016 the Ordinary GM of the Company, acting pursuant to § 22 (1) of the Company Articles of Association, adopted the resolution on the appointment of Jacek Rawecki and Stefan Świątkowski to the Company Supervisory Board of fourth joint term of office.

On 14 November 2016 a Member of the Supervisory Board, Wojciech Myślecki submitted his resignation from the function of Member of TAURON Polska Energia S.A. Supervisory Board.

On 16 December 2016 the Minister of Energy, acting pursuant to § 23(1)(3) of the Company Articles of Association appointed Agnieszka Woźniak as a member of the Supervisory Board of TAURON Polska Energia S.A.

On 30 December 2016 the Minister of Energy, acting pursuant to § 23(1)(3) of the Company Articles of Association:

- dismissed Michał Czarnik and Anna Biesialska from the Supervisory Board of TAURON Polska Energia S.A.,
- appointed Jana Płudowski and Stanisław Bortkiewicz to the Supervisory Board of TAURON Polska Energia S.A.

The Company informed of the aforementioned events in current reports no. 23/2016 of 6 June 2016, no. 28/2016 of 8 June 2016, no. 40/2016 of 14 November 2016, no. 47/2016 of 16 December 2016 and no. 50/2016 of 30 December 2016.

Management Board's recommendation on dividend payout from the reserve capital

On 10 March 2016 the Management Board of the Company adopted the resolution to recommend to the Ordinary GM the allocation of the Company reserve capital in the part covering sums carried forward from previous years' profits to pay the amount of PLN 175,254,939.40 as a dividend to the Company shareholders, which means that the dividend per share will amount to PLN 0.10. The Management Board decided to submit the recommendation to the Company Ordinary GM determining:

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

The recommendation of the Management Board concerning the level of the dividend to be paid to Company shareholders shows the intention to continue the existing practice of dividend payment by the Company and takes into account in particular the financial result for 2015 as well as the level of reserve capital established from profits for previous years, the investment programme of TAURON Capital Group under implementation and the covenants defined in financing agreements. The proposed level of the dividend would allow the Company to maintain the debt ratio at a safe level.

On 17 March 2016 the Supervisory Board of the Company approved the aforementioned recommendation of the Management Board concerning the dividend.

The Ordinary GM of the Company convened on 8 June 2016 did not adopt the resolution concerning the use of the Company reserve capital by allocation of its part for payment of the dividend to shareholders of the Company.

The Company informed of the aforementioned events in current reports: no. 14/2016 of 10 March 2016, no. 15/2016 of 17 March 2016 and no. 24/2016 of 8 June 2016.

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

On 30 March 2016, KGHM - a shareholder representing 10.39% of the Company share capital, submitted a request to convene the GM of the Company and to include adoption of a resolution to change the composition of the Company Supervisory Board on the agenda. In the rationale KGHM stressed that convening the GM would enable KGHM, as the Company shareholder, to present a motion to introduce a change in the composition of the Company Supervisory Board. At the same time, the Company Management Board informed that the General Meeting would be convened in line with applicable legal regulations and relevant information about convening the meeting and its agenda would be announced in a separate report and published on the Company website.

The Company informed of the Shareholder's request in the current report no. 17/2016 of 30 March 2016.

Decisions of the Ordinary General Meeting of TAURON

On 8 June 2016 the Ordinary GM of the Company was held, which adopted resolutions concerning, inter alia: the approval of the Consolidated financial statements of TAURON Capital Group and the Report of the Management Board on the operations of TAURON Capital Group for the financial year 2015, Financial statements of TAURON and the Report of the Management Board on the operations of the Company for the financial year 2015, covering of net loss for the financial year 2015 from the reserve capital, acknowledgement of the fulfilment of duties by members of the Company Management Board and Supervisory Board, amendments to the Company Articles of Association, amendment to the By-laws of the General Meeting of the Company, determining the number of members of the Company Supervisory Board, appointment of members of the Supervisory Board.

It was decided to cover the net loss of the Company for the financial year 2015 in the amount of PLN 3,453,908,315.26 (say: three billion four hundred fifty three million nine hundred eight thousand three hundred fifteen and 26/100) from the Company reserve capital.

The Company informed of convening of the GM and on the provisions of draft resolutions in current reports no. 19/2016 and no. 20/2016 of 12 April 2016. The Company informed of decisions of the GM concerning: covering of net loss, adopted resolutions, specification of shareholders holding at least 5% of votes at the GM, amendments to the Company Articles of Association and appointment of Supervisory Board members, in current reports: no. 24/2016, no. 25/2016, no. 26/2016, no. 27/2016 and no. 28/2016 of 8 June 2016.

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

On 12 April 2016 the Management Board of the Company publicly informed of its intention to amend the Company Articles of Association, thus in the agenda of the Ordinary General Meeting of the Company including of an item concerning amendments to the Articles of Association of TAURON Polska Energia S.A. has been planned. The draft resolution including rationale containing the proposed amendments to the Company Articles of Association was published in the current report concerning convening of the Ordinary GM. It should be mentioned that on 8 March 2016 the Supervisory Board of the Company issued positive opinion concerning the motion of the Management Board to the GM concerning the amendment to the Company Articles of Association.

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

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

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

Introduction of the amendments to the Company Articles of Association was aimed at implementing the recommendations and detailed rules contained in "Best Practice of GPW Listed Companies 2016" to be applied in the Company, which will facilitate maintaining good relations with investors and provide an effective tool supporting the

respect of shareholders' rights. Moreover, the said implementation will have a positive impact on development of TAURON relations with its market environment.

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

The Company informed of the aforementioned events in the current reports no. 18/2016 of 12 April 2016, no. 27/2016 of 08 June 2016, no. 29/2016 of 01 July 2016 and 31/2016 of 26 July 2016.

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

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

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

In the rationale it was indicated that the principles for determining remuneration of members of management boards in companies where the State Treasury is a shareholder are regulated by the provisions of the *Act of 9 June 2016 concerning the principles for determining the remuneration of individuals managing selected companies*. The Minister of Energy, exercising the duty defined in Article 2(1) and Article 2(2)(1) of the above mentioned act requests the Company GM to adopt resolutions concerning the principles for determining remuneration for members of the managing body and the supervisory body.

The Company informed of the Shareholder's request in the current report no. 38/2016 of 4 November 2016.

Extraordinary General Meeting of TAURON Polska Energia S.A.

On 18 November 2016, the Management Board of TAURON, acting pursuant to Article 398, Article 399 § 1 and Article 402¹ of the KSH and § 30(1) of the Company Articles of Association, convened the Extraordinary GM of the Company for 15 December 2016. and published the draft resolutions received from the Minister of Energy.

On 15 December 2016 the Management Board of the Company provided the text of resolutions adopted on that day by the Extraordinary GM of the Company, including the results of voting. At the same time, the Company informed that the GM did not withdraw from discussing any of the items on the agenda and no objections were raised to the report of the GM by any of the shareholders.

Information concerning the aforementioned events was included in current reports: no. 43/2016 and 44/2016 of 18 November 2016 and no. 46/2016 of 15 December 2016.

Important business events in 2016

Settlement of the 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 to 31 December 2015 and its estimated net value determined as at the day of concluding of the agreement amounted to PLN 2.4 billion net.

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

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

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

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.

Detailed information was published in the current report no. 12/2016 of 3 March 2016.

On 22 March 2016 the Management Board informed that in execution of the proposal presented to the Bondholders at that meeting, until 21 March 2016 agreements were signed with Bondholders representing 6,937 Bonds of TPEA1119 series which constitute 39.64% of the total nominal value of all TPEA1119 series Bonds and entitles to exercising of 39.64% of votes resulting from all Bonds.

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

According to the by-laws of the Bondholders' meeting constituting an annex to Terms and Conditions of TPEA1119 Bonds Issue, to adopt resolution of the Bondholders' meeting, presence of Bondholders representing at least 50% of votes is required. Resolutions are passed with 66 and 2/3 percent of votes of Bondholders present at the meeting. TPEA1119 series bonds were issued on 4 November 2014 in the amount of 17,500 pieces, as bearer, uncollateralized, coupon bonds with floating interest rate and nominal value of PLN 100,000 each. The Bonds are dematerialized at the securities depository run by KDPW S.A., assigned ISIN code: PLTAURN00037 and traded in the Alternative Trading System on the Catalyst market organised by BondSpot S.A. The maturity date of the Bonds shall fall on 4 November 2019.

Detailed information was included in the current report no. 16/2016 of 22 March 2016.

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

On 15 February 2016, following the completion of main works related to impairment tests on assets, in line with the requirements of the International Accounting Standard 36, the Management Board of TAURON 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, CO₂ emission limits for electricity generation, tariff revenue of heat companies and maintenance of generation capacity of existing fixed assets as a result of executing capacity replacement investments.

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

To partially set off the impact of unfavourable market conditions and improve the situation of the TAURON Capital Group over a longer-term perspective, the Company Management Board has launched works on the update of *Corporate Strategy of TAURON Group for 2014-2017 with an outlook until 2023*. Within that process a review of the investment portfolio has been initiated to verify investment projects. The Company also finalised works on the new Effectiveness Improvement Programme for 2016-2018 which should generate further savings. In addition, achievement of synergies inside the Group was planned through simplification of the management model. The Company indicated that market

trends were dominating in terms of development of long-term perspective for planning electricity generation profitability, which could have led to the necessity to apply further write-offs if the unfavourable trends persisted.

In relation to the 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 goodwill in the Generation segment, charging prime costs, amounts to PLN 3,564 million and their impact on net result amounts to PLN 2,916 million. The 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 those write-downs on the net result in the separate statement 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 were presented in financial statements of TAURON and TAURON Capital Group for 2015, 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 Dystybcuja 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 purchased, with the intention to redeem, 22,500 bonds ("Bought Back Bonds") out of 30,000 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 pcs of Tranche C Bonds which, according to the terms and conditions of the bond issue, were redeemed on 12 December 2016.

The Bonds bought back on 29 February 2016 were acquired 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. (Spółka Akcyjna) Oddział w Polsce, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, ING Bank Śląski S.A., mBank S.A. (mBank) and PKO BP S.A. (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 informed that as of 31 December 2015 the value of its liabilities amounted to PLN 9.7 billion. At the same time due to, inter alia, execution of its investment programme, the Issuer anticipated that the debt level may increase during the period until the maturity date of the Bonds.

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

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

On 9 March 2016 the Management Board adopted the *Efficiency Improvement Programme in TAURON Group for the years 2016-2018*.

The Programme was drafted with account being taken of current market conditions and the need to keep financial standing of the Company stable. Proposals of initiatives were developed whose implementation will bring efficiency improvement at a level of approximately PLN 1.3 billion in the years 2016-2018 (cumulative effect of the Programme over three years). Execution of the Programme will allow increasing of EBITDA of TAURON Capital Group by approximately PLN 400 million in 2018 (sustainable, recurring effect at this level in subsequent years). TAURON Capital Group expects to improve its operational efficiency in most areas – the largest share falling in Distribution and Generation Areas.

Information concerning the Efficiency Improvement Programme is presented in item 1.4.5. hereof.

The Company informed of the adoption of the Programme in the current report no. 13/2016 of 9 March 2016.

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

On 26 July 2016, following the completion of main works related to impairment tests on assets, in line with the requirements of the International Accounting Standard 36, Impairment of Assets, 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 the carrying amount of generation units in the Generation Segment. The Generation Segment comprises companies generating electricity and heat from conventional and renewable sources.

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

In reference to consolidated financial statements of TAURON Capital Group for the 1st half of 2016 ended on 30 June 2016 the conducted tests indicated that it was necessary to write-off the impairment of tangible and intangible assets and company value as well as to reverse the write-off made previously in the Generation Segment. Total net amount of write-offs (i.e. the excess of write-offs over reversals) amounts to approx. PLN 0.7 billion. This amount includes impairment write-offs related to wind farms at a level of approx. PLN 0.5 billion and impairment write-offs related to generation assets in the area of electricity and heat generation at a level of approx. PLN 0.2 billion net. The total estimated impact on reduction of the financial net result will amount to is approx. PLN 0.6 billion. The value of the abovementioned write-offs will have no impact on EBITDA understood by the Group as EBIT increased by amortisation, depreciation and write-offs for non-financial assets.

In reference to separate financial statements of TAURON for the 1st half of 2016 ended on 30 June 2016 the conducted tests indicated that it was necessary to recognise the write-offs due to impairment of shares in TAURON Wytwarzanie

and TAURON Ekoenergia sp. z o. o. (TAURON EKOENERGIA) as well as the reversal of the write-off previously made for the company TAURON Ciepło in the total net amount of approx. PLN 1.0 billion. Expected estimated impact of the above write-offs on the net result presented in separate financial statements is approx. PLN 1.0 billion.

The Company reserves that the values presented above represent estimated values and may be subject to change. The final results of tests and the level of impairment write-offs due to the loss of the carrying amount of assets were presented in the financial statements of TAURON and TAURON Capital Group for the 1st half of 2016, published on 17 August 2016.

Detailed information concerning the aforementioned issue is included in the current report No. 30/2016 of 26 July 2016.

Estimated consolidated financial figures for the first half of 2016

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

Detailed information concerning the aforementioned financial data is included in the current report No. 33/2016 of 29 July 2016.

Adoption of the TAURON Group's 2016-2025 Strategy.

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

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

The description of the *TAURON Group's 2016-2025 Strategy* is included in subsection 1.4 hereof.

Detailed information concerning the aforementioned event was published in the current report no. 34/2016 of 2 September 2016.

Adoption of the dividend policy for 2016-2025

On 2 September 2016 the Management Board of the Company informed that as part of the Strategy adopted by the Company, the Company adopted the 2016-2025 dividend policy.

Detailed information concerning the 2016-2025 dividend policy is included in subsection 5.2 hereof.

Information of the aforementioned event was published in the current report no. 35/2016 of 2 September 2016.

Publication of estimated financial results of TAURON Polska Energia Group for Q3 2016.

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

The publication of the interim report for the 3rd quarter 2016 took place on 9 November 2016.

Detailed information on estimated financial results was published in the current report no. 37/2016 of 28 October 2016.

Confirmation of ratings and revision of the outlook for TAURON from negative to stable

On 14 November 2016 Fitch rating agency affirmed the long-term foreign and local currency ratings at "BBB" and revised the outlook from negative to stable. According to Fitch the outlook revision reflects measures undertaken by the Company to improve its financial profile over the next five years, including a reduction of long-term planned capex and management's plan of no dividends until 2019. The stable outlook also reflects the reduced risk of covenant breach and improved medium-term liquidity of the Company as compared to 4Q 2015 when the outlook was revised to negative. The full list of ratings includes:

- long-term foreign and local currency rating at "BBB"; outlook revised from negative to stable,
- short-term foreign and local currency IDRs affirmed at "F3",

- national long-term rating affirmed at "A+(pol)"; outlook revised to stable from negative,
- national senior unsecured rating affirmed at "A(pol)"

Information on the aforementioned event was published in the current report no. 41/2016 of 14 November 2016.

Other important events in 2016

Appointment of certified auditor

On 10 May 2016, the Supervisory Board of the Company, acting pursuant to § 20 section 1 item 6) of the Articles of Association appointed Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw as the entity authorised to examine separate and consolidated financial statements of the Company for the year 2016.

Subsequently, on 19 May 2016 the Supervisory Board of the Company appointed the same company as the entity authorised to review separate and consolidated semi-annual financial statements and consolidated financial statements of the Company for the period ending on 30 June 2016.

To date, services provided by Deloitte for the Company included examination of separate and consolidated financial statements for the years: 2007, 2013, 2014 and 2015 as well as review of separate and consolidated semi-annual financial statements and consolidated financial statements for the periods ending on 30 June in the years: 2013, 2014 and 2015. TAURON also used advisory and training services provided the scope that in no way limited the impartiality and independence of the auditor.

The certified auditor was appointed following a single-source non-public procurement procedure. The agreement with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa was concluded by the Management Board of the Company for a period necessary to perform the contracted services.

The Company informed of the aforementioned events in current reports: no. 21/2016 of 10 May 2016 and no. 22/2016 of 20 May 2016.

Extension of activity on Intercontinental Exchange

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

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

Important events after 31 December 2016

Information on the intention to recognise write-offs due to the loss in the carrying amount of generation units of the Generation segment in the financial statements as at 31 December 2016

Due to the completion of major works associated with impairment tests of assets as at 31 December 2016, on 14 February 2017 the Management Board of TAURON decided to recognise write-offs due to the loss in the carrying amount of generation units of the Generation Segment. The Generation Segment comprises companies generating electricity and heat from conventional and renewable sources. The requirement to recognise those events in financial results arises mainly from the following changes in the market environment taken into account in the tests: 1) regulations in the area of renewable energy sources, 2) decline in prices of certificates of origin for energy from renewable sources, 3) continuing unfavourable market conditions (in terms of profitability of coal-based power industry).

The write-offs recognised as at 31 December 2016 in the consolidated financial statements of TAURON for the year ended on 31 December 2016 (in relation to companies of the Generation Segment): 1) the value of created write-offs related to wind farms: approx. PLN 281 million, 2) the value of reversed net write-offs (i.e. the surplus of reversed write-offs against their value at creation) related to the generation assets in the area of electricity and heat generation: approx. PLN 204 million, 3) the total net write-off amount (i.e. the excess of created write-offs over their value at reversal): approx. PLN 77 million, 4) the total estimated impact on charging the net financial result: approx. PLN 62 million.

The write-offs recognised as at 31 December 2016 in the separate financial statements of TAURON for the year ended on 31 December 2016 (in relation to companies of the Generation Segment): 1) the value of created write-offs due to the loss in the carrying amount of stocks and shares held and the intragroup loan: approx. PLN 613 million, 2) the total estimated impact on charging the net financial result: approx. PLN 613 million.

The value of the aforementioned write-offs will not affect the EBITDA result, understood by the Company as EBIT increased by depreciation and write-offs for non-financial assets.

The Company reserves that the values presented above represent estimated values and may be subject to change. The final results of the tests and amounts of impairment write-offs due to the loss in the carrying amount of assets will be presented in the financial statements of TAURON Polska Energia S.A. for 2016, to be published on 15 March 2017.

The above information was published in the current report no. 3/2017 of 14 February 2017.

Publication of estimated financial figures of TAURON Polska Energia Group for 2016 and Q4 2016.

On 14 February 2017 TAURON publicly announced selected estimated consolidated financial data and operating data of TAURON Polska Energia S.A. Capital Group for 2016 and 2016 Q4, taking into account results of impairment tests of assets, of which the Company informed in the current report no. 3/2017 of 14 February 2017.

Detailed information on estimated financial results was published in the current report no. 4/2017 of 14 February 2017.

Termination of long-term contracts for the purchase of property rights by a subsidiary

On 28 February 2017 TAURON Sprzedaż submitted declarations on the termination of long-term contracts for the purchase of property rights arising from certificates of origin of energy from renewable sources (so-called green certificates, hereinafter referred to as "PMOZE") by TAURON Sprzedaż. The following customers, comprising installations generating electricity from renewable sources are parties to the contracts concluded in 2008:

- 1) - in.ventus spółka z ograniczoną odpowiedzialnością EW Dobrzyń spółka komandytowa,
- 2) - in.ventus spółka z ograniczoną odpowiedzialnością Ino 1 spółka komandytowa,
- 3) - in.ventus spółka z ograniczoną odpowiedzialnością EW Gołdap spółka komandytowa.

The Contracts shall be terminated with immediate effect due to the failure of the parties to reach an agreement under contractual negotiations in accordance with the procedure envisaged under the Contracts. As a result of termination of the Contracts TAURON Sprzedaż will avoid a loss constituting a difference between contractual prices and the market price of "green" certificates. The estimated value of the aforementioned loss due to continued execution of the Contracts until the end of their originally assumed term (i.e. by 2023) - considering the current market prices of green certificates - shall amount to approximately PLN 343 million net. The total value of contractual liabilities of TAURON Sprzedaż estimated for the period 2017-2023 shall amount to approximately PLN 417 million net. The above value was calculated according to the price formulas adopted in the Contracts for the period from the day of drawing up this report until the end of their originally assumed effective term (i.e. by 2023).

The amendments to legal regulations which entered into force after the day of concluding the aforementioned Contracts, providing basis for the notice of renegotiation:

- 1) repealing of the *Act of 8 January 2010 on the amendment to the Act on Energy Law and on the amendment to certain other acts of law*, effective as of 31 December 2012 (Journal of Laws of 2010, no. 21 item 104), *regulation of the Minister of Economy of 14 August 2008 concerning the detailed scope of obligations to acquire certificates of origin and present them for redemption, to pay the substitution fee, to purchase electricity and heat generated in renewable energy sources and the obligation to confirm data related to quantities of electricity generated in a renewable energy source* (Journal of Laws of 2008, no. 156 item 969) (the "MG Regulation of 2008"), as a result of entry into force of the *regulation of the Minister of Economy of 18 October 2012 concerning the detailed scope of the obligations to acquire certificates of origin and present them for redemption, to pay the substitution fee, to purchase electricity and heat generated in renewable energy sources and the obligation to confirm data related to quantities of electricity generated in a renewable energy source* (Journal of Laws of 2012 item 1229) (the "MG Regulation of 2012"),
- 2) entry into force of the *Act of 20 February 2015 on renewable energy sources* ("RES Act") and the subsequent amendments to the provisions of the RES Act, including in particular, the *Act of 22 June 2016 on the amendment to the Act on renewable energy sources and certain other acts of law* (Journal of Laws of 2016, item 925),
- 3) entry into force of the *Regulation of the Minister of Energy of 17 October 2016 concerning the change of the qualitative share of the total electricity arising from redeemed certificates of origin confirming generation of electricity from renewable sources in 2017* (Journal of Laws of 2016, item 1753).

TAURON indicated that TAURON Sprzedaż had no possibility to envisage, despite applying due diligence and care, that the amendments to the legal regulations described above would take place.

The MG Regulation of 2012 significantly affected the increase in the supply of property rights arising from certificates of origin referred to in Article 9e(1) of the *Act of 10 April 1997 on Energy Law* (Journal of Laws of 2012, item 1059, as amended) - currently Article 44(1) of the RES Act, resulting in permanent and significant decline in PMOZE prices. A

significant increase in the PMOZE supply as of 2012 results from the reduction of minimum shares of non-forest biomass in the total quantity of biomass supplied to the combustion process in relation to the requirements of the MG Regulation of 2008. The RES Act passed in 2015 has totally changed the system of support to electricity production in renewable energy sources which provided principal grounds for concluding the Contract and constitutes a significant change in the legal framework, posing direct and critical impact on profitability of the Contracts. The RES Act stipulates gradual abandoning of the support to electricity production in renewable energy sources through the system of certificates of origin in favour of the auction system.

The above information was published in the current report no. 6/2017 of 28 February 2017.

Important events after 31 December 2016

Conclusion of the annex with the consortium RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A., for construction of power unit at Elektrownia Jaworzno III

On 1 March 2017 the management board of TAURON's subsidiary – TAURON Wytwarzanie (the “Contracting Authority”) signed an annex with the consortium RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A., (the “Contractor”) to the contract for construction of 910 MW_e ultra-supercritical power unit (the “Unit”) at Jaworzno III - Elektrownia II power plant (currently implemented within the separated branch of the Contracting Authority - 910 MW Jaworzno Branch in Jaworzno) in the scope of: steam boiler, turbine set, main building, electrical and process control and automation system (AKPiA) of the Unit.

Pursuant to the Annex, net price of the Contract will be increased by the amount of PLN 71.05 million, i.e. up to the amount of PLN 470 million, and the deadline for delivery of the subject matter of the Contract will be extended by 8 months, i.e. by the 67th month following the date of concluding of the Contract at the latest, which means that the new assumed deadline of handover of the Unit for operation is November 2019.

The decision on signing of the annex by TAURON Wytwarzanie was made on 28 February 2017. On the same day, concluding of the annex under the terms indicated above was also positively evaluated by TAURON Management Board.

Introduction of amendments to the Contract resulted from the requirement to change the foundation method of the Unit facilities to indirect method as well as arrangement of additional works by the parties, favourable for the Contracting Authority for technical and economic reasons (construction of the foundation for the fifth zone of the electrofilter (EF) and extension of the EF switchboard building). The additional works will enable the Contracting Authority to gain savings during the envisaged shutdown of the Unit in 2021 in order to adjust a part of the Unit for the purpose of fulfilment of future requirements of BAT conclusions. The Contracting Authority partly acknowledged the legitimacy of the Contractor's claims associated with the aforementioned circumstances and variation order requests. Claims arising from the change in design standards (EUROCODES) were not deemed legitimate by the Contracting Authority.

In connection with the foregoing, warranties granted by the Contractor were extended:

- 1) by 6 months in relation to the availability of the Unit for direct deliveries carried out by RAFAKO S.A., maximum sustainable efficiency of the boiler, technical minimum of the Unit and content of free water in exhaust behind IOS, vibration level for the structure,
- 2) 12 months in the construction and engineering scope of the Unit.

The Contractor shall also ensure adequate extension of the performance bond.

Signing of the Annex shall change the terms of the Contract with the Contractor, however, it will not affect any changes of the whole investment budget. The level of project progress reached approximately 31.8%. At present, the assembly of the technological part of the boiler and assembly of steel constructions of the main buildings is in progress. Reinforced concrete works in the electrical switching station building, erection works of the cooling tower and construction works in the building of the electrical nave and cooling water pump station are continued.

The Company informed of the amendment to the aforementioned agreement in current reports: no. 5/2017 of 28 February 2017 and no. 7/2017 of 1 March 2017.

In addition, events resulting from the contracts and agreements concluded, significant for the operations, described in subsection 7.2.1 of this report should be also considered as important events with material impact on operations of TAURON Capital Group in the financial year 2016.

2.8. Awards and distinctions

In 2016 TAURON received the following awards and distinctions.

Figure no. 26 Awards and distinctions

AWARDS AND DISTINCTIONS GRANTED TO TAURON and COMPANIES OF TAURON CAPITAL GROUP IN 2016

MARCH

- Recognising TAURON Group's Investor Relations, for the second time, 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.
- Distinguishing nine initiatives conducted in TAURON Capital Group in the area of sustainable development in the report on "Responsible business in Poland. Good practices" issued by Responsible Business Forum.

MAY

Granting the award to TAURON for the highest value of the debut in the Catalyst market in 2015 in connection with introduction of 17,500 bonds with the total value of PLN 1.75 billion into the alternative trading system. The issue was the second biggest offer in the history of the domestic market of corporate securities.

OCTOBER

Obtaining by TAURON, for the third consecutive time, of the main award in the category of enterprises for the annual report for 2015 from the jury of *The Best Annual Report* competition organised by the Institute of Accounting and Taxes. At the same time, the Company joined the group of *Best of the Best*, comprising companies using the highest reporting standards. Similar to 2015, the internet version of the annual report was distinguished.

NOVEMBER

- TAURON was listed among ten top companies in the ranking of "Rzeczpospolita" daily and the Forum of Responsible Business "Educational activities of business. List of most significant initiatives" for the educational action of TAURON "Energy for the senior".
- Granting a brown statue to TAURON in the competition on *Kraków Culture Sponsor 2015*.

DECEMBER

Accepting TAURON, for the fourth consecutive time, to the RESPECT Index - a group of listed companies managed in responsible and sustainable manner.

2.9. Information concerning the employment structure in TAURON

2.9.1. Policy of Human Resources Management in TAURON Group

The *Policy of Human Resources Management in TAURON Group* (the Policy) was adopted for application in 2015. It is a common document for all companies of TAURON Capital Group.

The Policy was developed on the basis of:

- a) diagnosis of effectiveness of the Human Resources Management area in the companies of TAURON Capital Group,
- b) analysis of benchmarks and good market practice,
- c) Integrated Human Resources Management System at TAURON Polska Energia S.A.,
- d) Joint activities of representatives of the Human Resources Management area from all companies of TAURON Capital Group.



Objectives of the Policy:

1. Orientation of employees towards achieving results in areas compliant with the Strategy and with the CSR Strategy.
2. Determining consistent standards and ensuring high quality human resources management processes taking into account modern solutions and best market practices.
3. Building consistent organisational culture of TAURON Capital Group based on corporate values and supporting innovativeness.
4. Raising the level of employees' engagement and motivation.



Assumptions of the Policy:

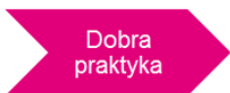
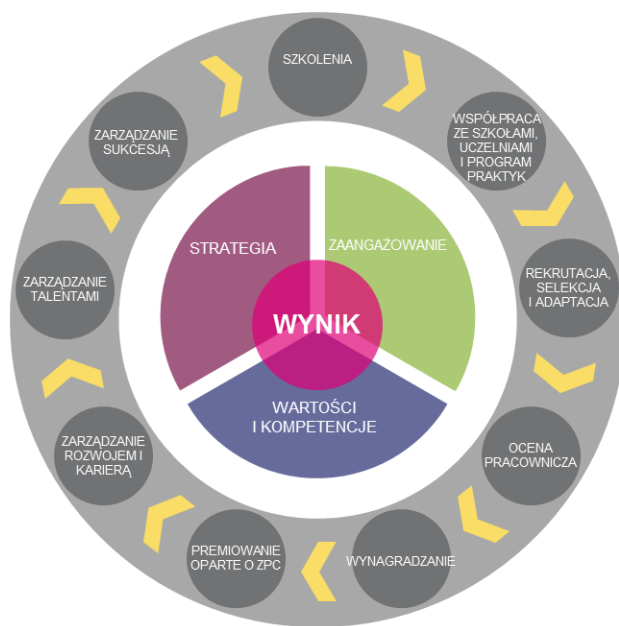
1. Result-orientation of employees - processes of human resources management support result-orientation and concentration of employees on achieving the best possible results, inter alia, through assessment of the accomplishment of bonus targets and area KPIs.
2. Orientation of employees to the implementation of the Strategy and Sustainability Strategy of TAURON Capital Group. The policy enables consistent acquisition, maintaining and development of key competence for the implementation of the Strategy and maintaining of business continuity of companies and TAURON Capital Group.
3. Supporting the enhancement of the level of employees' engagement and motivation, through strengthening of both individual relations of employees and supervisors as well as introduction of system solutions associated with building incentive systems, development, training and monitoring of job satisfaction.
4. Coherence of the Policy with corporate values of TAURON Capital Group and promoting the behaviour compliant with them as well as building of consistent organisational culture based on values.

VALUES: Partnership, Development, Courage are the overriding values for the implementation of tasks within activities associated with human resources management.

5. Determining consistent standards and ensuring high quality human resources management processes taking into account modern solutions and best market practices, e.g. recruitment standards, cooperation with schools and universities. The coherence is implemented through key substantive areas of human resources management, with the support of the relevant tools, e.g. talent management programme and competence model in relation to which works were started in 2016. Members of Management Boards of companies of TAURON Capital Group and key managers were invited to the project group.

The figure below presents the assumptions of the *Policy of Human Resources Management in TAURON Group*.

Figure no. 27 Assumptions of the Policy of Human Resources Management in TAURON Group.



Principle 70/20/10

Szkolenia	Training
Dobra praktyka	Good practice
Współpraca ze szkołami, uczelniami i program praktyk	Cooperation with schools, universities and internship programme
Rekrutacja, selekcja i adaptacja	Recruitment, selection and adaptation
Ocena pracownicza	Employee appraisal
Wynagrodzenie	Remuneration
Premiowanie oparte o ZPC	Bonus based on ZPC
Zarządzanie rozwojem i karierą	Development and career management
Zarządzanie talentami	Talent management
Zarządzanie sukcesją	Succession management
Strategia	Strategy
Zaangażowanie	Commitment
Wartości i kompetencje	Values and competence
Wynik	Result

Any development activities are implemented in accordance with the principle of effective learning where:

70% - is learning through implementation of a new type of tasks; work in project teams; temporary assignment of an employee to fulfil other role within the Company or TAURON Capital Group; self-education (e.g. professional literature),

20% - is the observation of persons with higher competence in the specific area; development talks; regular feedback; coaching and mentoring sessions,

10% - is represented by internal and external training, studies, language courses, conferences.

The figure below presents the principle of effective learning 70/20/10.

Figure no. 28 Principle of effective learning 70/20/10.



Legend Figure no. 28

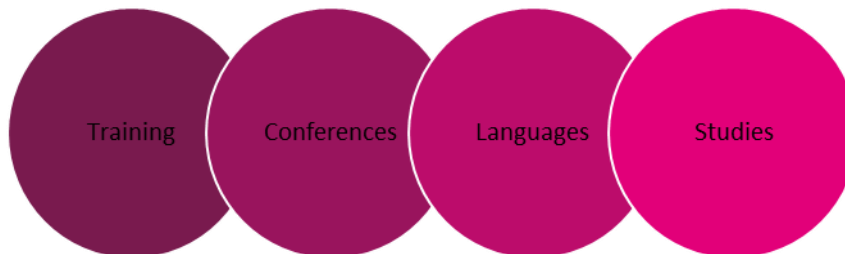
70% learning in practice through EXPERIENCE
20% Learning in RELATIONSHIP, learning from others
10% Formal educational and TRAINING activities

2.9.2. Development and training

Employees of companies of TAURON Capital Group develop in various forms of development activities:

The figure below shows the forms of development activities of employees of TAURON Capital Group companies.

Figure no. 29 Forms of development activities of employees of TAURON Capital Group companies.



12, 308 is the total number of training hours of our employees during a year

29 employees used co-financing forms to study at the university

23 employees participated in language courses

The figure below presents the total number of training hours, divided into genders, in TAURON Capital Group in 2016.

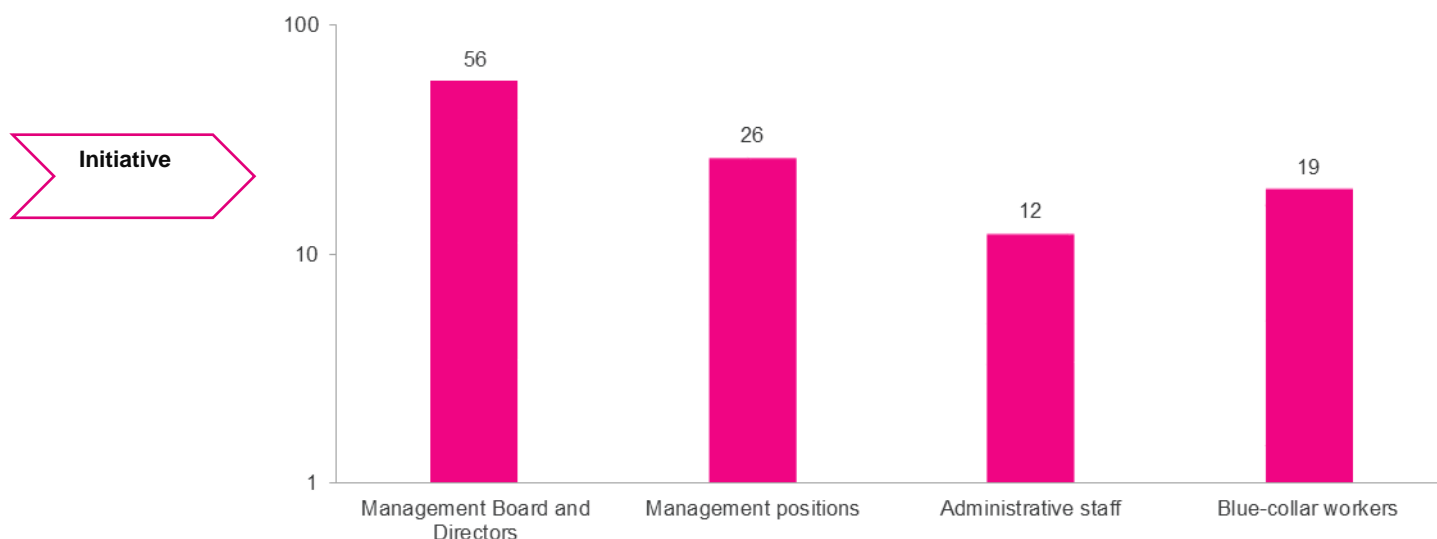
Figure no. 30 The total number of training hours, divided into genders, in TAURON in 2016.

	KOBIETY	MĘŻCZYŹNI	OGÓŁEM
Łączna liczba godzin szkoleniowych w podziale na płeć w TAURON Polska Energia S.A.	3 980	8 328	12 308
Liczba pracowników*	173	241	414
Średnia liczba godzin szkoleniowych	23	35	30

*Number of employees as at 31 December 2016

The figure below shows the average number of training hours per employee, according to job groups.

Figure no. 31 The average number of training hours per employee, according to job groups.



Development initiatives organised in TAURON in 2016

Cooperation with universities

TAURON Capital Group cooperated with over 50 educational establishments (universities, secondary and vocational schools) all over the country. In the framework of the cooperation, pupils, students and graduates may apply for internship and training in TAURON. Only in the previous year 1084 persons used this form of education. Through the cooperation partnership relations with the academic community are built - the scientific staff and students. TAURON as a leader can influence education and gaining professional competence amount future adepts in the industry.

Best students and graduates were searched for both at universities, through cooperation with university Career Offices and through participation in the largest national fair - Absolvent Talent Days.

Within the framework of promotion of the energy professional job TAURON Distribution delivered numerous lectures dedicated to teachers, addressed to partner secondary school teachers. Under the projects executed, training activities and educational trips were organised for students, e.g. a visit to ZG Janina mining gallery, excursions to hydroelectric power plants. In the past year TAURON Capital Group also cooperated with research and educational centres, e.g. in the scope of the project concerning the improvement of efficiency of power units. Within the initiative of the Research and Innovation area, workshops with university deans were also conducted.

Post-graduate studies for employees of TAURON Capital Group companies

Following TAURON's initiative, post-graduate studies for employees of TAURON Capital Group companies were launched. The most important goal while organising post-graduate studies for employees of companies is to acquire coherent knowledge on the specific issue, accordingly, the organisation strives to standardise processes in TAURON


Capital Group and introduce common solutions oriented towards increasing the financial result of the organisation. In 2016 the dedicated post-graduate studies on “The natural gas market - opportunities and barriers for development” were completed at the AGH University of Science and Technology in Kraków, and post-graduate studies on “Procurement management in business” were launched at Jagiellonian University.

TAURON Group Open University

TAURON Group Open University is a cycle of lectures provided by the most distinguished experts specialising in various disciplines of science, politics, business, culture and personal development. Through participation in the lectures we want to provide Employees with access to current knowledge and information. In addition, this initiative allows to create a platform for the exchange of ideas and experience among employees from various companies and, consequently, to provide even better support for the implementation of TAURON Capital Group strategic objectives.



TAURON Group Open University was launched in order to offer the following opportunities to employees:

- 1) lifelong learning through exploring new issues and acquiring new skills,
 - 2) active participation in the reality surrounding us through learning new phenomena and the skill to face them,
 - 3) comprehensive, broadly understood development,
 - 4) learning and using the latest technologies,
- 
- 5) development of own personality, values and pro-social attitudes,
 - 6) exploring various areas of science, life, culture and arts.

So far, 12 lectures were provided, attended by over 2,000 employees of all companies of TAURON Capital Group.

The policy of recruitment, selection and adaptation of employees of TAURON Group companies

As of 2015 TAURON Capital Group has a common *Policy of recruitment, selection and adaptation of employees of TAURON Group companies*, consequently, this process is consistent in all companies. The main form of recruitment in the entire TAURON Capital Group is the internal recruitment. While launching the recruitment process, we first distribute the announcement to employees of companies by placing it on internal intranet, i.e. Taronet. We promote this recruitment channel through mailing distributed to all employees of TAURON Capital Group and regular announcements on Taronet. Should internal recruitment be unsuccessful, we shall start search for employees outside the internal potential, searching for new employees on the market. In such a case we place job offers both on the company website and on other recruitment portals.

PRO Value

During the work on the Strategy which requires specific attitudes and behaviours to be implemented, new values of TAURON Capital Group were defined in 2016: Partnership, Development and Courage (acronym from Polish: PRO). The PRO values were developed at workshops with employees, organised by TAURON, attended by over 80 persons from various companies and various levels of the organisation. The work on implementation of the PRO values contained several stages: workshops for the staff, PRO website on Taronet, arts competition for employees, PRO zone in PROspect, PROsave TAURON competition, workshops for members of Management Boards. PRO values create roadsigns on the path towards the implementation of the Strategy as well as in relations with co-workers, clients, partners and the environment.





Talent Management Programme in TAURON

The Talent Management Programme in TAURON represents an integrated approach to development and career of employees. It is a development activity which, as a rule, does not cover all Employees, but only those distinguishing with high potential and achieved results. The programme is the support to the process of their development and exploitation of their potential in TAURON and TAURON Capital Group. In 2016 the kick-off meeting of the anniversary, 5th issue of the programme took place: Over 60% of graduates of the Talent Management Programme were promoted in the structures of TAURON Capital Group.

Adaptation programme

The kick-off meeting of the Adaptation programme in Tauron took place in September 2016. This meeting was attended by new employees who joined the community of TAURON employees as of the beginning of 2016. The training sessions currently take place on a monthly basis in two-day sessions. Each month such meetings are open by a member of TAURON Management Board. On the first day, information on the overall TAURON Capital Group is provided as well as issues important for employees are presented. The second day is devoted to the presentation of business areas. Selected areas from each business stream are presented by TAURON employees (in the framework of development of their expert competence) who participated in the Talent Management Programme. While introducing new employees, in the first period of work in TAURON Capital Group, each of them had own mentor to assist him/her in the adaptation process. The objective of the process is to ensure efficient functioning of a newly recruited employee and possibly fast achieving of the level of efficiency expected on his/her position.

2.9.3. Social dialogue

The Management Board of TAURON conducts a constructive and open dialogue with the social side, mainly aimed at maintaining high quality and effectiveness of mutual cooperation. Within the framework of the aforementioned dialogue, the following solutions were jointly developed in 2016:



- at a meeting on 11 July 2016, in the presence of the Secretary of State at the Ministry of Family, Labour and Social Policy, the Ombudsman of Social Dialogue was appointed in TAURON Group.
- on 13 September 2016 the Agreement on cooperation within the social dialogue in TAURON Group was signed, defining the rules of cooperation of TAURON Management Board with the Social Council.

During regular meetings and consultations, representatives of the social side are informed about issues associated with:

- the economic and financial situation of TAURON Capital Group,
- the Efficiency Improvement Programme in TAURON Group for 2016-2018,
- Voluntary Redundancy Programmes in companies of TAURON Capital Group,



d) issues related to employee affairs in TAURON Capital Group.

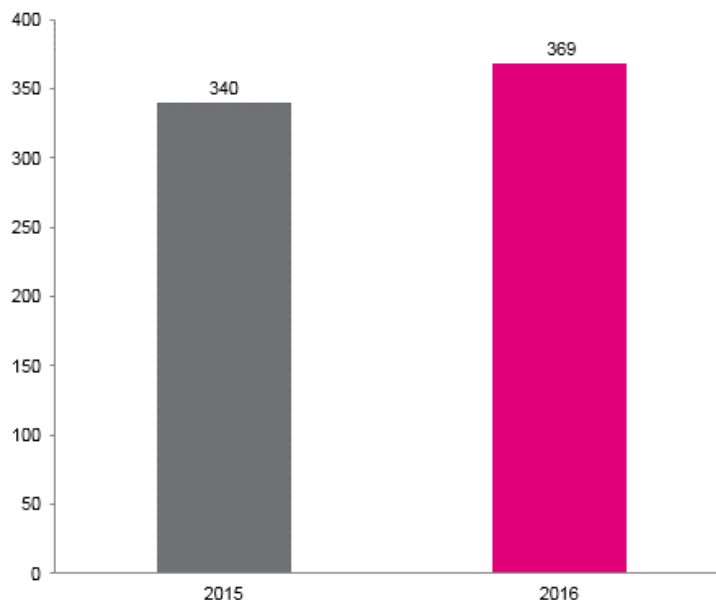
Within the framework of conducted social dialogue the Management Board of TAURON provided many answers to the correspondence from trade union organisations and the Ministry of Energy. In parallel, current communication is maintained in companies of TAURON Capital Group between Management Boards and trade union organisations operating at a given employer. TAURON takes active part in meetings at the national level with representatives of the government, employees and employers (within the activities of the Tripartite Team for the Energy Sector).

2.9.4. Key data concerning employment

In 2016, the average employment in TAURON reached 369 FTEs, which means an increase against the employment in 2015, when the average employment amounted to 340 FTEs.

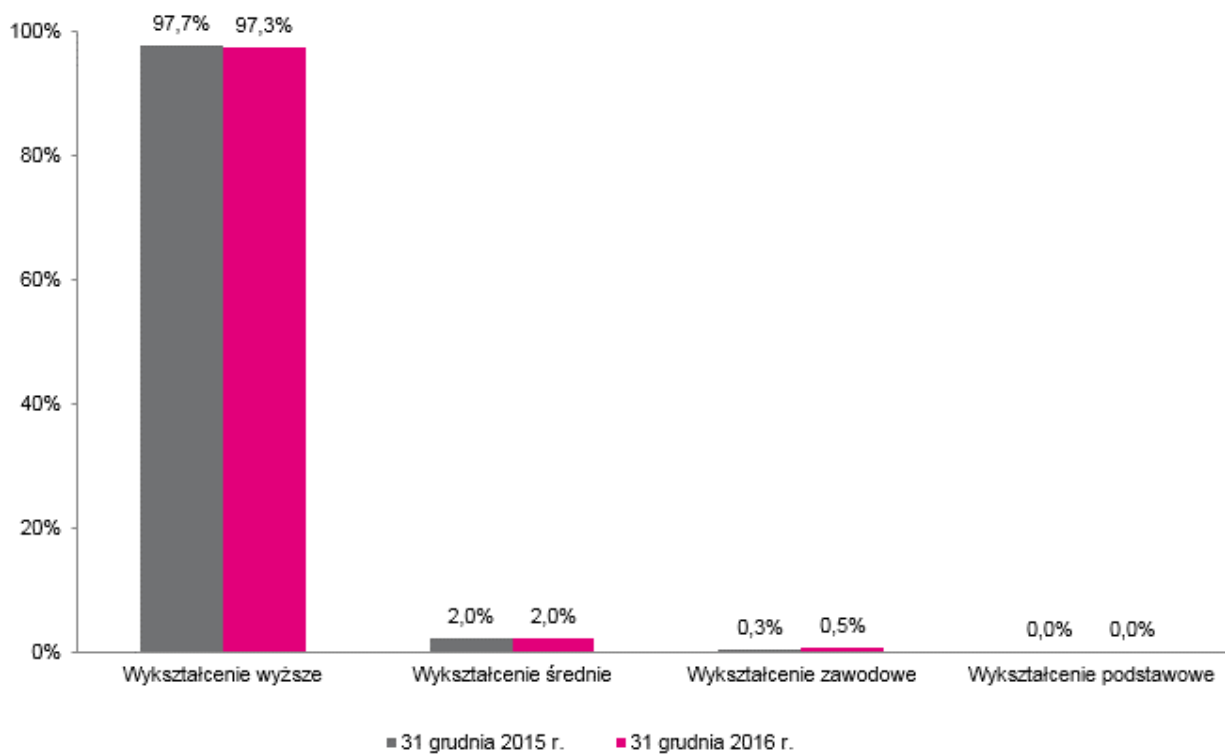
The figure below shows the levels of employment in TAURON in FTEs (rounded up to a full FTE), in 2015 and 2016.

Figure no. 32 Average employment in TAURON Capital Group in 2015 and 2016 * (FTEs)



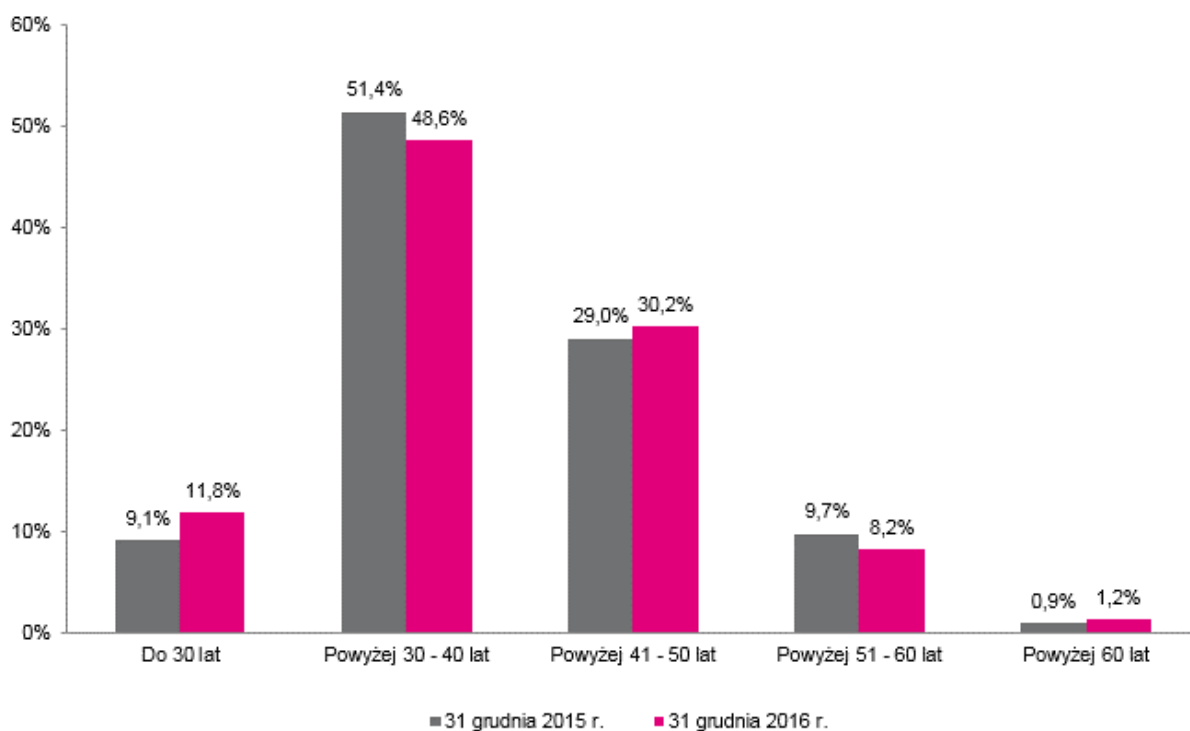
The figure below presents the structure of employment in TAURON according to education as at 31 December 2015 and 31 December 2016.

Figure no. 33 Employment structure in TAURON as at 31 December 2015 and 31 December 2016 (education)



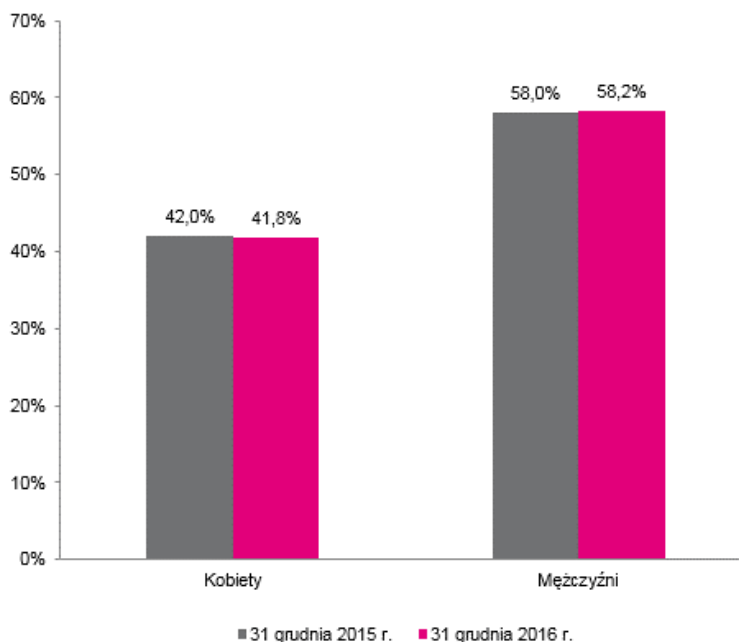
The figure below presents the structure of employment in TAURON according to age as at 31 December 2015 and 31 December 2016.

Figure no. 34 Structure of employment in TAURON as at 31 December 2015 and 31 December 2016 (age)



The figure below presents the structure of employment in TAURON according to gender as at 31 December 2015 and 31 December 2016.

Figure no. 35 Structure of employment in TAURON as at 31 December 2015 and 31 December 2016 (gender)



2.10. 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 the outlook up to 2020* was developed (Sustainability Strategy).

In connection with the expiry of the Sustainability Strategy at the end of 2015 as well as the fulfilment of over 95% of goals assumed in the document, in December 2015 the Management Board of TAURON adopted the updated *Strategy of Sustainable Development of TAURON Group for 2016-2018, with the outlook up to 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 international trends in the CSR area and it takes into account the opinion of TAURON Capital Group environment as well as future challenges to be faced by the energy sector. It is 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). Within each direction were determined (18 in total) which TAURON intends to fulfil by the end of 2018. For each of the obligations key initiatives were formulated, supporting their implementation, which are assigned to individual business units in companies.

The Sustainability Strategy is directly associated with all areas of TAURON Capital Group activities. It streamlines both the approach to the CSR and the methodology for the assessment of effectiveness of measures undertaken based on Global Reporting Initiative (GRI) indicators. In 2016, the fourth report on sustainable development was published. For the first time, it was integrated with the annual report (integrated report). However, the report traditionally presented measures undertaken by TAURON Capital Group in the CSR area in 2015 as well as the summary of the Sustainability Strategy for 2012-2015. The report was prepared in accordance with the highest reporting standards – GRI G.4, which was confirmed by the certification obtained – GRI Materiality Matters’ Check and it was subject to external 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 2016, TAURON achieved, for the fourth 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. The resulting goals are implemented, among others, through the activities of TAURON Foundation which allows for even more effective implementation of CSR actions within the area of care for safety of local communities and actions for public benefit.

TAURON Capital Group, operating 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 Podkarpackie Regions. Among others, TAURON cooperates with the Mountain Voluntary Emergency Service (GOPR), with the purpose of enhancing safety in the mountains.

In 2016, 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 2016, 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 2016, 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 2016, TAURON Foundation and the Company implemented, based on the employee voluntary programme, the twelfth 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. In the years 2011-2016, 465 orphanages from five provinces participated in the action. In 2016, the Foundation also accomplished its goals, in particular, through supporting natural and legal persons, institutions and organisations in their activities consistent with the Foundation goals, transferring donations in the amount of PLN 948,500.

TAURON 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 the 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*.

Since 2014, TAURON has also been a member of the Responsible Business Forum.

2.10.1. Energy security

Ensuring energy security to clients is one of two leading directions of the Sustainability Strategy. As an essential element in the energy system of the country, TAURON optimises processes in individual areas of activity: generation, distribution and sales of electricity and heat, in order to ensure stable supplies with high qualitative parameters to clients. In order to provide for the continuity of supplies, TAURON not only implements new investment projects but also conducts ongoing maintenance works and modernisation of the infrastructure held as well as actively searches for new solutions.

In 2016 TAURON Dystrybucja modernised almost 1,800 km of existing grids and 37 main supply points. The Company also built 2.4 thousand km of new lines (including connections). Investment projects are also conducted by TAURON Ciepło. In 2016 the capacity of clients newly connected to the heating network amounted to 30.64 MW, and the length of new commissioned heating networks reached 12.3 km (including the connectors). In 2016 TAURON Ciepło also conducted investment in new generation capacity. 3 boilers at ZW Katowice were commissioned, with the capacity of 114 MW_t as well as the BC-50 heating unit at ZW with the capacity of 86 MW_t and 65 MW_e.

At the same time, in order to guarantee stable supplies, TAURON Dystrybucja conducts ongoing measures minimising the risk of failure as well as shortening the response time necessary to find the place of failure and to remedy it. It is fostered, inter alia, by the implementation of the modern system of Grid Assets Management or the increase of the grid automation level. For several years, rules of prioritisation of investment needs have been applicable in TAURON. They are aimed at addressing the expenditure to places that have the strongest impact on the improvement of electricity supplies and effectiveness of the distribution grid performance, including the enhancement of the qualitative electricity indicators.

Moreover, taking care for comfort and security of persons having contact with electricity and the equipment supplied by it, TAURON Dystrybucja has been carrying out the educational and information campaign called *TAURON Fuses* addressed to children and teenagers. The Company is also the initiator and co-organiser of other social actions enhancing the level of energy supply reliability as well as aimed at protection of health and life of persons staying in the vicinity of energy infrastructure (e.g. "Stop the illegal electricity intake" action).

Innovative technological solutions represent an important element of the energy supply process. Accordingly, TAURON Capital Group puts strong emphasis on activities in the area of research and development, resulting not only in innovative solutions, inter alia, in the scope of reducing the emission of hazardous substances from combustion processes but also innovative products and services for individual clients.

In 2016 the Zone of Innovation was created on the Intranet of TAURON Capital Group, within which competitions for employees are organised. Its objective is to promote innovative organisational culture and encourage employees to submit innovative solutions optimising daily work. After the announcement of the competition results, the proposals are archived and available in the Zone of Innovation to all users. The first competition launched in the Zone of Innovation was related to safety at work.

2.10.2. Customer orientation

The overriding objective of TAURON Capital Group is to meet customers' expectations and needs. It is perfectly emphasised in the new Strategy. Customer orientation is also the second leading direction of Sustainability Strategy, next to energy security.

Efforts aimed at accomplishing the assumed goals in this scope are based on many measures in each of the value chain areas, inter alia, through grid modernisation, searching for solutions enhancing customer satisfaction, ensuring security of customer interests, care for vulnerable clients and disadvantaged groups as well as through continuous education in the area of effective energy use and utilisation.

TAURON analyses market trends on an on-going basis as well as conducts cyclical client satisfaction surveys concerning the services and products offered. Owing to such activities the Company endeavours to meet clients' expectations, satisfying their current and future needs, to the extent feasible. At the same time, complaint procedures are improved, allowing for prompt and efficient response in situations reported by clients. All measures constituting the customer service process are conducted in compliance with the highest ethical standards.

Preventing limiting the relations with clients only to the provision of products and services, as well as having the awareness of many threats which may potentially affect a client in various aspects of electricity purchase or use, TAURON conducts educational actions addressed to energy users.

The educational and information functions are fulfilled, inter alia, by the action "Energy for the senior", implemented by the Team of Client Rights Ombudsman operating within the client area in TAURON. The initiative is addressed to the elderly who are most exposed to activities of unfair energy vendors. Its aim is to educate clients how to move across the energy market. The action is based on the inter-sectoral cooperation of business, public administration represented by consumer rights ombudsmen and non-governmental organisations, i.e. universities of third age, senior clubs as well as associations of retired and pensioners. Within the workshops, both lectures for a broad group of audience and intimate educational meetings are organised.

2.10.3. Customer satisfaction surveys

One of key elements tools of customer satisfaction evaluation in TAURON Capital Group is the CSI survey. This survey is conducted on a regular basis, once a year, at the turn of the 3rd and 4th quarter, by an independent research agency. The said survey is conducted on a random basis for the selected group of TAURON customers and for a group of customers of other energy companies, such as: ENEA, Energia and PGE.

In accordance with the adopted plan, the CSI survey, as one of the key tools for the evaluation of customer satisfaction in TAURON Capital Group, was conducted in September - November 2016, by an independent research agency - TNS Polska.

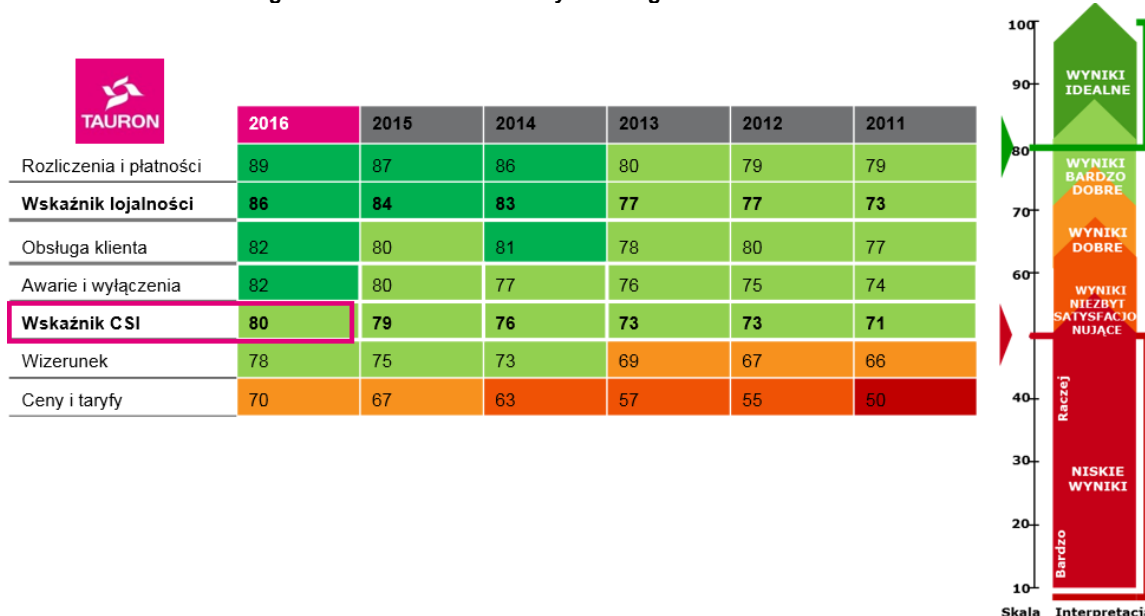
The survey covered randomly selected clients of the Household segment (1,000 clients), Small enterprises (200 clients) and Corporations and large enterprises (300 clients) and a group of clients of other energy companies, such as: ENEA, Energa and PGE.

As a result of conducted surveys, the CSI was determined at the following level:

- 1) Households - 80%,
- 2) Small enterprises - 73%,
- 3) Corporations and large enterprises - 75%.

The figure below presents results of surveys conducted in the Household segment, achieved by TAURON in the period from 2011 to 2016, and the level of the CIS reached in 2016, as compared to other energy groups.

Figure no. 36 Results of survey covering households in 2011-2016



The figure below presents the results of the survey in TAURON Capital Group as compared to other Energy Groups in 2016.

Figure no. 37 Results of the survey in TAURON Capital Group as compared to other Energy Groups in 2016.



2.10.4. Impact on the natural environment

Environmental protection in the energy sector is the area controlled and regulated by the EU and national legal regulations as well as the local law, therefore, it is strongly associated with business activity, in particular, in the context of contemporary challenges related to the environmental impact of energy generation processes and diversification of electricity sources. Considering the sustainable development rules, companies of TAURON Capital Group optimise the processes of management of the resources held (water, raw materials, materials) and conduct active policy of waste management (both processing and municipal).

The pro-ecological education conducted by companies of TAURON Capital Group, addressed both to children and to adults, also plays an important role in the area of environmental protection.

Companies of TAURON Capital Group actively engage in many information and educational programmes concerning environmental protection and energy saving which are addressed both to employees, local communities and to customers.

2016 was another year of educational activity associated with combating low emission.

The most important actions in the area of environmental protection

Companies of TAURON Capital Group conduct the responsible environmental protection policy and apply due diligence to ensure that the implemented investments are compliant with the requirements and consider the technological developments in the area of environmental protection.

The most important actions in the area of environmental protection conducted in TAURON Capital Group in 2016 included:

- 1) the continuation of construction of the power unit with 910 MW capacity in Jaworzno III Power Plant, whose commissioning will significantly influence the reduction of ambient air emission of NO_x, SO₂, CO₂ and particulate matter (TAURON Wytwarzanie),
- 2) modernisation of the electrofilter of unit no. 5 at Elektrownia Jaworzno III in order to reduce dust emission (TAURON Wytwarzanie),
- 3) Modernisation of Water Demineralisation Station of TAURON Wytwarzanie, Branch Elektrownia Stalowa Wola in order to reduce the annual consumption of HCL and NaOH, including full elimination of the sludge, three new reverse osmosis lines,
- 4) enclosure of steam generator reducing fuel and electricity consumption for start-ups of power units in Elektrownia Łaziska in order to reduce CO₂ and SO₂ emission (TAURON Wytwarzanie),
- 5) installation of product generation from bottom ash of 460 MW unit in Elektrownia Łagisza in Będzin,
- 6) completion of the construction of a system for pre-treatment of acid sludge discharged from mining waste treatment facility at ZG Janina (TAURON Wydobycie),
- 7) conducting activities aimed at limiting mining waste generation through aggregate production (TAURON Wydobycie),
- 8) construction and reconstruction of sanitary water sewage network at ZG Sobieski (TAURON Wydobycie).
- 9) modernisation of hydroelectric power plants, aimed, among others, at mitigation of the hazard of environmental contamination with oils (TAURON EKOENERGIA),
- 10) completion of modernisation of the dust exhaustion installation of an open dumping site (KW Czatkowice)
- 11) reduction of environmental noise emission (KW Czatkowice),
- 12) modernisation of the cooling system of crushers at Preliminary Crushing Station (KW Czatkowice),
- 13) forestation of the protective belt across the area of approximately 2 ha (KW Czatkowice),
- 14) programme of investment activities in the scope of constructing safeguards against soil and water contamination with oil derivatives (TAURON Dystrybucja),
- 15) assembly of insulation screens on elements of transformers and poles in order to protect birds sitting on supporting structures of overhead lines (TAURON Dystrybucja).

Compliance with the requirements in the scope of emission of pollutants into the air

As of January 2016, as a result of transposition of Directive 2010/75/EC on industrial emissions (so-called IED) into the national legislation, for a part of sources of energy combustion with the capacity of > 50 MW (in fuel) more stringent requirements apply in the scope of permissible air pollution emission standards (NO_x, SO₂, dust).

The investment programme implemented over the recent years focusing on construction and modernisation of fuel denitrification, desulphurisation and dust extraction in companies of TAURON Capital Group enabled the reduction of air emission in 2016.

Emissions of dust and gaseous pollutants into the air are mainly associated with activities of companies of TAURON Capital Group within the conventional energy segment (electricity and heat production) and fuel combustion for the needs of technological processes.

The table below presents the estimated levels of NO_x, SO₂, dust and CO₂ emissions from energy fuel combustion for selected companies of TAURON Capital Group in 2016.

Table no 8. Annual levels of NO_x, SO₂, dust and CO₂ emissions from energy fuel combustion for 2016

No.	Company name	SO ₂ emission (Mg)	NO _x emission (Mg)	Dust emission (Mg)	CO ₂ Emissions (Mg)
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No.	Company name	SO ₂ emission (Mg)	NO _x emission (Mg)	Dust emission (Mg)	CO ₂ Emissions (Mg)
1.	TAURON Wytwarzanie, including:	12,295	12,501	701	13,366,194**
	Oddział Jaworzno III	2,620	4,226	144	5,481,776
	Oddział Łaziska	3,716	3,409	195	3,703,360
	Oddział Łagisza	1,873	2,366	87	2,061,954
	Oddział Siersza	2,342	1,582	193	1,597,860
	Oddział Stalowa Wola	1,744	918	82	521,244
2.	TAURON Ciepło, including:	3,348	1,330	219	1,561,537**
	ZW Bielsko-Biała	1,063	243	44	545,908
	ZW Kamienna Góra	70	17	4	15,663
	ZW Katowice	1,341	543	92	657,921
	ZW Tychy	407	411	20	255,502
	CC Olkusz ***	225	48	1	37,139
	CC Zawiercie ***	172	42	3	33,231
	Other (local heating plants)	70	27	55	16,174
3.	TAURON Wydobycie	55.2	37.7	45.0	26.3
4.	KW Czatkowice	4.6	6.3	3.4.*	5,636
Total		15,702	13,875	968	14,933,394

*Total emission of dust from fuel combustion

** CO₂ emission within the meaning of EU ETS - according to Annual Reports on CO₂ Emission (status in February 2017, the level of emission prior to verification)

***Estimated value, prior to verification at the end of the 1st quarter of 2017

Emission abatement in 2016 was reflected in the level of fees for the use of the environment. In 2016 companies of TAURON Capital Group accrued fees in the total amount of approximately PLN 35.7 million, i.e. by approximately 20% less than in the previous year.

The table below presents the level of fees for economic use of the environment due for 2016 in individual companies of TAURON Capital Group.

Table no 9. The level of estimated fees for economic use of the environment due for 2016

No.	Company name	Fees for economic use of the environment due for 2016 (PLN thous.)
1.	TAURON Wytwarzanie	20,900
2.	TAURON Wydobycie	11,084
3.	TAURON Ciepło	3,593
4.	TAURON Dystrybucja	101
5.	KW Czatkowice	54
6.	TAURON Dystrybucja Serwis	12
7.	TAURON Obsługa Klienta	1
8.	TAURON EKOENERGIA	< 0.8
9.	TAURON Sprzedaż	1.5
Total		35,747

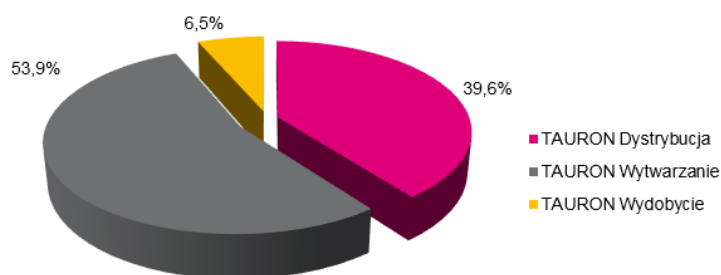
Sustainable development

In order to reduce the consumption of non-renewable resources, TAURON Capital Group implements solutions enabling to obtain higher energy savings and use of various sources of energy.

In 2016 within TAURON Capital Group, 9 investment projects were submitted, associated with the improvement of energy efficiency in three business areas, whose direct environmental effect is the reduction of CO₂ emission. This effect was confirmed through allocation of so-called "white" certificates.

The figure below presents the structure of the volume of “white” certificates obtained in TAURON Capital Group in 2016.

Figure no. 38 Structure of the volume of “white” certificates obtained in TAURON Capital Group in 2016.

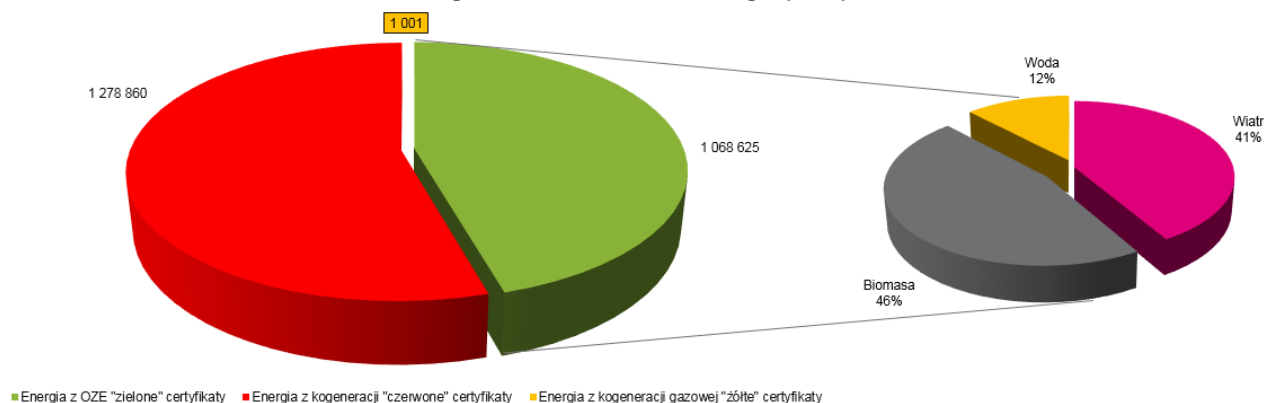


Although the core production of TAURON Capital Group is based on the traditional energy relying on solid fossil fuel, TAURON Capital Group, in its basic volume of production, includes high efficiency generation of electricity and heat in the co-generation system and supplements its offer by energy generated in renewable sources or in generation based on gas:

- 1,068,624.6 MWh, so-called “green” certificates,
- 1,278,830.2 MWh, so-called “red” certificates,
- 1,000.6 MWh, so-called “yellow” certificates.

The figure below shows certificates of origin.

Figure no. 39 Certificates of origin (MWh)



Management of by-products

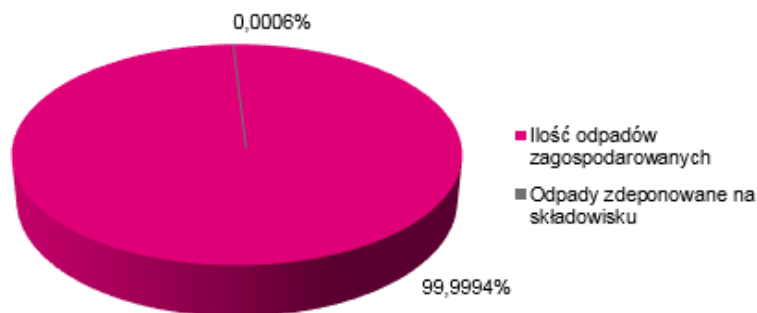
TAURON Capital Group, caring for the natural environment, minimises the quantity of waste deposited in the environment through their introduction to the market, to be used as substitutes for natural materials.

Waste generated in TAURON Capital Group is mainly used in the construction, road and mining sector. The waste is broadly used by cement and concrete plants. It was also used as the material for reclamation of unfavourably transformed areas.

In 2016 the conventional energy sector of TAURON Capital Group generated approximately 1.7 million Mg of furnace waste, including 99.9994% managed in the market and only 0.0006% deposited directly at the dumping site.

The figure below presents the structure of energy waste management.

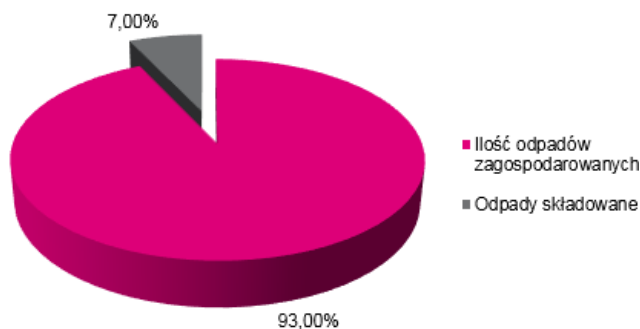
Figure no. 40 Structure of energy waste management (Mg)



In 2016, hard coal mining in TAURON Capital Group generated 1.4 million Mg of mining waste. The waste comprised aggregate and sludge originating from coal processing and preparation. 93% of the overall waste generated was economically used.

The figure below presents the structure of mining waste management.

Figure no. 41 Structure of mining waste management (Mg)



TAURON Capital Group strives to implement the model of closed circuit economy. It is planned that the maximum of generated process waste is used within TAURON Capital Group, consequently reducing the product's carbon footprint.

2.10.5. Sponsoring activity

In 2016, TAURON conducted sponsoring activity based on the applicable *Rules of conducting sponsoring activity in TAURON Polska Energia S.A. Group, the Research methodology for the selection, planning, analysing and reporting of sponsoring activity effectiveness*, the guidelines of the *Strategy of TAURON brand* and the *Plan of conducting sponsoring activity in TAURON Group in 2016*, adopted by the Management Board and positively reviewed by the Supervisory Board.

The main objective of the conducted activities was the support of commercial activity as well as the growth and strengthening of the knowledge and range of TAURON brand effect, assuming that TAURON brand is an important asset of TAURON Capital Group enabling to increase its value and support business objectives in an indirect way.

The sponsoring activity was carried out based on negotiated agreements, according to standardised provisions. Moreover, this activity was monitored, analysed and reported on an on-going basis, through detailed reports on the implementation of sponsoring agreements, surveys and analyses conducted in quarterly and annual cycles by specialised external entities and the supervision of companies of TAURON Capital Group.

In accordance with the implemented procedures, the assessment of effectiveness of the activities conducted was carried out, through opinion surveys, measurement of the value and size of brand exposure in media, in the context of the activities conducted, measurement of implementation of sales targets, with reporting of the obtained results.

As a result of the promotion effectiveness measurement, an independent research entity initially estimated the advertising equivalent in relation to activities completed in 2016. Comparing the summarised value obtained in this way to the sum of all expenditure arising from sponsoring agreements the ROI ratio at a level of approximately 6.34. was obtained. It means that each zloty spent for that purpose generated promotional benefits to TAURON Capital Group whose preliminary value is estimated at approximately PLN 6.34. The ongoing verification of the aforementioned value should not significantly change the value of this ratio.

The confirmation of the financial effectiveness of the activities conducted is the high positioning of TAURON brand in an independent research report, *Sponsoring Monitor 2016*, which is the only source of this type of information on the Polish market. According to this report, TAURON is ranked seventh in the TOP 10 list of sponsors and it is the most active sponsor in the energy sector.

In 2016, sponsoring activity was carried out by TAURON and TAURON Sprzedaż. Both companies implemented the total of 32 projects with 26 customers. The preliminary data related to accomplished advertising equivalents referring to activities ended in 2016 indicate that the best results were achieved by activities under projects in the scope of professional sport, i.e. the agreement with the Polish Basketball League for the season 2015/2016 (inter alia, TAURON Basket Liga), Lang Team (inter alia, Tour de Pologne) and in the scope of culture, i.e. The agreement with Scorpio Studio (Jack Strong film). Among projects under implementation, such activities as sponsoring of KS VIVE TAURON Kielce demonstrated a high potential.

3. RISK MANAGEMENT IN TAURON CAPITAL GROUP

3.1. Objectives and principles of risk management

Taking care for implementation of the applicable Strategy, the Company implements the risk management process in relation to operations of TAURON Capital Group. The risk management system in TAURON Capital Group should provide for predictability of achievement of the strategic goals, including stable creation of the financial result.

In particular, the risk management system:

- 1) comprises all elements of value chain of TAURON Capital Group,
- 2) stipulates centralisation of the function of risk assessment, monitoring and control, ensuring consistent rules of risk management and a possibility to assess a full risk profile in the organisation,
- 3) is a proactive process oriented to adequately early identification of threats, allowing to undertake preventive measures,
- 4) is a systematic process, subject to continuous improvement in order to adjust it to the specific nature and organizational structure of TAURON Capital Group as well as the changing environment,
- 5) puts strong emphasis on building risk management awareness, training and encouraging employees to use knowledge on risks in their daily activities.

3.2. Risk management in the model of “three defence lines”

In order to ensure security of the organisation functioning, the model of “three defence lines” operates in TAURON Capital Group, comprising internal control, independent control within the second defence line and institutional control. In particular, the risk management function creates a system of internal control in TAURON Capital Group constituting an element of the second defence line, next to the function of ensuring the compliance and security management.

The figure below presents the model of “three defence lines”.

Figure no. 42 Model of three defence lines



Functions of individual defence lines:

- First Line of Defence is:** Business units obliged to perform ongoing control embedded in implementing tasks and the functional control.
- Second Line of Defence is:** The function of risk management implemented in accordance with the adopted *Corporate risk management strategy in TAURON Group* and detailed policies related to main risk categories,
 - The function of assuring the compliance understood as adjustment of the organisation to the applicable legal regulations,
 - the function of ensuring information security and technical safety.
- Third Line of Defence is:** internal audit responsible for creating the internal control system and adequate functioning of the three defence lines model.

The figure below presents risk management as a function of the second defence line.

Figure no. 43 Risk management as a function of the second defence line.

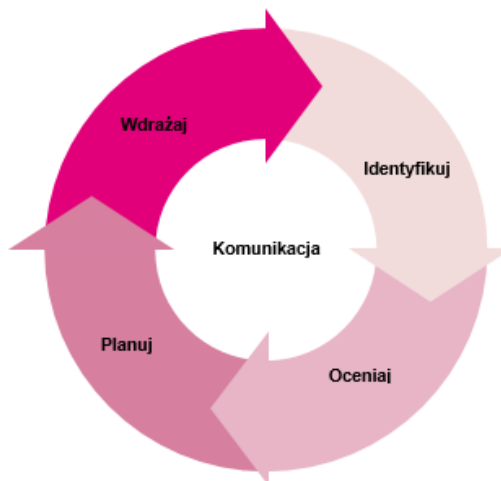


3.3. The risk management process and its participants

The process of enterprise risk management ensures the comprehensive and consistent risk management rules linked with each other in terms of methodology and information. The process of enterprise risk management means continuous measures comprising risk identification, risk assessment, planning of risk response, implementation of the adopted risk response and communication between risk management process participants.

The figure below presents the risk management process.

Figure no. 44 Risk management process



Risk identification - consisting in determining the potential events that may affect the implementation of business goals of TAURON Capital Group.

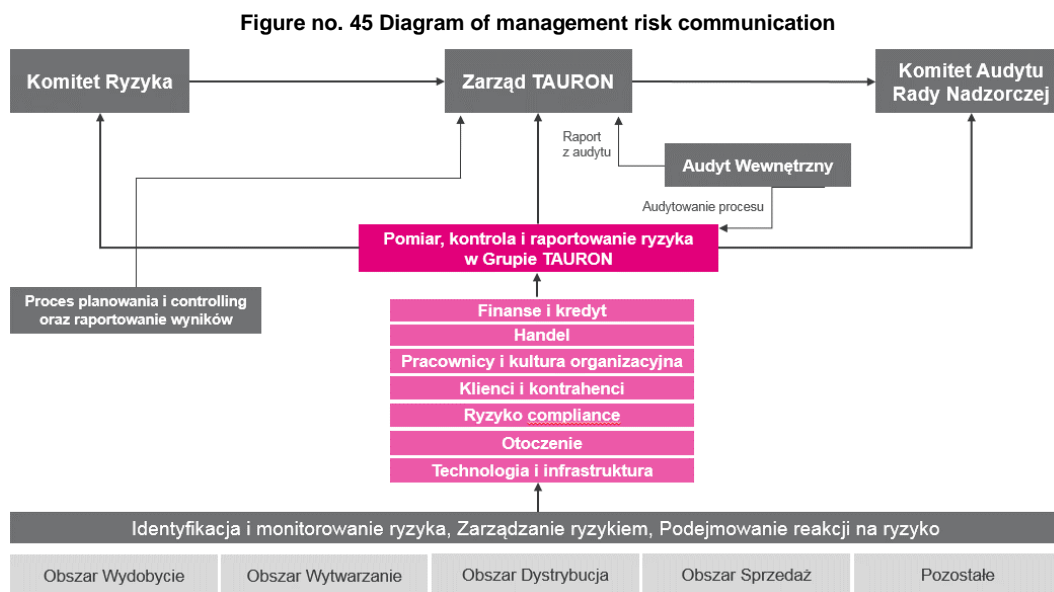
Risk assessment - consisting in determining of potential financial and non-financial effects of risk materialisation influencing the implementation of specific goals.

Planning - consisting in preparation of the dedicated response to the risk identified in order to achieve the desirable goals.

Implementation of risk response - consisting in practical implementation of the responses to identified risk prepared in the planning process.

Communication - consisting in continuous information flow among participants of the process which should ensure full knowledge concerning the current risk status and effectiveness of activities conducted within the response to risk. The periodical risk reporting is also an element of this process.

The figure below presents the risk management process.



3.4. Architecture of the enterprise risk management system (ERM)⁴

The enterprise risk management system (ERM) ensures the comprehensive and consistent risk management rules linked with each other in terms of methodology and information. The rules are described in the *Corporate risk management strategy in TAURON Group* and in associated policies for key risk categories.

The figure below shows the ERM system.



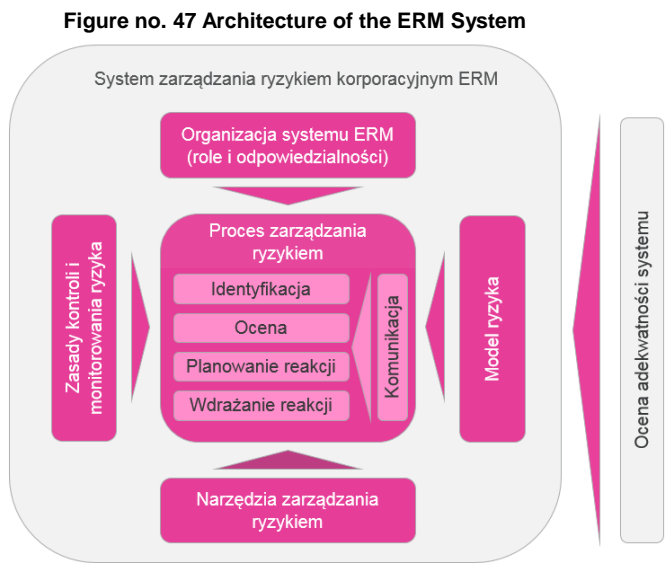
The risk management system described in detail in section 3.3 is the centre of the system. Moreover, the architecture of the ERM system comprises elements to ensure effective functioning of the process, including:

- 1) risk management tools,
- 2) risk models,
- 3) control and monitoring rules,

⁴ - Enterprise Risk Management

4) organisation of the ERM system.

The figure below shows the architecture of the ERM system.



Risk management tools comprise elements allowing for effective implementation of individual stages of the process, such as risk identification questionnaire, risk card, risk register, risk model, risk map, risk tolerance.

Within the framework of **ERM system organisation**, roles and responsibilities of risk management process in TAURON Capital Group were defined. Participants of the process include, in particular: TAURON Supervisory Board, Audit Committee of TAURON Supervisory Board, Management Board of TAURON, Risk Committee, Executive Director for Risk at TAURON, Executive Director for Audit at TAURON, management boards of subsidiaries, Risk Owners, Risk Management Coordinators and Executors of risk response.

The figure below presents the organisational structure and documentation of the risk management process.

Figure no. 48 Organisational structure and documentation of the risk management process

Rada Nadzorcza							
Komitet Audytu							
Zarząd							
Kierownictwo	Komitet Ryzyka					Audyt Wewnętrzny	
	Zespół ds. Zarządzania Ryzykiem Handlowym		Zespół ds. Zarządzania Ryzykiem Finansowym i Kredytowym				
Regulamin organizacyjny	Strategia zarządzania ryzykiem korporacyjnym w Grupie TAURON					Regulamin audytu wewnętrznego	
	Polityka zarządzania ryzykiem handlowym w Grupie TAURON	Polityka zarządzania ryzykiem operacyjnym w Grupie TAURON	Polityka zarządzania ryzykiem w projektach w Grupie TAURON	Polityka zarządzania ryzykiem kredytowym w Grupie TAURON	Polityka zarządzania ryzykiem specyficznym w obszarze finansowym w Grupie TAURON		
	Zespół Ryzyka Rynkowego	Zespół Ryzyka Korporacyjnego		Zespół Ryzyka Kredytowego	Dyrektor Wykonawczy ds. Finansów		
	Dyrektor Wykonawczy ds. Ryzyka						Dyrektor Wykonawczy ds. Audytu Wewnętrznego
	Raportowanie do Rady Nadzorczej, Zarządu TAURON, Członków Komitetu Ryzyka						Raportowanie do Prezesa Zarządu

Risk model defines risk classification, consistent in TAURON Capital Group, enabling harmonised and complex capturing of risk across TAURON Capital Group. Each risk identified is assigned to specific categories and sub-categories.

The figure below presents the number of key risks, broken down into categories.

Figure no. 49 Number of key risks, broken down into categories



In the framework of the implementation of **risk control and monitoring rules** the Management Board of TAURON approves the risk tolerance, taking into consideration the specific nature and scope of operations of TAURON Capital Group. The level of the tolerance is determined as a value and the rules of measurement of individual risks in the organisation ensure the consistency of risk measurement with the applied tolerance definition. The risk tolerance constitutes basis for allocation of its level to the global limits dedicated to a single risk or many specific risks, which may subsequently be allocated to operating limits within specific risk management. A supplementary tool used for risk monitoring and control comprises the system of Key Risk Indicators - KRI and Early Warning Indicators - EWI.

3.4.1. Commercial risk management

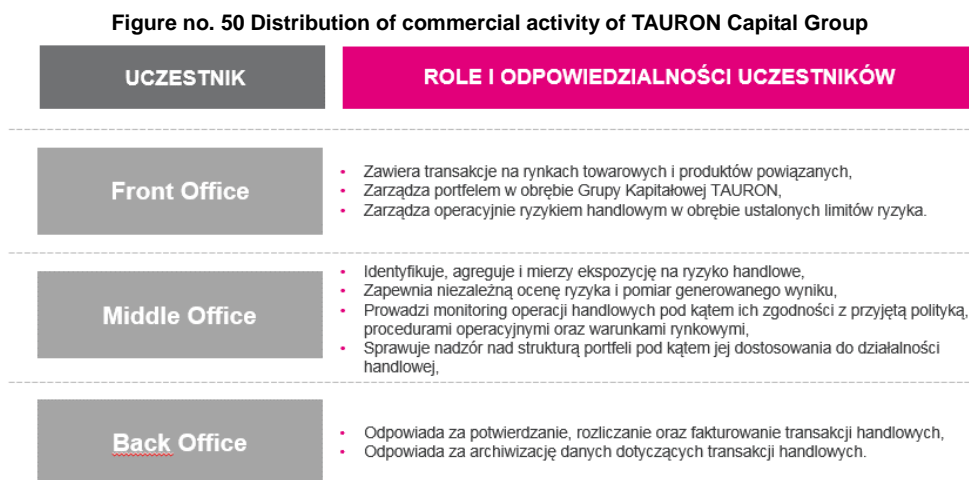
The commercial risk management in TAURON Capital Group is understood as limiting the unplanned volatility of the operating result of TAURON Capital Group, arising from volatility of prices in commodity markets and deviations of the volume in individual areas of commercial activity of TAURON Capital Group. Due to the specific nature of conducted activities, the commercial risk is one of key risks in TAURON Capital Group. TAURON Capital Group comprises companies of the Mining Area, Generation Area and Sales Area. In connection with the occurrence of opposite positions in those Areas the risk is, to a certain extent, subject to natural diversification, however, due to incomplete balancing of those Areas as well as a divergent nature of exposure, TAURON Capital Group demonstrates vulnerability to volatility of prices of electricity, gas and related products.

For the purpose of effective management of this group of risks, a commercial risk management system has been created which is associated in terms of organisation and information with the strategy of hedging the commercial position functioning at a level of TAURON Capital Group. In particular, the applicable *Commercial risk management policy in TAURON Group* introduces the early warning system and the system of limiting risk exposure in individual commercial areas. The basic operating measure of market risk in TAURON Capital Group is the measure of the value exposed to risk, i.e. Value at Risk, determining the maximum allowable change in the value of position in the applied time horizon and at a defined probability level. The Value at Risk is a dynamic risk measure which, contrary to statistical measures, demonstrates the preceding ownership allowing to determine potential adverse effects still before their actual occurrence. The risk area, however, with the awareness of certain limitations of this type of statistical measures, also uses a number of supplementary risk measures used for ensuring safe functioning of trade areas.

The organisational structure of the commercial risk management system stipulated a strict distribution of competences within which risk management is decentralised, whereas risk steering and control takes place centrally, from the level of TAURON. In particular, the element of commercial risk management structure is the division of the commercial activity of TAURON Capital Group into Front, Middle and Back Office. Such a 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 Area and ensures the adequate level of operational flexibility. For the needs of the risk management process such placing of responsibility is assumed that optimum approach to a certain type of threat can be guaranteed, using, in

particular, the effect of scale and the synergy effect. Such approach ensures the effectiveness of commercial processes conducted and the appropriate supervision of one of major business processes conducted within TAURON Capital Group.

The figure below shows the distribution of commercial activity of TAURON Capital Group



3.4.2. Financial risk management

TAURON Capital Group manages financial risk, understood as currency risk and interest rate risk in accordance with the prepared and adopted regulations *Policy of risk management specific for the financial area in TAURON Group*, which is the collection of principles and standards compliant with the best practices in this area. The main goal of financial risk management is to minimise TAURON Capital Group cash flows sensitivity to financial risk factors and to reduce financial costs and collateral costs as a part of transactions with the use of derivative instruments. The indicated 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 International Financial Reporting Standards (IFRS). In accordance with the said policy, TAURON Capital Group, in case where it is feasible and economically justified, uses derivative instruments whose characteristics enables the application of hedge accounting.

Within financial risks, TAURON Capital Group also identifies liquidity risk demonstrated as a possibility of loss or limiting the ability to settle current expenditure due to inadequate level or structure of liquid assets in relation to short-term liabilities, or inadequate level of real net inflows from operating activities. The liquidity situation of TAURON Capital Group is monitored on an on-going basis in terms of potential deviations against the assumed plans and the availability of external sources of financing whose amount significantly exceeds the expected demand in a short term mitigates the risk of losing liquidity. The implemented *Financial Liquidity Management Policy of TAURON Group* defines rules of determining a liquidity position both for individual companies and for the whole TAURON Capital Group, which enables to secure funds to cover a potential liquidity gap, both through allocation of funds among companies (the cash pool mechanism), as well as using external financing, including the overdraft.

Risk associated with financing is identified at three levels:

- 1) Risk of failure to raise new financing, understood as a lack of possibility to acquire new funding, which would result in suspension of the investment process or the lack of possibility to re-finance the current debt,
- 2) Risk of cost increase understood as the growth in financing margin,
- 3) Risk of termination of financing in case of infringement of covenants and the necessity to repay current financing.

Within the mitigation of risk associated with financing the Company conducts a policy of funding acquisition at least 24 months in advance in relation to the planned date of its use. It means that TAURON should hold signed programmes of guaranteed financing or hedge this financing through collection of funds on TAURON accounts. Such a policy is mainly aimed at ensuring a higher comfort in acquisition of external financing and reducing the risk of incurring new liabilities under unfavourable market conditions. At the same time, the Company diversifies financing sources by active measures in the scope of acquisition of various debt instruments, also outside the Polish market.

3.4.3. Credit risk management

Credit risk refers to potential losses resulting from the failure of trade partners to fulfil the contractual obligations. The commercial activity of TAURON Capital Group is exposed to credit risk - customers are evaluated from the perspective of

their creditworthiness. The general rule is that the customer, prior to concluding of a contract, is subject to examination of its financial standing and receives a credit limit constituting limiting of the maximum exposure due to commercial engagement.

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. The applicable *Credit risk management policy in TAURON Group* defines the set of principles and rules in the scope of credit risk management at a level of TAURON Capital Group, to result in effective mitigation of credit risk impact on the implementation of the TAURON Group objectives. 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. 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.

The figure below shows the components of credit exposure.

Figure no. 51 Components of credit exposure



The value of credit risk to which TAURON Capital Group is exposed is monitored using the Value at Risk method, with the application of the Credit Risk Plus model. It is an analytical method which, through the Monte Carlo simulation, calculates the value at risk based in distribution of probability of total loss, determined based on credit exposure and financial standing of clients.

3.4.4. Operating risk management

Operating risk is understood as a possibility to incur a loss due to inadequate or unreliable internal procedures, human error and system failure, or external events, also comprising legal risk, reputation risk and risk of non-compliance. Operating risk, due to the specific nature of threats and possibilities to manage it, constitutes a separate risk group occurring in activities of TAURON Capital Group. The said risk is a complex phenomenon, it occurs in each process and type of activity, it is multidimensional and relates to various types of activities and operations. The level of operating risk is associated with the level and complexity of organizational structure, number and complexity of IT systems and the number of conducted business processes. Operating risk demonstrates the lack of possibility of total elimination of its sources and the analysis of its factors and parameters (inter alia, frequency and severity) as well as their assessment requires complex methods of analysis and measurement.

In TAURON Capital Group a set of rules of operation and procedures has been defined with the purpose of minimisation of risk effects arising from operating risk. Those rules cover all elements of the value chain of TAURON Capital Group and all the employees of TAURON Capital Group take part in the risk management process. Each unit in the organisational structure assuming operating risk is responsible for active management of its operating risk under the activity implemented.

With the aim of effective implementation of the operating risk management process, TAURON Capital Group uses tools, including, inter alia, the operating risk profile, the base of operating events, the global limit of operating risk and the associated system of operating limits, including the early warning system.

The figure below presents the tools of the risk management process.

Figure no. 52 Tools of the risk management process



Global limit for operating risk is the basic tool of operating risk control constituting the allocation of risk tolerance adopted in TAURON Capital Group. The global limit for operating risk may be subsequently allocated to individual activity areas of TAURON Capital Group, subcategories of operating risk as well as to individual operating risks.

Operating risk profile is aimed at identification of areas, processes or activities excessively exposed to threats arising from individual operating risk factors. The operating risk profile is expressed, in particular, in the structural dimension comprising types of operating events, organisational structure of TAURON Capital Group and processes, in the dimension of scale comprising estimated potential losses, taking into account, in particular, historic values of real losses as well as tools used in order to mitigate threats. For the needs of operating risk measurement and defining the operating risk profile, individual types of operating risk are divided (due to the nature of their occurrence) into continuous and one-off risks.

Early warning system is defined in order to monitor operating risk level for each identified threat. From the set of Key Risk Indicators - KRI, Early Warning Indicators - EWI, are separated, subject to permanent control in terms of prudential thresholds determined for them, i.e. the threshold of acceptance, mitigation and escalation.

Base of operating events is created for the needs of identification of new risk factors in order to determine risk profile in TAURON Capital Group. It allows for recording of cases demonstrating the potential or real loss for the organisation. The objective of maintaining the base of operating events is to determine the frequency and the severity of individual operating risk factors as well as areas and processes in which they occur.

3.4.5. Risk Management in projects

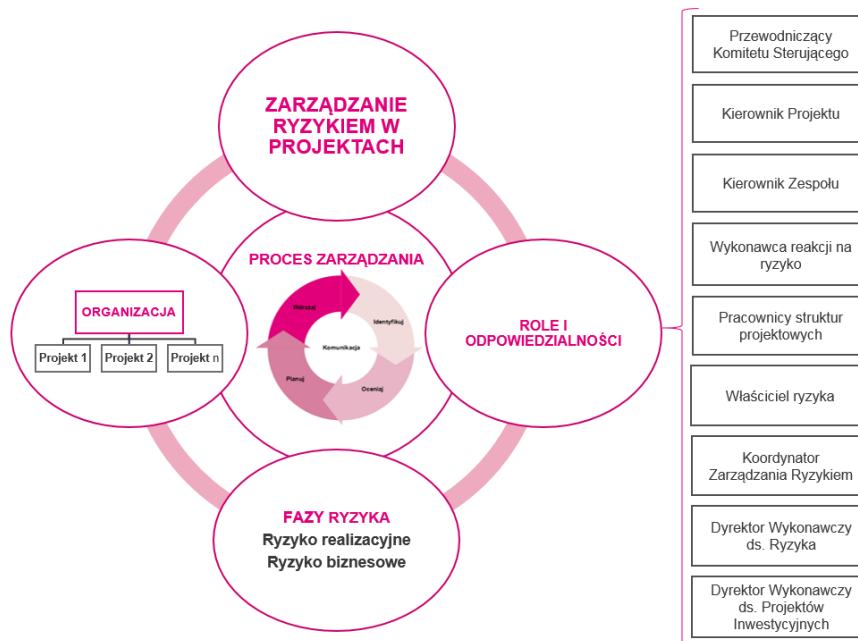
Risk management in projects supports the implementation of strategic goals of TAURON Capital Group owing to systematic application of the provisions of the applicable *Policy of Risk Management in Projects in TAURON Group*. This regulation defines the basic rules of risk management in projects, ensuring the consistency in their application, completeness of the approach and explicit understanding. The objective of the activities undertaken is to achieve the required probability of project implementation maintaining the defined schedule, budget and quality of received products. The overriding objective is to gain the expected benefits arising from project implementation.

Risk management in projects refers to any types of risk associated with planning and implementation of projects and each referred project structure undertaking risk is responsible for active management of this risk under the project implemented.

Moreover, in order to ensure effective risk management in projects in TAURON Capital Group, the requirements of the complex ERM system were introduced into this area.

The figure below presents the model of risk management in projects.

Figure no. 53 Model of Risk Management in projects



3.5. Description of the most significant risks associated with the operations of TAURON Capital Group

The table below presents the most significant risks identified for TAURON Capital Group.

Table no 10. The most significant risks identified for TAURON Capital Group.

No.	Risk Name	Risk description	Risk trend	Risk response
Finance and credit				
1.	Risk of market factors	Risk connected with unfavourable impact of interest rates and currency exchange rates on the financial result of TAURON Capital Group.	↘	<ul style="list-style-type: none"> • Current monitoring of the level of exposure to risk in order to mitigate adverse effects of changes in market factors. • Risk transfer through the use of derivatives.
2.	Risk of liquidity / financing	Risk associated with the method of financing the activity arising from the structure of capital in the enterprise.	→	<ul style="list-style-type: none"> • Diversification of financing sources including the arrangement of guaranteed financing programmes and ensuring alternative financing sources. • Implementation of the central financing policy. • Analysis of the market and availability of financing sources. • Monitoring of schedules and deadlines of announcement of the financing programme.
3.	Credit risk	Risk associated with a possibility of occurrence of overdue receivables or concluding of a contract with a customer which may turn out insolvent.	→	<ul style="list-style-type: none"> • Regular monitoring of the financial standing of customers. • Cyclical clients' scoring, credit rating of each client prior to the submission of the offer/concluding of the contract. • Application of hedges in commercial agreements.
Trade				
4.	Risk of goods prices	Risk associated with the unfavourable change in prices in the energy market and markets of related products exerting adverse impact on the financial result of the Group.	↗	<ul style="list-style-type: none"> • Monitoring and updating of hedging strategy. • Current monitoring of the level of exposure to risk in order to mitigate adverse effects of changes in market factors. • Limiting of trade positions within risk mandates.
Employees and organisational culture				
5.	Risk of employees	Risk connected with the infringement of the binding legal regulations, rules, procedures and internal regulations applicable in TAURON Capital Group.	→	<ul style="list-style-type: none"> • Undertaking measures aimed at developing the model strengthening employee motivation. • Development of competence through employee training. • Application of binding internal instructions and regulations.

No.	Risk Name	Risk description	Risk trend	Risk response
		The risk also comprises the issue of errors and negligence of employees as well as a possibility of class actions and employee claims as well as loss of specialised staff whose competence is difficult to replace.		
Clients and customers				
6.	Risk of customer service	Risk associated with failure to comply with the customer service standards.	↘	<ul style="list-style-type: none"> Monitoring and analysis of external client satisfaction indicators and indicators related to complaints. Undertaking additional measures, e.g. in the area of internal regulations defining the standards of procedure as a result of indicator analysis. Development of competence and skills of key account managers. Continuous raising of customer service standards.
7.	Risk of contract implementation by subcontractors	Risk associated with undue fulfilment of assigned work by subcontractors, rescinding of the agreement and associated delays, changes in budget, scope.	→	<ul style="list-style-type: none"> Concluding agreements with subcontractors compliant with the standards of TAURON Capital Group. Analysis of the subject matter of the agreement, examining the quality of services performed by subcontractors. Evaluation of financial standing and reliability of subcontractors.
8.	Risk of volume	Unfavourable changes or termination of commercial agreements by clients, leading to the decline in revenue from conducted activity.	→	<ul style="list-style-type: none"> Conducting marketing activities, acquiring new clients. Conducting activities focusing on maintaining the existing clients and recovery of lost clients. Current product updating, introduction of multipackage type of product into sale.
Compliance risk				
9.	Risk of internal fraud	Misappropriation or temporal use of elements of the company assets, destruction of TAURON Capital Group assets, abuse of official position to acquire various types of personal benefits through enforcing specific client behaviour while performing official duties.	→	<ul style="list-style-type: none"> Strict application of internal procedures aimed at securing against abuse (security procedures, reviews of authorisations). Conducting compliance-oriented measures. Promoting best practice, improvement of procedures, training. Enforcement and promoting of the provisions of the <i>Code of Business Ethics of TAURON Group</i>.
10.	Risk of external fraud	Actions of third persons aimed at, inter alia, theft, robbery, physical burglary, computer crime, theft of information, counterfeiting.	→	<ul style="list-style-type: none"> Monitoring of potential and real incidents associated with security. Anti-virus protection at workstations. Physical security of facilities. Performing security tests.
11.	Risk of concessions	Lack of possibilities to carry out activity as a result of prolonged process of concession acquisition or obtaining changes of concessions held. Unfavourable legal amendments the regulating licensed activity.	→	<ul style="list-style-type: none"> Current control of appropriate fulfilment of concessional obligations. Monitoring of amendments to legal acts in terms of concessional obligations. Legal support to the process associated with extension of concession.
12.	Risk of failure to comply with the legal regulations	Risk associated with the failure to comply with the legal regulations, wrong interpretation of new provisions and regulations, requirements imposed by ERO / UOKiK / KNF / GIODO etc.	→	<ul style="list-style-type: none"> Permanent monitoring of the legal environment and changes in legal regulations. Implementation of required amendments to internal regulations. Establishment of working groups aimed at preparation and implementation of required amendments arising from the legal environment. Permanent cooperation with authorities supervising the energy market and the capital market. Training of employees related to introduced amendments.
Environment				
13.	Risk of reputation	Current and future impact on incomes and capital of the company arising from the negative assessment of public opinion.	→	<ul style="list-style-type: none"> Permanent monitoring internal and external threats of the Company. Monitoring of media, building relations with media within TAURON Capital Group.

No.	Risk Name	Risk description	Risk trend	Risk response
				<ul style="list-style-type: none"> Preparation of communication procedures of the Company with the external and internal environment.
14.	Risk of competition	Unfavourable impact of competition activities on clients and financial results of TAURON Capital Group.	↗	<ul style="list-style-type: none"> Launching product lines dedicated for clients. Launching sales of additional products for current loyal customers. Introduction of a possibility to combine TAURON products into multi-offers.
15.	Regulatory risk	Unfavourable impact of legislation at the national and European level arising from, the necessity to adopt or adjust to legal regulations and incur required financial costs in order to comply with them.	↗	<ul style="list-style-type: none"> Permanent monitoring of the legal environment and changes in legal regulations. Analysis of draft legal acts and planning required adjustment activities. Implementation of required amendments to internal regulations.
Technology and Infrastructure				
16.	Environmental risk	Potential adverse effect of activity on the environment and adjustment and compliance with the environmental requirements of the national and Community law.	→	<ul style="list-style-type: none"> Current oversight of compliance with environmental decisions. Maintaining a required level of efficiency of pollution abatement equipment. Performing frequent assessment of compliance of activities with the legal requirements in the scope of environmental protection. Implementation of investments in the scope of environmental protection in order to mitigate effects of unfavourable impacts of conducted mining and processing activity.
17.	Risk of weather	Impact of atmospheric factors in functioning of the enterprises, both in technological and commercial terms.	→	<ul style="list-style-type: none"> Modernisation of water structures aimed at optimisation of the method to use water resources. Preparation of renovation plans, overhauls and service with flexible provisions concerning the deadlines of performing the works. Permanent monitoring of the wind conditions and icing of wind turbine blades. Permanent technical oversight of the operation of individual wind turbines conducted by companies operating wind farms. Monitoring and analysis of new technological solutions limiting the impact of unfavourable weather conditions on the level of electricity produced.
18.	Risk of assets failure	Impact of failure of machines and equipment, repairs, modernisation, maintenance and management of production and non-production assets for the company needs.	→	<ul style="list-style-type: none"> Optimisation of capex for assets replacement, active monitoring of the condition of machines, equipment and installations. Upgrading professional qualifications and work culture of employees through organising courses and training activities. Responding to emergency situation through technical service and protective automation. Insuring assets against force majeure events (excluding underground). Introduction of IT tools in the area of improvement of monitoring and management of failure indicators.
19.	IT Risk	Risk associated with security of IT infrastructure, failures of IT infrastructure.	↗	<ul style="list-style-type: none"> Elaboration and maintaining plans of IT continuity assurance. Periodical identification and categorisation of IT resources based on goals related to recovery of services. Application of IT solutions with the adequate technical parameters, ensuring the acceptable level of reliability and operating efficiency (including UPS devices, GSM modem, mobile phones). Planning and conducting of training in the scope of IT continuity. Storage and protection of backup data.
20.	Security risk	Risk connected with the violation of integrity of machines and equipment and security of information comprising	→	<ul style="list-style-type: none"> Monitoring of implementation of developed plans of protecting facilities subject to mandatory security. Maintaining and updating of contingency

No.	Risk Name	Risk description	Risk trend	Risk response
		its inappropriate processing and unauthorised disclosure.		plans/procedures. <ul style="list-style-type: none"> Supervision of compliance with the binding information protection rules. Regular employee training in the scope of applicable security procedures.
21.	Geological risk	Impact of geological factors on mining activities.	→	<ul style="list-style-type: none"> Performing control openings for better identification of coal deposits. Continuation of preventive measures in areas at risk for the improvement of geological and mining conditions and protection against natural disasters (including, inter alia, preliminary shooting in order to decompress the rock mass).

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

4.1. 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 11. Annual separate statement of comprehensive income in 2016 - 2014

Statement of comprehensive income prepared in accordance with the IFRS (PLN thousand)	2016	2015	2014	Dynamics (2016/2015)
Continued operations				
Revenues on sales	7,995,328	9,062,246	8,689,799	88%
Own cost of goods, materials and services sold	7,837,567	9,073,869	8,526,855	86%
Gross profit (loss) from sales	157,761	(11,623)	162,944	-
Other operating revenues and costs	(91,670)	4,969	1,359	-
Sales costs	19,326	21,372	25,286	90%
Overheads	81,368	96,341	80,365	84%
Operating profit (loss)	(34,603)	(124,367)	58,652	28%
<i>Operating profit margin (%)</i>	(0.4)%	(1.4)%	0.7%	32%
Financial revenues	1,989,049	1,960,061	1,511,327	101%
Revaluation write-offs of stocks and shares	(1,610,396)	(4,931,147)	-	33%
Other financial revenues and costs	(136,237)	1,714	397,452	-
Gross profit (loss)	(149,134)	(3,450,794)	1,172,527	4%
<i>Gross profit margin (%)</i>	(1.9)%	(38.1)%	13.5%	5%
Income Tax	17,119	3,114	26,084	550%
Net profit (loss) from continuing operations	(166,253)	(3,453,908)	1,146,443	5%
<i>Net profit margin (%)</i>	(2.1)%	(38.1)%	13.2%	5%
Other total income	104,024	69,720	(17,054)	149%
Total income	(62,229)	(3,384,188)	1,129,389	2%
EBITDA	(27,078)	(115,856)	78,146	23%
<i>EBITDA Margin (%)</i>	(0.3)%	(1.3)%	0.9%	26%

In 2016, as compared to 2015, both revenue on sales and costs of the Company activity were lower, which is mainly associated with a lower level of trade in electricity (the volume of sales and purchase of energy decreased by

approximately 7.6 TWh YoY). Despite lower costs the Company recorded a negative level of operating profit, mainly due to creation in 2016 of the provision for tax risks in connection with ongoing control proceedings as well as recognising a liability as a result of declaring of payment by the Company to the foundation fund of the Polish National Foundation. The negative operating result of 2015 is the effect of created provision for agreements generating burden, arising from the joint venture at EC Stalowa Wola.

In 2016, 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. A new Business Model was also implemented, defining the assumptions of functioning of the Company and TAURON Capital Group and the distribution of tasks and responsibilities among defined units: Corporate Centre (holding activity), Business Areas (including commercial activity of TAURON) and Centres of Common Services.

In 2016, similar to 2015, impairment write-offs were recognised in financial expenses 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.

Revenue

The table below presents the level of revenue on sales of the Company in the years 2016 - 2014.

Table no 12. Revenues on sales of the Company

Specification (PLN thous.)	2016	2015	2014	Change in % (2016/2015)
Revenues on sales	7,995,328	9,062,246	8,689,799	88%
Revenue on sales of goods and materials	7,899,621	8,963,672	8,564,045	88%
including: Sales of electric energy (without excluding excise duty)	7,255,819	8,558,477	7,925,020	85%
Revenue on sales of services	95,707	98,574	125,754	97%
including: Sales of commercial services	54,517	56,703	57,641	96%
Revenue on other operating activity	1,041	7,103	2,821	15%
Revenue on financial activity	2,014,974	1,983,903	1,511,327	102%

The decline in revenue on sales in 2016 as compared to 2015 is mainly associated with a lower volume of sales of electricity. In 2016 the Company continued activities as an intermediary in coal purchase transactions for companies of the Generation Segment (in the comparable period, also in the scope of biomass purchase). The Company buys raw materials from companies of TAURON Capital Group and from entities outside TAURON Capital Group, whereas the whole sales is performed to the companies of TAURON Capital Group. The Company recognises revenues only due to intermediary services, i.e. organisation of supplies.

The growth in revenues on financial activities gained in 2016, as compared to 2015, results mainly from the higher interest on bonds and loans.

Due to conducted holding activities the Company recognises significant financial revenues due to dividends. In 2016 the Company recognised revenues due to dividend in the amount of PLN 1,485.2 million and in 2015 the revenues due to dividend amounted to PLN 1,510.6 million.

The table below presents the level of revenues on sales of the Company in the years 2016 - 2014, divided into products.

Table no 13. Revenues on sales of the Company, divided into products

Specification (PLN thous.)	2016	2015	2014	Change in % (2016/2015)
Electricity	7,255,819	8,558,477	7,925,020	85%
Gas	236,215	119,774	76,970	197%
Property rights of energy origin	36,137	186,358	378,235	19%
Greenhouse gas emission allowances	363,500	94,031	183,451	387%
Other	7,950	5,032	369	158%
Total revenues on sales of goods and materials	7,899,621	8,963,672	8,564,045	88%
Commercial services	54,517	56,703	57,641	96%

Specification (PLN thous.)	2016	2015	2014	Change in % (2016/2015)
Other	41,190	41,871	68,113	98%
Total revenues on sales of services	95,707	98,574	125,754	97%
Total revenues on sales	7,995,328	9,062,246	8,689,799	88%

The decline in revenue on sales of electricity in 2016 arises from a lower volume of electricity trade (wholesale) by approximately 7.6 TWh (15%), as compared to 2015 as a result of, inter alia, reduced liquidity of forward products and a lower demand from sales companies of TAURON Capital Group. On the other hand, revenues on gas sales were higher (due to increased volume as a result of acquisition of new clients by sales companies of TAURON Capital Group).

The level of revenues on sales of property rights of energy origin in 2016 was lower than in previous years, mainly due to significant decline in prices of property rights (oversupply in the market, in particular for PMOZE) and the occurrence of additional transactions in previous years for hedging of TAURON Capital Group companies.

Revenues on sales of greenhouse gases allowances comprise sales to companies of TAURON Capital Group for the purpose of redemption (in connection with the fulfilment of the obligation arising from greenhouse gas emission) - in 2016 sales to subsidiaries amounted to PLN 363 million (in 2015: PLN 91.6 million) and the profit on reserves of emission allowances purchased with the intention of sales and accomplishment of profit, at a short-term, resulting from volatility of market prices. In 2016 the total profit due to trade in reserves of rights to greenhouse gas emission amounted to approx. PLN 0.5 million, while in 2015 - it reached about PLN 2.5 million.

The Company continued to act as an intermediary in transactions of coal purchase for the TAURON Capital Group companies. In the year ended on 31 December 2016 the value of commodities purchased and simultaneously resold as a result of the above transactions amounted to PLN 1,418.6 million, whereas the Company recognised revenues due to the intermediary services in the amount of approximately 31,9 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 2016 and 31 December 2015 reached PLN 190.8 million and PLN 400,7 million, respectively.

Expenses

The table below presents the level and structure of costs incurred by the Company in the years 2016 - 2014.

Table no 14. Level and structure of costs

Specification (PLN thous.)	2016	2015	2014	Dynamics (2016/2015)
Total costs	10,160,477	14,504,046	9,031,420	70%
Cost of goods, materials and services sold	7,837,567	9,073,869	8,526,855	86%
Costs of sales and overheads	100,694	117,713	105,651	86%
Costs of other operating activities	92,711	2,134	1,462	4,344%
Costs of financial activities	2,129,505	5,310,330	397,452	40%

In 2016 the total costs of the Company activity constituted 70% of the level of costs of 2015, mainly as a result of recognising impairment write-offs for the value of stocks and shares in subsidiaries in financial costs in both years and in 2016 - the result on sales of shares in Nowe Brzeszcze GT.

Cost of goods, materials and services sold in 2016 is lower by approximately 14% as compared to 2015, which was mostly affected by lower costs of electricity purchase arising from the lower electricity purchase volume.

In relation to 2015, costs of sales and overheads in 2016 were lower by approximately 14%. The decline was mainly related to costs of remuneration and benefits as well as external consultancy services.

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

The financial costs comprise results of revaluation of stocks and shares associated with the performance of impairment tests and reversal of write-offs on the value of stocks and shares in subsidiaries:

- 1) the result of impairment tests conducted as at 30 June 2016 indicated the loss in the carrying amount of stocks and shares in subsidiaries at a level of PLN 1,440.3 million and the reversal of the write-off at a level of PLN 443.3 million.
- 2) the result of impairment tests conducted as at 31 December 2016 indicated the loss in the carrying amount of stocks and shares in subsidiaries at a level of PLN 415.4 million.

The growth in other financial costs in 2016 as compared to 2015 arises mainly from the surplus of exchange losses over exchange gains at a level of PLN 29.7 million, in connection with the valuation of a loan in EUR and recognising the loss on sales of shares in the subsidiary, received from the subsidiary, Nowe Brzeszcze GT with the value of PLN 88.3 million.

Financial end economic standing of the Company

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

Table no 15. 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 2016	Status as of 31 December 2015	Status as of 31 December 2014	Dynamics (2016/2015)
ASSETS				
Fixed assets	25,855,329	24,866,370	26,617,011	104%
Stocks and shares	14,870,418	15,933,194	20,809,799	93%
Bonds	9,615,917	7,451,601	5,522,725	129%
Loans granted	1,292,800	1,417,165	198,331	91%
Current assets	1,817,047	1,607,786	3,723,519	113%
Inventory	284,799	249,492	177,272	114%
Trade receivables and other receivables	961,242	623,209	982,582	154%
Bonds	242,465	215,040	1,276,001	113%
Cash and equivalents	198,090	168,255	1,228, 880.	118%
TOTAL ASSETS	27,672,376	26,474,156	30,340,530	105%
LIABILITIES				
Equity	16,530,268	16,592,497	20,239,567	100%
Long-term liabilities	8,969,976	5,069,118	7,511,096	177%
Liabilities due to debt	8,754,047	4,876,546	7,405,005	180%
Short-term liabilities	2,172,132	4,812,541	2,589,867	45%
Liabilities due to debt	1,433,929	4,057,048	1,803,255	35%
Liabilities towards suppliers and other liabilities	585,396	517,220	631,125	113%
Derivatives	560	96,942	102,615	1%
TOTAL LIABILITIES	27,672,376	26,474,156	30,340,530	105%

Stocks and shares - as a result of conducted impairment tests due to the loss of value of stocks and shares of subsidiaries, impairment write-offs were applied against the value of shares in TAURON in the amount of PLN 1,156.1 million, for shares in TAURON EKOENERGIA in the amount of PLN 939.8 million, and impairment write-offs for shares in TAURON Ciepło were reversed in the amount of PLN 443.3 million, which is described in more detail in Note 20 to the financial statement for the year ended on 31 December 2016. During the year, increase in capital in TAURON Wydobycie was also performed in the amount of PLN 340 million and the increase in capital of Nowe Brzeszcze GT through the acquisition of new shares, by the total amount of PLN 182.9 million. At the same time, in September 2016 the agreement for sales of shares of Nowe Brzeszcze GT was signed, for which TAURON recognised a loss of PLN 88.3 million.

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

According to the status as at 31 December 2016 and 31 December 2015, the equity amounted, respectively, to 60% and 63% 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 2016, referred to bonds issued under the bonds issue programme at the level of PLN 6,942.1 million, loans from subsidiaries drawn under the *Agreement on cash pool services*, in the amount of PLN 1,245.5 million, credits received from EIB in the amount of PLN 1,190.5 million (including interest), the loan from the subsidiary in the amount of PLN 30,3 million and the overdraft in the amount of PLN 15.1 million, 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 16. Statement of Cash Flows (significant items)

Statement of Cash Flows prepared in accordance with the IFRS (PLN thousand)	2016	2015	2014	Dynamics (2016/2015)
Cash flows from operating activities				
Gross profit (loss)	(149,134)	(3,450,794)	1,172,527	4%
Adjustments	(83,753)	3,608,403	(1,608,403)	-
Net cash from operating activities	(232,887)	157,609	4,463	-
Cash flows from investment activities				
Purchase of stocks and shares	(543,603)	(53,377)	(98,625)	1,018%
Purchase of bonds	(2,770,000)	(4,155,000)	(3,745,520)	67%
Redemption of bonds	540,000	2,267,266	2,004,067	24%
Repayment of loans granted	142,024	14,500	11,700	979%
Loans granted	(23,575)	(168,124)	(18,050)	14%
Dividends received	1,485,152	1,510,624	1,076,835	98%
Interest received	474,126	267,464	310,066	177%
Net cash from investment activity	(619,543)	(318,640)	(438,236)	194%
Cash flows from financial activities				
Issue of debt securities	4,284,607	310,000	2,950,000	1,382%
Redemption of debt securities	(3,300,000)	(450,000)	(1,148,200)	733%
Credits/ loans drawn	0	322,358	693,273	0%
Credits/ loans repayment	(132,818)	(132,818)	(132,818)	100%
Dividends paid	0	(262,882)	(332,984)	0%
Interest paid	(351,147)	(344,332)	(314,904)	102%
Net cash from financial activity	486,164	(587,079)	1,701,129	-
Increase/(decrease) in net cash and equivalents	(366,266)	(748,110)	1,267,356	49%
Net exchange differences	1,179	1,147	(186)	103%
Cash opening balance	(679,175)	68,935	(1,198,421)	-
Cash closing balance	(1,045,441)	(679,175)	68,935	154%

The status of cash received from operating, investment and financial activities of the Company for 2016, considering the status of opening balance of cash flows, amounted to PLN (1,045.4) 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.

4.2. 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.

4.3. Basic financial and non-financial ratios

Financial ratios

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

Table no 17. Basic financial indicators of the Company

No.	Specification	2016	2015	2014	Change in % (2016/2015)
1.	Gross Profitability (gross result / revenue on sales)	(1.9)%	(38.1)%	13.5%	4.9%
2.	Net Profitability (net result / revenue on sales)	(2.1)%	(38.1)%	13.2%	5.5%
3.	Return on equity (gross result / equity)	(0.9)%	(20.8)%	5.8%	4.3%
4.	Return on assets (net result / total assets)	(0.6)%	(13.0)%	3.8%	4.6%
5.	EBIT (PLN thous) (result on operating activities)	(34,603)	(124,367)	58,652	27.8%
6.	EBIT Margin (EBIT / revenue on sales)	(0.4)%	(1.4)%	0.7%	31.5%
7.	EBITDA (PLN thous) (result on operating activities before depreciation)	(27,078)	(115,856)	78,146	23.4%
8.	EBITDA Margin (EBITDA / revenue on sales)	(0.3)%	(1.3)%	0.9%	26.5%
9.	Current liquidity ratio (current assets / short-term liabilities)	0.84	0.33	1.44	250.4%

The negative value of EBIT in 2016 was affected by: recognised liability of the Company in connection with the declaration of payment to the founding fund of the Polish National Foundation and the created provision for tax risk in connection with the ongoing control procedure. The negative value of EBIT for 2015 was mainly affected by creation of the provision for agreements generating liabilities arising from the joint venture of EC Stalowa Wola in the amount of PLN 182.9 million.

The negative value of the gross and net financial result in 2016 comprised the created and reversed write-offs for the value of stocks and shares in subsidiaries for the amount of PLN 1,412.4 million and the result on sales of shares in Nowe Brzeszcze GT in the amount of PLN 88.3 million. On the other hand, the negative value of the gross and net financial result in 2015 was affected by the created write-off for the revaluation of stocks and shares in subsidiaries due to conducted impairment tests for the total amount of PLN 4,931.1 million.

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 2016.

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.

4.4. Income from the issue of securities

In 2016 TAURON conducted issues of bonds under programmes concluded so far (i.e. the programme of long-term bonds concluded with Bank Gospodarstwa Krajowego (BGK) and the bond issue programme of 24 November 2015 concluded with the consortium of banks), as well as under the new financing acquired from EIB, referred to below.

Issue of bonds and their acquisition by EIB

On 14 December 2016, the following agreements were signed between TAURON and EIB:

- a) project agreement (the "Project Agreement") determining detailed requirements relating to the financed investment task,
- b) subscription agreement (the "Subscription Agreement") providing basis for conducting the issue of hybrid bonds ("Bonds") with the value of EUR 190,000 thousand. Funds to be acquired through the issuance of Bonds will be allocated for covering expenditure of TAURON Dystrybucja associated with the development and modernisation of power grid infrastructure in the years 2016-2020.

The Bonds issued will represent subordinated, unsecured bearer coupon securities to be acquired by the EIB under the operations of the European Fund for Strategic Investments launched by the EIB in cooperation with the EC for the purpose of implementation of so-called Juncker Plan. In accordance with the Subscription Agreement the Bonds were issued in a single series on 16 December 2016. The redemption deadline will fall 18 years after the issue date, whereas in accordance with hybrid financing characteristics, the first financing period of 8 years has been defined ("1st Financing Period"), during which neither earlier redemption of the Bonds by the Company nor earlier sale of the Bonds by the EIB to third parties will be possible (in both cases, subject to exceptions defined in the Agreement). In the 1st Financing Period, the Bonds will bear interest at a fixed rate, whereas in the consecutive 10-year financing period ("2nd Financing Period") - at a floating rate (Euribor 6M) increased by the agreed margin. The Agreement stipulates a possibility to postpone payment deadlines of interest on Bonds, maximum until the day of redemption of the Bonds or until the fifth day following taking the decision on payment of the dividend. As a result of subordinated nature of the Bonds, in case of TAURON bankruptcy or liquidation, any liabilities arising from the Bonds will have a priority order for the payment only before TAURON shareholders' claims. The issue of Bonds has a positive impact on the financial stability of TAURON since the Bonds are excluded from calculation of the debt ratio constituting a covenant for some TAURON financing programmes. Moreover, 50% of the Bonds amount has been classified as equity in the rating model by the rating agency, which has a positive impact on the rating of TAURON. The bonds obtained rating of Fitch rating agency at a level of BB+.

Under the aforementioned bond issue programme, on 16 December 2016 TAURON issued bonds for the total amount of EUR 190,000 thousand.

Issue of bonds and their acquisition by BGK

Within the long-term bond issue programme concluded on 31 July 2013, as amended by subsequent annexes, between the TAURON and BGK, in 2016 TAURON issued bonds for the total amount of PLN 490,000 thousand according to the following specification:

- 1) on 8 January 2016, issue of three series of bonds, with the total nominal value of PLN 210,000 thousand, with the redemption term in the years 2023-2025,
- 2) on 9 December 2016, issue of four series of bonds, with the total nominal value of PLN 280,000 thousand, with the redemption term in the years 2026-2029.

Issue of bonds and their acquisition by commercial banks

Under the bond issue programme concluded on 24 November 2015 between the Company and the consortium of banks, in 2016 TAURON issued bonds for the total amount of PLN 2,950,000 thousand according to the following specification:

- 1) on 29 February 2016 the issue of bonds with the total nominal value of PLN 2,250,000 thousand, with the redemption term on 29 December 2020,
- 2) on 25 March 2016 the issue of bonds with the total nominal value of PLN 100,000 thousand, with the redemption term on 25 March 2020,
- 3) on 30 March 2016 the issue of bonds with the total nominal value of PLN 300,000 thousand, with the redemption term on 30 September 2016,
- 4) on 09 December 2016 the issue of bonds with the total nominal value of PLN 300,000 thousand, with the redemption term on 09 December 2020,

The objective of the issue of bonds was the financing of CAPEX of TAURON Capital Group, excluding the bonds issued on 29 February 2016 issued in order 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 the aforementioned event is presented in detail in section 2.7 of this report.

The table below presents the specification of issued and non-redeemed bonds as at 31 December 2016.

Table no 18. Specification of issued and non-redeemed bonds as at 31 December 2016.

No.	Value of issued bonds (thousand)	Type and level of interest rate	Redemption term of the last series	Balance as at 31 December 2016 (thousand)
1.	PLN 1,750,000	WIBOR 6M + fixed margin	04.11.2019	PLN 1,750,000
2.	PLN 1,700,000	WIBOR 6M + fixed margin	20.12.2029	PLN 1,700,000
3.	PLN 2,650,000	WIBOR 6M + fixed margin	29.12.2020	PLN 2,650,000
4.	EUR 190,000	Fixed interest	16.12.2034	EUR 190,000

4.5. Financial instruments

4.5.1. 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 2016 TAURON hedged the risk of volatility in cash flows resulting from the indebtedness held, based on WIBOR reference rate. Moreover, in 2016, TAURON hedged the currency exposure arising within the commercial activities (mainly due to the CO₂ emission allowances trading) by concluding forward contracts. The aim of these transactions was to secure the Company against the risk of cash flow volatility resulting from currency rates fluctuations.

The table below presents active forward derivative transactions as at 31 December 2016 (due to the adopted centralised model of financial risk management, the data refer only to TAURON).

Table no 19. Information on forward transactions and derivatives as at 31 December 2016

Type of transaction concluded	il denomination of the specific type of transaction (thou.)	Currency			Maturity date of the specific type of transaction		Valuation of transaction of the specific type as at 31 December 2016 (thou.)
		PLN.	thousand.	other	up to one year	above one year	
1. IRS	2,100,000	X				X	36,640
2. Forward	46,497		X		X		3,189
	477		X			X	50

In the scope of hedging the risk arising from price volatility and the credit risk, TAURON did not use financial instruments.

On the other hand, under liquidity loss risk management debt instruments referred to in subsection 4.7 are used.

4.5.2. Goals and methods of financial risk management

The objectives and methods of financial risk management in TAURON Capital Group are presented in section 3.4.2 of this report.

4.6. 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 of TAURON understood as the provision of financial resources for both the operational and the investment activity is included in subsection 4.1 of this report.

4.7. Assessment of financial resources management

TAURON has a centralised financial management area at the level of TAURON, accordingly, effective management of finance of the entire TAURON is possible. The main tools enabling effective management 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, TAURON 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.

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 the agreements concluded by TAURON with banks it is possible to issue guarantees to secure liabilities of TAURON Capital Group companies within a centralised limit. The above mentioned activity reduced the cost of guarantees acquired, made their acquisition independent of an individual company standing and limited the total number of activities required to obtain the guarantee.

In 2016, TAURON had full capacity to settle its liabilities on their maturity date.

4.8. Principles of preparation of the annual financial statements

The financial statement has been drawn up in accordance with the 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 TAURON 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 TAURON.

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 2016.

4.9. Information concerning the entity authorised to examine financial statements

On 15 June 2016 TAURON concluded the agreement with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa for conducting the audit of:

- 1) financial statements of the Company for 2016, prepared in accordance with the requirements of the IFRS,
- 2) financial statements of selected companies of TAURON Capital Group for 2016, prepared in accordance with the IFRS,
- 3) consolidated financial statements for 2016, 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 period ending on 30 June 2016.

The table below presents the level of remuneration of statutory auditors due to the services provided for TAURON.

Table no 20. The level of remuneration of the statutory auditors for the services provided to the companies of TAURON

No.	Type of service	Year ended 31 December 2016 (PLN thous.)	Year ended 31 December 2015 (PLN thous.)
1.	Mandatory audit	105	105
2.	Other certifying services, including the review of financial statements	45	63
3.	Tax advisory services	0	0
4.	Other services (including training)	158	465
	Total	308	633

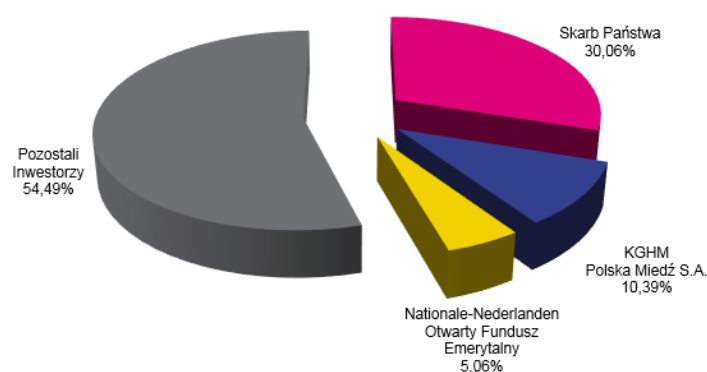
5. SHARES AND SHAREHOLDERS

5.1. Structure of shareholding

As at 31 December 2016 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 2016 and as at the day of drawing up this report.

Figure no. 54 Structure of the shareholding as at 31 December 2016 and as at the day of this report



5.2. The dividend policy

Within the endorsed Strategy the Company adopted the dividend policy. In the long-term perspective, TAURON plans to pay out a dividend at a level of minimum 40% of the consolidated net profit. The intention of the Company is to provide a dividend yield that would be competitive towards the yield offered by long-term debt instruments issued on the Polish market by investment grade rated companies. The final recommendation on the dividend will be affected by additional factors, including in particular:

- 1) The liquidity situation of TAURON Capital Group
- 2) Market situation,
- 3) Implementation of the investment policy,
- 4) Cost and ability to raise financing,
- 5) Legal requirements and provisions of the financing agreements, in particular related to not breaching the defined value of the leverage ratio,
- 6) Ensuring investment grade rating.

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

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

Table no 21. The level of the dividend paid in the years 2010 - 2014.

Dividend paid for 2010-2014						
No.	Financial year for which the dividend was paid	Amount of dividend paid (PLN)	% of profit net	Value of dividend per share paid (PLN)	Dividend record day	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

5.3. Number and par value of the Company shares as well as shares and stocks in affiliated entities of the Company held by the members of the management and supervisory bodies

As at 31 December 2016 and as at the day of this report, Members of the Management Board and members of the Supervisory Board did not hold stocks or shares of the Company and stocks or shares in affiliated entities of the Company.

5.4. Agreements concerning potential changes in the shareholding structure

The Management Board is not aware of 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.

5.5. Purchase of own shares

In 2016 and as at the day of drawing up this report, the Company did not hold any own shares.

5.6. Programmes of employee shares

In 2016, no employee shares programmes operated in the Company.

5.7. 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 2016 the price of TAURON shares ranged from PLN 2.38 to PLN 3.17 (according to closing prices). The price of shares during the last session in 2015 reached the level of PLN 2.88. A year later, the price reached PLN 2.85. The return rate⁵ on investment in TAURON shares in 2016 amounted to -1%, whereas the WIG20 index in this period increased by almost 5%, and the WIG-Energia index dropped by almost 13%. The major reasons of continued lateral trend on the exchange included results of the Polish economy, worse than the forecasts, outflow of foreign investors and uncertainty concerning the impact of changes in the pension system on the equity market.

It should be stressed that in 2016 the quotations of the biggest European energy groups also did not manage to lose the long-term downward trend.

On the other hand, the main reasons of the general discount on valuation of domestic energy companies in 2016 included: regulatory uncertainty related to the future support system of renewable energy sources, write-offs related to the impairment in the value of assets in the electricity generation segment and risks associated with the involvement of energy companies on projects in the coal mining sector or related to building generation capacity based on hard coal.

The measures striving to guarantee financial stability of TAURON Capital Group in the forthcoming years supported quotes of TAURON shares in 2016. The most important measures included: the development of the new strategy, the implementation of consecutive Efficiency Improvement Programme for 2016-2018, raising the maximum level of the net debt/EBITDA covenant from 3.0x to 3.5x and the issue of hybrid bonds.

In experts' opinion, the majority of risks associated with the energy sector has already been included in share prices, which may create the opportunity of selective purchases in 2017. Analysts and experts of the sector list the following factors as the most important opportunities for the industry: implementation of the capacity market mechanism, systematic cost reduction and rebound of coal prices which will translate to the improvement of financial results of coal mines.

As at 31 December 2016, 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: 1.07%.
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: 1.11%.
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: 1.68%.

⁵ 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.

4. **WIG30** - index comprising 30 biggest and most liquid companies listed at the Primary Market of GPW. Share of TAURON in WIG30 index: 1.56%.
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: 17.06%.
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: 2.94%.
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: 0.25%.
8. **MSCI Poland Index** - the index comprising over 20 key companies listed at GPW. Share of TAURON in MSCI Poland Index: 1.59%.

The table below presents the key data concerning the Company shares in the years 2011 - -2016.

Table no 22. Key data concerning TAURON shares in the years 2011-2015

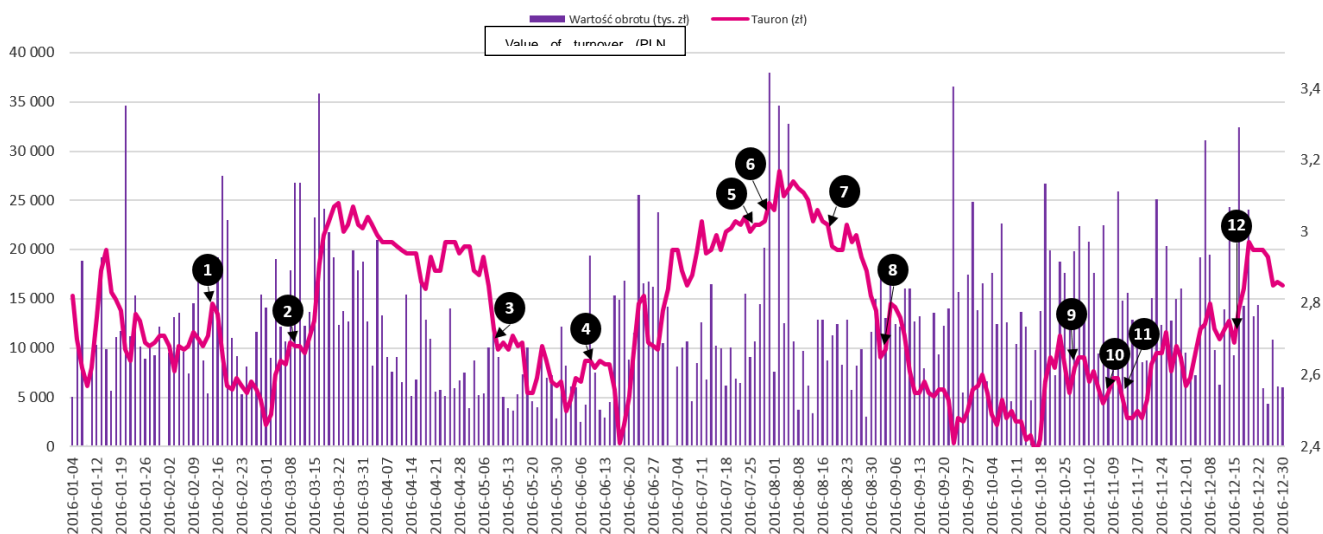
No.		2011	2012	2013	2014	2015	2016
1.	Maximum price (PLN)	6.81	5.61	5.39	5.69	5.29	3.19
2.	Minimum price (PLN)	4.65	4.08	3.85	4.04	2.37	2.31
3.	Last price (PLN)	5.35	4.75	4.37	5.05	2.88	2.85
4.	Capitalisation at the end of the period (PLN million)	9,376	8,325	7,659	8,850	5,047	4,995
5.	Capitalisation at the end of the period (%)	2.10	1.59	1.29	1.50	0.98	0.90
6.	Book value (PLN million)	15,922.47	16,839.41	17,675.34	18,106.79	18,837.00	16,348.99
7.	C/Z	8.10	5.50	5.50	7.80	4.2	x
8.	C/WK	0.59	0.49	0.43	0.49	0.27	0.31
9.	Return rate since the beginning of the year (%)	-16.73	-5.03	-3.64	+20.07	-40.78	-1.04
10.	Dividend rate (%)	2.8	6.5	4.6	3.8	5.2	--
11.	Turnover value (PLN million)	5,574.82	3,198.94	3,103.56	3,134.81	3,062.52	3,199.02
12.	Share in trade (%)	2.21	1.70	1.41	1.53	1.50	1.69
13.	Average volume per session	3,721,539	2,667,725	2,793,020	2,489,329	3,190,195	4,662,087
14.	Average number of transactions per session	1,373	960	1,022	1,106	1,431	1,465

Source: GPW Statistical Bulletin

*The return rate calculated, including the income of the investor due to dividend, and assuming that the additional income gained will be reinvested. Methodology compliant with the GPW Statistical Bulletin.

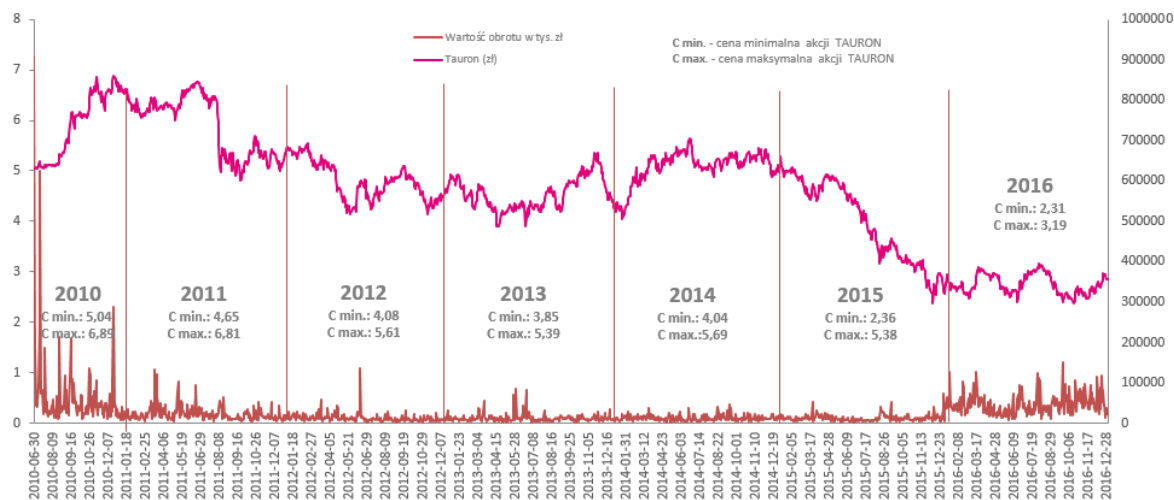
The figures below present the historical developments of TAURON share price and the value of turnover, including, in comparison with WIG20 and WIG-Energia indices.

Figure no. 55 Graph of TAURON share price and value of turnover in 2016



	Data	Wydarzenie
1	15.02.2016	• Informacja o zamiarze ujęcia w sprawozdaniach finansowych za 2015 r. odpisu aktualizującego wartość jednostek wytwórczych Segmentu Wytwarzanie
2	09.03.2016	• Publikacja skonsolidowanego raportu rocznego za 2015 r. • Przyjęcie Programu poprawy efektywności działalności w Grupie TAURON na lata 2016-2018
3	11.05.2016	• Publikacja raportu okresowego za I kwartał 2016 r.
4	08.06.2016	• Zwyczajne Walne Zgromadzenie TAURON
5	26.07.2016	• Informacja o zamiarze ujęcia w sprawozdaniach finansowych za I półrocze 2016 r. odpisu z tytułu utraty wartości jednostek wytwórczych Segmentu Wytwarzanie
6	29.07.2016	• Publikacja szacunkowych skonsolidowanych danych finansowych za I półrocze 2016 r.
7	17.08.2016	• Publikacja raportu okresowego za I półrocze 2016 r.
8	02.09.2016	• Przyjęcie Strategii Grupy TAURON na lata 2016-2025 • Przyjęcie polityki dywidendowej na lata 2016-2025
9	28.10.2016	• Publikacja szacunkowych wyników Grupy Kapitałowej TAURON za III kwartał 2016 r.
10	09.11.2016	• Publikacja raportu okresowego za III kwartał 2016 r.
11	14.11.2016	• Potwierdzenie ratingów i zmiana perspektywy długoterminowej z negatywnej na stabilną dla TAURON przez agencję Fitch
12	15.12.2016	• Nadzwyczajne Walne Zgromadzenie TAURON

Figure no. 56 Graph of TAURON share price and the value of turnover from the exchange debut until 31 December 2016



Legend Figure 56

Wartość obrotu	Value of turnover
Cena minimalna/maksymalna akcji	Minimum/maximum price of shares

Figure no. 57 Graph of TAURON share price compared to WIG20 and WIG-Energia indices in 2016

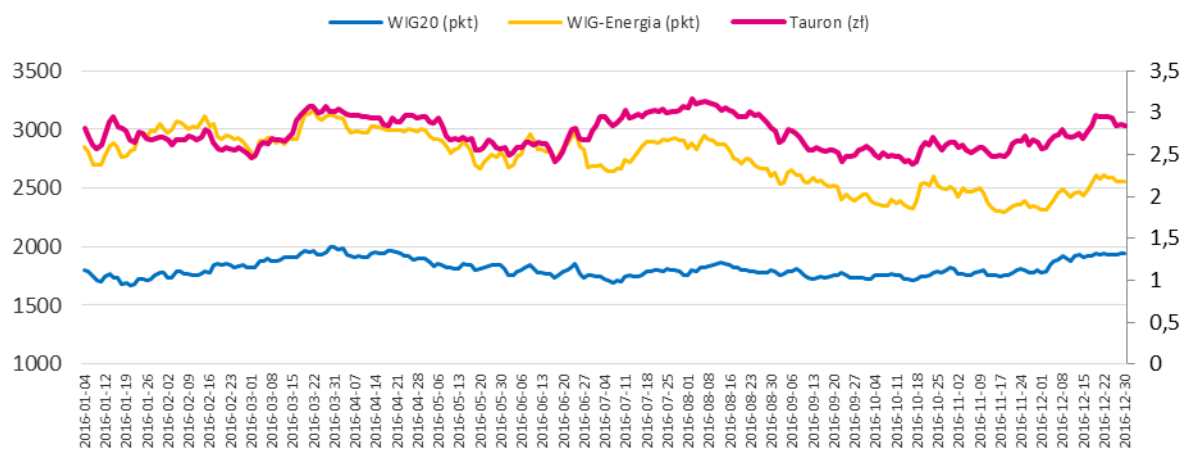
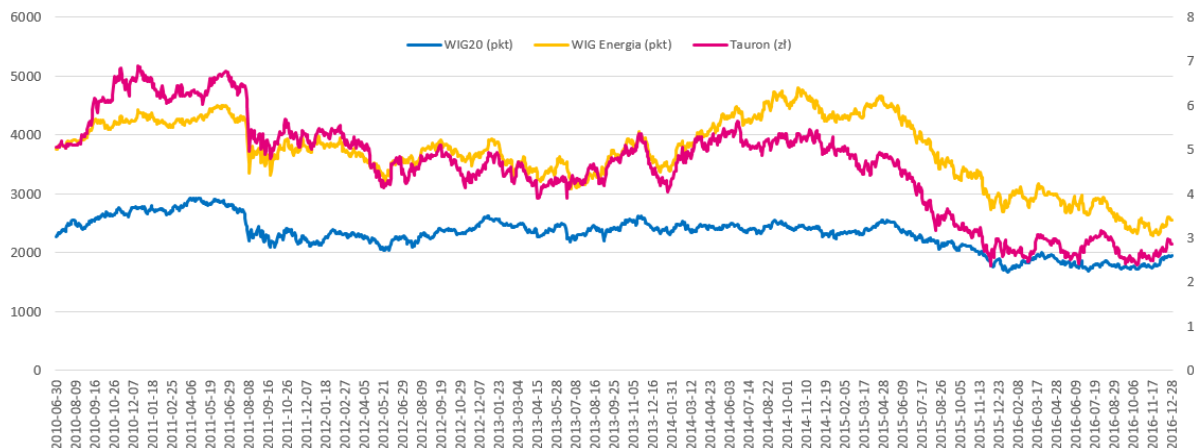


Figure no. 58 Price of TAURON shares compared to WIG20 and WIG-Energia indices from the exchange debut until 31 December 2016



Recommendations for TAURON Polska Energia S.A. shares

In 2016 the analysts of brokerage houses and investment banks issued the total of 24 recommendations for TAURON shares, including:

- 1) Eight "buy" recommendations,
- 2) Eight "keep" recommendations,
- 3) Eight "sell" recommendations.

The table below presents the list of all recommendations issued in 2016

Table no 23. Recommendations issued in 2016

No.	Date of recommendation	Recommendation/target price	Recommending institution
1.	27/01/2016	Sell / PLN 2.50	UBS
2.	01/02/2016	Keep / PLN 2.71	Wood&Co
3.	08/02/2016	Sell / PLN 2.00	Ipopema
4.	11/03/2016	Buy / PLN 3.30	Societe Generale
5.	05/04/2016	Buy / PLN 3.80	Raiffeisen Centrobank
6.	13/04/2016	Keep / PLN 3.00	Deutsche Bank
7.	20/04/2016	Sell / PLN 2.70	Trigon
8.	09/05/2016	Sell / PLN 2.70	DM PKO BP
9.	19/05/2016	Sell / PLN 2.38	Haitong Bank
10.	24/05/2016	Buy / PLN 2.84	DM BZ WBK
11.	25/05/2016	Keep / PLN 2.79	DM PKO BP
12.	20/06/2016	Buy / PLN 3.20	J.P. Morgan
13.	29/06/2016	Keep / PLN 2.70	Citi
14.	09/08/2016	Sell / PLN 2.81	DM BZ WBK
15.	19/08/2016	Buy / PLN 3.70	Societe Generale
16.	04/10/2016	Buy / PLN 3.03	TAURON - mBank
17.	10/10/2016	Sell / PLN 2.00	Citi
18.	21/11/2016	Buy / PLN 3.40	Societe Generale
19.	22/11/2016	Keep / PLN 2.70	Deutsche Bank
20.	22/11/2016	Sell / PLN 2.31	DM BZ WBK
21.	04/12/2016	Keep / PLN 2.50	DM BOŚ
22.	06/12/2016	Buy / PLN 3.03	TAURON - mBank
23.	19/12/2016	Keep / PLN 2.58	Haitong Bank
24.	20/12/2016	Keep / PLN 2.89	DM PKO BP

5.8. Investor relations

The reliable and transparent communication with investors is one of the priorities of TAURON. It is provided both in the form of activities required by law (e.g. 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 entities operating on the capital market, both in Poland and abroad. During meetings with investors, the strategy, implemented investment projects, the financial situation of TAURON Capital Group is presented as well as information on the current standing and outlook 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. Separate meetings devoted to discussion of financial results are also regularly arranged for representatives of key media, so that information concerning standing of TAURON Capital Group can reach all investors via diverse channels.

Besides meetings accompanying the publication of periodical reports, in 2016 members of the Management Board and representatives of Investor Relations Office took part in 12 conferences and roadshows, during which over 100 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, Germany and Czech Republic.

In connection with the growing role of Internet channels, much emphasis was put on 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, GMs, 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. In mid-2016 the Company decided to expand its communication channels and launched a corporate profile on Twitter where entries in the area of investor relations appear.

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 GMs. It also contains presentations and video broadcasts of conferences summarising the financial results.

In 2016, the company participated in events addressed to individual investors. The company was, inter alia, a partner of the "WallStreet" conference in Karpacz as well as winter and summer sports competitions of the capital market "Capital Market Games". Within the regular communication with this sizeable group of investors, 4 chats with a representative of the Management Board took place in 2016, 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.

The activity in the area of investor relations is appreciated by participants of the capital market and investors. In 2016 the company received successive awards for the high quality of investor relations. In March 2016, 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 quality of investor relations among companies of WIG30 index. In May 2016, during the "Stock Market Review Gala 2015" TAURON receive a GPW award for the highest value of the debut in the Catalyst market in 2015 in connection with introduction of 17,500 bonds with the total value of PLN 1.75 billion to the alternative trading system. In October 2016, for the third time, TAURON received the main award in the competition for "The Best Annual Report", granted by the Institute of Accounting and Taxes, consequently joining the "The Best of The Best" group comprising companies using the highest reporting standards. Similar to 2015, the jury of the competition additionally distinguished the internet version of the annual report.

Since 2013 TAURON has been included in the RESPECT Index, and in December 2016, for the fourth consecutive time the Company was specified among listed entities observing the principles of sustainable development.

The following table presents the timeline of events and activities carried out within investor relations which took place in 2016.

Table no 24. Timeline of events and activities carried out within investor relations in 2016

No.	Date	Event
1.	09/03/2016	Publication of the separate and consolidated annual report for 2015
2.	10/03/2016	Meeting of the Management Board with analysts managing funds, connected with the publication of the financial results for 2015
3.	10/03/2016	Chat with individual investors in cooperation with the Association of Individual Investors.
4.	16/03/2016	Participation in DM PKO BP CEE Capital Markets Conference in London.
5.	23/03/2016	Meeting with the management associated with the publication of the financial results for 2015, Societe Generale, Warsaw
6.	11-13.04.2016	Participation in the conference of Raiffeisen Institutional Investors' Conference, Zürs, Austria

No.	Date	Event
7.	11/05/2016	Publication of the periodical report for the 1 st quarter of 2016
8.	12/05/2016	Meeting of the Management Board with analysts managing funds, connected with the publication of financial results for the 1 st quarter of 2016
9.	12/05/2016	Chat with individual investors in cooperation with the Association of Individual Investors.
10.	16/05/2016	Participation in the IPOPEMA and GPW, Poland Capital Markets Day, New York
11.	03-05.06.2016	Participation in the 20th WallStreet conference for individual investors in Karpacz
12.	09/06/2016	Meeting with the management associated with the publication of the financial results for 2016, Societe Generale, Warsaw
13.	08/06/2016	Ordinary GM of TAURON
14.	17/08/2016	Publication of the periodical report for the 1 st half of 2016
15.	18/08/2016	Meeting of the Management Board with analysts and fund managers, connected with the publication of the financial results for the 1 st half of 2016
16.	20/08/2016	Chat with individual investors in cooperation with the Association of Individual Investors.
17.	05/09/2016	Presentation of TAURON Group's Strategy for 2026-2025 - Management Board meeting with media, analysts and managers , GPW, Warsaw
18.	12-13.09.2016	Participation in the Pekao Investment Banking, Warsaw conference : 13th Annual Emerging Europe Investment Conference, Warsaw
19.	21/09/2016	Roadshow with DM PKO BP, Frankfurt
20.	27-28.09.2016	Participation in DM PKO BP Conference: Mining and Energy 2016, Wrocław
21.	03/10/2016	Participation in DM BZ WBK Energy & Mining, Warsaw
22.	12-13.10.2016	Participation in the Erste Group Investor Conference, Stegersbach 2016 (Austria)
23.	09/11/2016	Publication of the periodical report for the 3 rd quarter of 2016
24.	10/11/2016	Meeting of the Management Board with analysts managing funds, connected with the publication of the financial results for the 3 rd quarter of 2016, Warsaw
25.	16/11/2016	Chat with individual investors in cooperation with the Association of Individual Investors.
26.	30.11-02.12.2016	Participation in the WOOD's Winter in Prague - Emerging Europe Conference, Prague
27.	15/12/2016	Extraordinary GM of TAURON

6. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

Pursuant to § 91 item 5 point 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), and the *Best Practice of GPW Listed Companies 2016* (Best Practice 2016), the Company Management Board submits the Statement on Application of Corporate Governance in 2016.

6.1. Indicating the applied set of corporate governance rules

In 2016 the Company was subject to the corporate governance rules, described in the document *Best Practice of GPW Listed Companies* (Best Practice 2016), adopted by the Supervisory Board of the GPW Board no. 27/1414/2015 of 13 October 2015, which entered into force on 1 January 2016.

The text of the Best Practice 2016 the Company is subject to is published on the GPW website: <http://www.corp-gov.gpw.pl>.

In connection with the entry into force of the aforementioned set of 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 the waiver of the detailed rules contained in 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.

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 set of Best Practice 2016 by the Company*, constituting the annex to the report on the waiver of detailed rules contained in the Best Practice 2016 document and posted on the Company website.

6.2. Indicating the abandoned rules of corporate governance

In 2016 the Company did not apply the following detailed rules contained in Best Practice 2016:

- 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. In order to enable the application of the rule, the Company Management Board requested the Ordinary GM of the Company to adopt the relevant amendment to the Company Articles of Association ensuring publicly available real-time broadcast of general meetings. However, the Ordinary GM of the Company convened on 8 June 2016 did not adopt the amendment to the Company Articles of Association proposed by the Company Management Board in this scope.
- 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. This rule was not applied due to 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. 2 years This rule was not applied due to 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.

Due to the lack of a single document in the Company describing the applied policy of diversity in relation to the authorities of the Company and its key managers, referred to in the rule designated as I.Z.1.15. of Best Practice 2016, in the report published in 1 February 2016 concerning the abandoned detailed rules of corporate governance contained in

the set of Best Practice 2016, the Company indicated the method of its application. The rules on diversity management were introduced for application under many documents constituting internal legal acts, including the *TAURON Group's Code of Business Ethics*. The Company plans to develop and implement the diversity policy for application in a single formal document.

At the same time, while adopting the Best Practice 2016 for application, the Management Board of the Company indicated that the following rules 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,

Information concerning abandonment of recommendations contained in Best Practice 2016 for application

In 2016 the Company did not apply only the recommendation contained in Best Practice 2016, designated as IV.R.2 concerning ensuring a possibility to shareholders to participate in the GM using electronic communication means, due to the lack of such shareholders' expectation. This decision is expressed by the failure of the Company GM on 16 May 2013 to adopt the resolution concerning the amendment to the Company Articles of Association which was to enable the shareholders to participate in the GM using electronic communication means, as well as the failure of the Ordinary GM of the Company held on 8 June 2016 to adopt the relevant amendment to the Company Articles of Association ensuring publicly available real-time broadcast of general meetings.

Other recommendations contained in Best Practice 2016 were applied by the Company.

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 item 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 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 took place. Companies adjust own procedures to the financial and accounting processes, taking into account the specific character of individual segments.

The new Business Model clearly distributed responsibilities in the scope of financial and accounting processes between the Company (indicated as the Corporate Centre) and subsidiaries and CUW R, indicating that the Corporate Centre is the owner of processes associated with accounting and reporting of TAURON Capital Group. In the scope of tasks of the Corporate Centre, strategic functions associated with the development of the model of operations and standards of TAURON Capital Group were indicated in the area of accounting and supervision of implementation of standards in accounting area in subsidiaries and CUW R. Moreover, it was indicated that the Company as the Corporate Centre is responsible for drawing up the Company financial statement of and the consolidated financial statement of TAURON Capital Group. A clear distribution of responsibilities and strong emphasis on fulfilment of supervisory functions by the Corporate Centre in relation to CUW R and the subsidiaries is, inter alia, aimed at improvement of the process of financial statement preparation.

Internal audit

In the Company Internal Audit Team operates whose objective is to plan and implement the auditing tasks, among others, of advisory nature, as well as to perform the commissioned ad hoc inspections. The procedures and rules of implementation of the audit are specified in *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 TAURON Group's 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 2016 the Company selected the 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 2016.

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 the lapse of two financial years.

6.4. Shareholders holding large blocks of shares

The table below presents shareholders holding, as at 31 December 2016 and as at the day of drawing up this report, directly or indirectly large blocks of shares of the Company.

Table no 25. Shareholders holding large blocks of shares

No.	Shareholders	Number of shares held	Percentage interest in share capital	Number of votes held	Percentage interest in the general number of votes
1.	State Treasury	526,848,384	30.06%	526,848,384	30.06%
2.	KGHM Polska Miedz S.A.	182,110,566**	10.39%	182,110,566	10.39%
3.	Nationale-Nederlanden	88,742,929***	5.06%	88,742,929	5.06%

No.	Shareholders	Number of shares held	Percentage interest in share capital	Number of votes held	Percentage interest in the general number of votes
	Otwarty Fundusz Emerytalny (Open Pension Fund)				

**in accordance with the shareholder's notification of 28 February 2013*

***in accordance with the shareholder's notification of 23 March 2011*

****in accordance with the shareholder's notification of 28 December 2011*

Since the day of submission of the previous periodical report, i.e. 9 November 2016, 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 8 June 2016 and the Extraordinary GM convened on 9 November 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 Otwarty Fundusz Emerytalny (formerly: ING Otwarty Fundusz Emerytalny).

6.5. Owners of securities providing special control rights

In the financial year 2016, the Company did not issue securities which would provide special control rights towards to the Company.

6.6. Limitations in exercising 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 are defined in items 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, which is entitled directly or indirectly to hold a voting right at the GM on the basis of any legal title; it also applies to a person who does not hold any Company shares, and in particular to a user, pledgee, person entitled on the basis of a depositary receipt under the 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 having disposed of shares held after the date of establishing the right to participate 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 a status of a parent company, a higher level parent company, a subsidiary, a lower level subsidiary or which has both the status of a parent company (including a parent company with a higher status) and a subsidiary (including a lower level subsidiary or co-subsiary) within the meaning of *Accounting Act of 29 September 1994*, or
 - 3) which exerts (a parent company) or which is under (a subsidiary) a determining 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 General Meeting to the level of 10% of total votes in the Company. Reduction of votes is performed in accordance with the following rules:
 - 1) number of votes of a shareholder who holds the largest amount of votes in the Company among all shareholders who are members of the Association of Shareholders is subject to reduction by a number of votes equal to surplus of over 10% total number of votes in the Company that all shareholders in total are entitled to hold 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 hold exceeds 10% of the total number of votes in the Company, further reduction of votes held by other shareholders who are members of the Association of Shareholders is performed. 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 is performed 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 number of votes in the Company,
 - 3) in each case the shareholder whose voting right has been limited shall have the right to exercise at least one vote,
 - 4) limitation of execution of the voting right also applies to a shareholder absent at the GM.
8. Each shareholder who is going to take part in the GM, directly or through a proxy is obliged to, without a separate notice stipulated referred to in item 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 number of votes in the Company.
9. Notwithstanding the provisions of item 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 items 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 2016 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 Management Board members can be dismissed or suspended in office by the Supervisory Board or the GM.

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 affairs not restricted by any legal regulations or provisions of the Company Articles of Associations to the competence of the GM or the Supervisory Board lie within the competence of the 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 26. Competence of the Management Board

Issues requiring resolution of the Management Board
as at 31 December 2016 and as at the day of this report
<ol style="list-style-type: none">1. bylaws of the Management Board,2. organizational regulations of the Company enterprise,3. establishment and liquidation of branches,4. appointment of a proxy,5. Incurring credits and loans,6. adopting 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 section 2 items 4 and 5 of the Company Articles of Association,8. making donations, redemption of interest or discharge from debt, subject to § 43 item 2 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 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 section 2 item 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 section 2 item 3 of the Company Articles of Association,12. defining exercising a voting right at GMs or at SMs of companies in which the Company holds stocks or shares, in relation to issues covered by the competence of the GM or SM of such companies, subject to the provisions of § 20 section 3 item 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 to the GM.

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, including, together with entities dependent on the State Treasury within the meaning of § 10 item 5 of the Articles of Association, holds a number of shares of the Company authorising to exercise at least 25% of the total number of votes in the Company, the State Treasury is represented by the minister competent for the State Treasury affairs, is entitled to appoint and dismiss members of the Supervisory Board in the amount equal to half of the maximum number of the composition of the Supervisory Board defined in the Articles of Association (if 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 determining the number of Supervisory Board members corresponding to the maximum number of Supervisory Board members defined in the Articles of Association or in case of submitting such a motion to the Management Board by a shareholder or shareholders who hold a number of votes authorising to exercise at least 5% of the total number of votes in the Company,
 - b) is excluded from the voting right at the GM concerning 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 smaller 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 item 2) takes place by means of a statement submitted to the Company.

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

Independent members of the Supervisory Board submit a written declaration of having fulfilled the prerequisites of independence to the Company, before being appointed to the Supervisory Board. 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 current 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 27. Competence of the Supervisory Board

Issues requiring the resolution of the Supervisory Board
as at 31 December 2016 and as at the day of drawing up this report
Opinion-making competence
<ol style="list-style-type: none"> 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 General Meeting on the results of operations covered by items 1 and 2, 4. preparation once a year and submission to the General Meeting: <ol style="list-style-type: none"> a) evaluation of the company situation, including the assessment of the internal control, risk management systems, compliance and internal audit functions, including all significant control mechanisms, in particular, those related to financial reporting and operating activity, b) Report on activities of the Supervisory Board comprising at least information concerning: <ol style="list-style-type: none"> – the composition of the Supervisory Board and its committees, – fulfilment of independence criteria by Members of the Supervisory Board, – number of meetings of the Supervisory Board and its committees, – self-assessment of the Supervisory Board c) assessment of the method of fulfilment of information obligations by the Company, in relation to the application of corporate governance principles defined in the Regulations of the Exchange and provisions related to current and periodical information submitted by issuers of securities. d) assessment of rationality of sponsoring, charitable policy, or other similar policy pursued by the Company, or information concerning the lack of such policy. 5. 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, 6. giving opinions on the Corporate Strategy of the Capital Group, 7. giving opinions and approval of the rules of conducting sponsoring activity, 8. giving opinions on the annual plan of conducting of the sponsoring activity as well as annual reports on its implementation,

Issues requiring the resolution of the Supervisory Board

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. approval 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 acquired from companies of the Capital Group,
7. purchase of components of fixed assets excluding real property, perpetual usufruct or share in real property or perpetual usufruct, bonds issued by companies of the Capital Group and other components of fixed assets acquired from companies of the Capital Group, of the value equal to or exceeding the equivalent of EUR 5,000 thousand in PLN,
8. disposal of 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 EUR 5,000 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 in PLN,
10. issuing bills of exchange with the value exceeding the equivalent of EUR 5,000 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,
13. disposal of stocks or shares with the value exceeding the equivalent of EUR 5,000 in PLN, including 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. concluding of the material agreement with the shareholder holding at least 5% of the total number of votes in the Company or an affiliate, excluding transactions typical and concluded under market terms within operations conducted by the Company with entities included in TAURON Capital Group,
15. granting permission to establish Company branches abroad,
16. defining the method of performing the voting right at the GM or at the SM of companies in which the Company holds over 50% of stocks or shares, in the following matters:
 - a) disposal and leasing of the Company enterprise or its organised part as well as establishing a limited proprietary right thereupon if their value exceeds the equivalent of the amount of EUR 5,000 in PLN,
 - b) winding up and liquidation of the 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 level of remuneration for the Members of the Management Board, subject to § 43 item 1 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 Management Board member,
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 Management Board members to take positions in governing bodies of other companies,

Other competences of the Company Supervisory Board

1. preparing 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 financial resources related to the above expenditures,
2. adopting by-laws describing in detail 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 Ksh, 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.

The GM on 8 June 2016 adopted the resolution concerning the amendments to the Company Articles of Association; the relevant information was provided in section 2.7. hereof.

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 General Meeting of TAURON Polska Energia S.A.* which are available at the Company website <http://www.tauron-pe.pl/>.

Operation of the General Meeting

The General Meeting 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 CCC provisions, and the convening of the GM requires cooperation with the Management Board, the Management Board is obliged to perform all actions defined under legal regulations in order to summon, organise 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 the following persons shall be authorised to open the GM 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 shares authorising him/her to exercise the largest number of votes at the GM. Subsequently, among persons authorised 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 Articles of Association state otherwise. The General Meeting may order the adjournment of the meeting by the majority of two thirds of votes. In total, the breaks shall not exceed 30 days.

A break in the GM session may take place only in exceptional situations indicated on a case-by-case basis in the justification to the resolution, prepared based on reasons presented by a shareholder requesting the announcement of the break.

The GM resolution concerning a break shall clearly indicate the date of resumption of the session, however, such a date must not create a barrier for participation of the majority of shareholders in resumed meeting, including minority shareholders.

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 28. Competence of the General Meeting

Issues which require the resolution of the General Meeting
as at 31 December 2016 and as at the day of drawing up this report
1. examination and approval of financial statement of the Company and the consolidated financial statement of TAURON Capital Group for the previous financial year as well as the Management Board's report on the Company operations and the Management Board's report on the operations of TAURON Capital Group,
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,

Issues which require the resolution of the General Meeting

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, a proxy, a liquidator or in favour of any of those persons,
9. increasing and lowering the share capital of the Company,
10. issue of convertible bonds or priority bonds as well as registered securities or bearer securities authorising its owner to subscribe or acquire the shares,
11. purchasing treasury shares in cases required by the regulations of the CCC,
12. compulsory redemption of shares pursuant to the stipulations of Article 418 of the CCC,
13. creating, using and liquidation of reserve capitals,
14. using of supplementary capital,
15. provisions concerning claims to repair a damage caused while establishing a Company or providing management or 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 29. Description of the Company shareholders' rights 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 part of the share capital, may demand convening of the Extraordinary GM. Such a demand should include a 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 at 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.
2.	Placing issues on the agenda of the GM	Shareholders representing at least one twentieth of the share capital may demand including certain issues on the agenda of the nearest GM. Such a demand, including a justification or a draft resolution on the proposed item on the agenda shall be submitted to the Management Board not later than 21 days before the determined date of the GM in electronic form to the Company e-mail address, or in writing to the Company address.
3.	Getting acquainted with the list of shareholders	Shareholders may become acquainted with the shareholders' list in the Company Management Board registered office during three working days directly preceding the GM. Shareholders may demand sending him/her a list of shareholders free of charge by electronic mail, providing the address to which the list shall be sent.
4.	Participation in the GM	The right to take part in the GM shall be granted only to persons who were shareholders sixteen days before the date of the GM (registration date in the GM). In order to participate in the GM shareholders should submit a request to issue a certificate addressed to their name, concerning the right to take part in the GM to the investment Company holding their securities account. 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 following the day of registering participation in the GM.
5.	Representing the shareholder by a proxy	Shareholders may take part in the GM as well as exercise the voting right personally or through a proxy. Persons co-authorized by means of shares may take part in the General Meeting and perform the voting right only through a joint representative (a 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 under secret ballot, with an

No.	Shareholder rights	Description of shareholders' rights
		absolute majority of votes. In case if only one candidate has been registered, 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 in writing to the Chairperson or orally to the minutes of the meeting.
9.	Raising objections	Shareholders who voted against a resolution, and after its adoption by the GM want to raise their objection shall immediately after the announcement of results of voting raise their objection and demand its including in the minutes before proceeding to the next item of the agenda. In case of raising an objection at a later time which, however, shall not take place later than until closing of the GM, shareholders shall indicate which resolution passed at this GM they challenge. Shareholders raising their objection against the GM resolution may submit a concise justification of the objection to the minutes of the GM.

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.

Personal composition of the Management Board as at 31 December 2016 and as at the day of this report

1. Filip Grzegorzczak - President of the Management Board
2. Jarosław Broda - Vice-President of the Management Board for Asset Management and Development,
3. Kamil Kamiński - Vice-President of the Management Board for Corporate Management,
4. Marek Wadowski - Vice-President of the Management Board for Finance,
5. Piotr Zawistowski - Vice-President of the Management Board for Customer and Commercial Affairs

Changes in the personal composition of the Management Board in 2016 and in the period until the day of drawing up this report

As at 01 January 2016 the Management Board consisted of the following members: Remigiusz Nowakowski (President of the Management Board), Jarosław Broda (Vice-President of the Management Board), Anna Strzyk (Vice-President of the Management Board), Kamil Kamiński (Vice-President of the Management Board) and Piotr Zawistowski (Vice-President of the Management Board).

On 8 January 2016 the Supervisory Board dismissed Anna Strzyk - 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.

On 14 November 2016, the Supervisory Board dismissed Remigiusz Nowakowski - the President of the Management Board from the Management Board.

As of 15 November 2016, the Supervisory Board appointed Filip Grzegorzczak as the President of the Management Board.

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

Experience and competences of members of the Management Board



Filip Grzegorzczak - President of the Management Board

Graduate of the Faculty of Law and Administration and the Faculty of International and Political Studies at the Jagiellonian University in Kraków, where he obtained the title of PhD in EU law, and then also his habilitation in the field of the economic law.

He also completed the Summer Advanced Course in European Law at University of London, King's College, Centre of European Law; the International Business and Trade Summer School at Catholic University of America – Columbus School of Law and École de droit français Université d'Orléans. He holds the position of professor at the University of Economics in Kraków, where he is a lecturer at the Faculties of Management and Economics and International Relations.

He has broad professional experience in energy and fuel sector. In 2011-2013, he worked for Kompania Węglowa (as management board proxy for energy sector development). In 2007-2008 he was a member of the management board of TAURON. From 2015 he acted in the capacity of Undersecretary of State at the Ministry of Treasury. He speaks English and French fluently.

Acting as the President of the Management Board of TAURON Polska Energia S.A. since 15 November 2016. He currently supervises the performance of the following business units: strategy and regulations, relations with the environment, legal and internal audit. In addition, he supervises the functioning of security, compliance and risk management system as well as human resources development policy.



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 08 December 2015. He currently supervises the performance of the following business areas: asset management, research and innovation, investment projects, project assessment and analyses and occupational health and safety.



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.

He has been acting in the capacity of the Vice-President of the Management Board of TAURON Polska Energia S.A. since 8 December 2015. He currently oversees the following areas of the Company's operation: corporate matters and support, human resources, procurement and administration, security and compliance.



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 Jastrzębska Spółka Węglowa S.A. (implementation of International Accounting Standards, modification of management information system, development of IPO prospectus, talks with investors). He 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. Currently supervises performance of the following business units: finance, controlling, accounting and taxes, risk and IT.



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, CO₂ 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.

He has been acting in the capacity of the Vice-President of the Management Board of TAURON Polska Energia S.A. since 8 December 2015. As Vice-President of the Management Board for Customer and Commercial Affairs he oversees the following areas of the Company's operation: customers, analyses and planning, fuel trading, portfolio management, trading, settlements and sales reporting.

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 Ksh 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 driven by the rules included in 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 Management Board 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. The President of the Management Board or the Vice-President appointed by him/her shall chair meetings of the Management Board.

The Management Board votes in an open ballot. Results of the voting are recorded in the minutes of the meeting. The President of the Management Board orders a secret ballot on request of any Vice-Presidents 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 Management Board members. 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.

Whenever there are less Vice-Presidents of the Management Board than Divisions, Vice-Presidents of the Management Board may combine responsibilities within two divisions, or distribute their competence in any other way which is compliant with the distribution of responsibilities adopted 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 item 1.6.2 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 General Meeting 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 2016 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. Stanisław Bortkiewicz - Member of the Supervisory Board,
5. Leszek Koziorowski - Member of the Supervisory Board,
6. Jan Płudowski - Member of the Supervisory Board,

7. Jacek Rawecki - Member of the Supervisory Board,
8. Stefan Świątkowski - Member of the Supervisory Board.
9. Agnieszka Woźniak - Member of the Supervisory Board.

Changes in the personal composition of the Supervisory Board in 2016

As at 1 January 2016 the Supervisory Board consisted of the following Members: Beata Chłodzińska (Chairwoman of the Supervisory Board), Anna Mańk (Deputy Chairwoman of the Supervisory Board), Jacek Szyke (Member of the Supervisory Board), Anna Biesialska (Member of the Supervisory Board), Michał Czarnik (Member of the Supervisory Board), Maciej Koński (Member of the Supervisory Board), Leszek Koziorowski (Member of the Supervisory Board), Wojciech Myślecki (Member of the Supervisory Board) and Renata Wiernik-Gizicka (Member of the Supervisory Board).

On 6 June 2016 the Company received statements from the following Supervisory Board Members concerning the resignation from the function of Member of TAURON Polska Energia S.A. Supervisory Board, in which they declared that they had resigned for personal reason:

- 1) Maciej Koński,
- 2) Renata Wiernik-Gizicka.

On 8 June 2016 the Ordinary GM of the Company, acting pursuant to § 22 (1) of the Company Articles of Association, adopted the resolution on the appointment of the following members to the Company Supervisory Board of the common fourth term of office:

- 1) Jacek Rawecki,
- 2) Stefan Świątkowski.

On 14 November 2016 a Member of the Supervisory Board, Wojciech Myślecki submitted his resignation from the function of Member of TAURON Polska Energia S.A. Supervisory Board. (No reasons of submitted resignation were provided).

On 16 December 2016 the Minister of Energy, acting pursuant to § 23(1)(3) of the Company Articles of Association appointed Agnieszka Woźniak as a member of the Supervisory Board of TAURON Polska Energia S.A.

On 30 December 2016 the Minister of Energy, acting pursuant to § 23(1)(3) of the Company Articles of Association,

– dismissed the following members of the Supervisory Board of TAURON Polska Energia S.A.:

- 1) Michał Czarnik,
- 2) Anna Biesialska,

– appointed the following members of the Supervisory Board of TAURON Polska Energia S.A.:

- 1) Jan Płudowski,
- 2) Stanisław Bortkiewicz.

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 Energy, currently coordinating the activities of the Team of Legal Counsels at the Legal Office. 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 Chairwoman of the Nominations and Remunerations Committee, a member of the Audit 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 of the Ministry of State Treasury in liquidation, acting as the liquidator. 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.

Stanisław Borkiewicz

- Member of the Supervisory Board,

Graduate of Medical University of Gdańsk, medical doctor, manager, entrepreneur and business adviser with experience gained over the years.

He has rich experience in the scope of managing large production and service companies as well as in the scope of consulting, training and restructuring activity. He acted in the capacity of President of the Management Board of large companies many times, including, inter alia: Pracownicza Spółka Ursus S.A., ZPC Ursus S.A., MPWiK S.A. In Warsaw and Director for Strategy and Development at BOT Górnictwo i Energetyka S.A., and subsequently, at PZU S.A. Since 1990 he has been conducting own economic activity and he is the shareholder of economic, commercial, production and service entities. He also carried out consulting activity, providing advisory services to many large companies. In the framework of his professional activity he carried out many projects in the scope of organisational and financial restructuring of enterprises. Since February 2016 he has been acting in the capacity of Director of Office for Corporate Affairs in Telewizja Polska S.A.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 30 December 2016. Currently acting as the Chairman of the Audit Committee of the Supervisory Board.

Leszek Koziowski

- 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 Committee on Nominations and Remunerations of the Supervisory Board.

Jacek Rawecki

- Member of the Supervisory Board

Graduate of the Faculty of Social Sciences of the University of Wrocław. Currently, in the course of preparation of a PhD thesis at the Faculty of Law and Administration of the Cardinal Stefan Wyszyński University in Warsaw, taking part in the Master of Business Administration management studies at the University of Economics in Wrocław.

Performing management functions since 2006. At present, he is the First Vice-President of the Management Board of KGHM Polska Miedź S.A. for Supply Chain Management. Previously, he was, among others, the President of the Management Board of Katowicki Węgiel Sp. z o.o., director of the local branch of Agencja Mienia Wojskowego, director for marketing and development of PUH Brajt. in Wrocław. Former President of the Management Board of KGHM Metraco S.A. In Legnica, later the member of the Management Board of Przedsiębiorstwo Budowlane ARS Sp. z o.o. He has experience in ownership supervision – he was a member of the Supervisory Board of Grupa Energetyczna Katowice Sp. z o.o. and a secretary of the Supervisory Board of EnergiaPro Gigawat Sp. z o.o.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 8 June 2016. Currently acting as the member of the Audit Committee of the Supervisory Board.

Stefan Świątkowski

- Member of the Supervisory Board

Graduate of Łódź University of Technology (Master's Degree in mathematics), the University of Leeds in the United Kingdom (Master of Science in mathematics), and INSEAD in France (MBA).

He has many years of experience in financial management, risk management, and strategic management. At present, he is the Vice-President of the Management Board for Finance at KGHM. Earlier he served as the Vice President of the Management Board of FM Bank/Polski Bank Przedsiębiorczości and the bank PKO BP responsible for risk management. He was also the Finance Director at Europejski Fundusz Leasingowy S.A. and the ALCO Director at Lukas Bank S.A. He also worked in Bank Handlowy S.A. at various positions related to risk and strategy management and at McKinsey & Company Poland sp. z o.o. as a consultant. He has experience in supervising commercial companies and partnerships. Author of articles on economic issues and a novel about Polish privatisation.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 08 June 2016. Currently acting as the member of the Strategy Committee of the Supervisory Board.

Jan Płudowski

- Member of the Supervisory Board,

Graduate of the Faculty of Electrical Engineering of Silesian University of Technology in Gliwice. He completed postgraduate studies at the Faculty of Electrical and Control Engineering of Gdańsk University of Technology, at the University of Economics in Katowice, Department of Enterprise Finance Management and at the Faculty of Management and Economics of Services of University of Szczecin, Department of Marketing and Management in Enterprise.

Professionally associated with the energy sector, he gained his professional experience holding positions at all levels of professional career. He worked, inter alia, at the following positions: Chief Regional Power Engineer (PKP Silesian Regional Directorate of State Railway in Katowice), Director of Railway Energy Department in Katowice and Head of Energy Management Division (PKP Directorate of Railway Energy in Warsaw), Director of the Office for Cash Flows ("PKP Energetyka" sp. z o.o. In Warsaw). He currently acts in the capacity of Director - Project Coordinator at "PKP Energetyka" S.A. in Warsaw. In the years 2007-2008 he acted in the capacity of a member of the Supervisory Board of the Energy Company Jastrzębie S.A.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 30 December 2016. Currently acting as the member of the Audit Committee of the Supervisory Board.

Agnieszka Woźniak

- Member of the Supervisory Board.

Graduate of the Faculty of Law and Administration at Maria Curie-Skłodowska's University in Lublin. She is a lawyer by profession.

Has many years of experience in human resources management. She dealt with internal inspections, office organizational matters, procurement, HR matters. She held the position of the representative of the Director-General for integrated management system. She also has experience in supervision over companies with State Treasury shareholding. Currently she holds the position of Director of the Minister Office at the Ministry of Energy.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 16 December 2016. 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 collectively. 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 arrangements adopted by the Supervisory Board,
- 2) on his/her own initiative,
- 3) on a written request of each member of the Supervisory Board,
- 4) on a written request 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, a written invitation of all members of the Supervisory Board at least 7 days before the date of the Supervisory Board meeting is required. Due to material reasons the Chairperson of the Supervisory Board may reduce 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 on 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 should be included in the agenda of the next meeting.

Taking part in meetings of the Supervisory Board is a duty of the Supervisory Board Member. 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 resolution of the Supervisory Board. 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 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 meetings. The Supervisory Board adopts 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 By-laws of the Supervisory Board. Subject to unconditionally binding legal regulations, including the CCC as well as provisions of the Company 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 on issues not included in the agenda unless all members of the Supervisory Board are present and nobody voices an objection. This shall not apply to resolutions concerning justifying the Supervisory Board member's absence at the meeting. Voting of the resolutions is performed in an open ballot. A secret ballot is ordered:

- 1) on request of at least one of the members of the Supervisory Board,
- 2) in case of personal 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 appointing of the Chairperson, the Deputy Chairperson and the Secretary of the Board, appointing or suspending of a member of the Supervisory Board and dismissing of such persons as well as other issues the settlement of which requires a secret ballot. 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 according to this procedure shall be presented at the first coming meeting of the Supervisory Board, including the announcement of the voting result.

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 are 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 personally 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 executes its obligations collectively.

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 temporary performance of duties of Management Board members 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 a Supervisory Board member 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 2016, the Supervisory Board changed the composition of the Audit Committee.

Composition of the Audit Committee as at 31 December 2016

1. Beata Chłodzińska - Member of the Audit Committee,
2. Jacek Rawecki - Member of the Audit Committee.
3. Jacek Szyke - Member of the Audit Committee.

Changes in the personal composition of the Audit Committee

As at 01 January 2016 the Audit Committee consisted of the following members: Wojciech Myślecki (Chairman), Beata Chłodzińska, Michał Czarnik i Jacek Szyke.

On 8 January 2016 the Supervisory Board appointed Anna Biesialska as a member of the Audit Committee.

On 26 July 2016, Anna Biesialska resigned from her function of the member of the Audit Committee.

On 26 July 2016 the Supervisory Board appointed Jacek Rawecki as a member of the Audit Committee.

On 14 November 2016 a Member of the Supervisory Board, Wojciech Myślecki submitted his resignation from the function of Member of TAURON Polska Energia S.A. Supervisory Board. Consequently, his membership in the Audit Committee expired.

On 30 December 2016 the Minister of Energy, acting pursuant to § 23(1)(3) of the Company Articles of Association dismissed Anna Biesialska from the Supervisory Board of TAURON Polska Energia S.A. Consequently, his membership in the Audit Committee expired.

On 30 January 2017 the Supervisory Board appointed Stanisław Bortkiewicz and Jan Płudowski as members of the Audit Committee.

Personal composition of the Audit Committee as of the day of drawing up this report:

1. Stanisław Bortkiewicz - Chairman of the Audit Committee,
2. Beata Chłodzińska - Member of the Audit Committee,
3. Jan Płudowski - Member of the Supervisory Board,
4. Jacek Rawecki - Member of the Audit Committee.
5. Jacek Szyke - Member of the Audit Committee.

Tasks and competence 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 30. Competence of the Audit Committee

Issues requiring the resolution of the Audit Committee
as at 31 December 2016 and as at the day of drawing up this report
<ol style="list-style-type: none">1. monitoring of financial reporting process;2. monitoring of the accuracy of financial information presented by the Company;3. monitoring of the 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 2016, the Supervisory Board changed the composition of the Nominations and Remuneration Committee.

Personal composition of the Nominations and Remuneration Committee as at 31 December 2016 and as at the day of drawing up this report

1. Beata Chłodzińska - Chairwoman of the Nominations and Remuneration Committee,
2. Leszek Kozirowski - Member of the Nominations and Remuneration Committee,
3. Agnieszka Woźniak - Member of the Nominations and Remuneration Committee.

Changes in the personal composition of the Nominations and Remuneration Committee

As at 01 January 2016 the Nominations and Remuneration Committee consisted of the following members: Leszek Kozirowski (Chairman), Anna Biesialska, Beata Chłodzińska and Renata Wiernik-Gizicka.

On 06 June 2016 a Member of the Supervisory Board, Renata Wiernik-Gizicka submitted her resignation from the function of Member of TAURON Polska Energia S.A. Supervisory Board. Consequently, her membership in the Nominations and Remuneration Committee expired.

During its meeting on 19 December 2016 the Supervisory Board appointed Agnieszka Woźniak as a Member of the Nominations and Remunerations Committee.

On 30 December 2016 the Minister of Energy, acting pursuant to § 23(1)(3) of the Company Articles of Association dismissed Anna Biesialska from the Supervisory Board of TAURON Polska Energia S.A. Consequently, her membership in the Nominations and Remuneration Committee expired.

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 2016 and on the day of this report.

Table no 31. Competence of the Nominations and Remuneration Committee

Issues requiring the resolution of the Nominations and Remunerations Committee as at 31 December 2016 and as at the day of drawing up this report
<ol style="list-style-type: none">1. recommendations to the Supervisory Board on a recruitment procedure for the positions of the Company Management Board members,2. assessing candidates for members of the Management Board as well submitting an opinion in this scope to the Supervisory Board,3. recommendations to the Supervisory Board 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 reasons6. 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 2016, the Supervisory Board changed the composition of the Strategy Committee.

Composition of the Strategy Committee as at 31 December 2016 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. Anna Mańk - Member of the Strategy Committee,
4. Stefan Świątkowski - Member of the Supervisory Board.

Changes in the Strategy Committee personal composition

As at 01 January 2016 the Strategy Committee consisted of the following members: Jacek Szyke (Chairman), Beata Chłodzińska, Anna Mańk, Maciej Koński and Wojciech Myślecki.

On 06 June 2016 a Member of the Supervisory Board, Maciej Koński submitted his resignation from the function of Member of TAURON Polska Energia S.A. Supervisory Board. Consequently, his membership in the Strategy Committee expired.

On 26 July 2016 the Supervisory Board appointed Stefan Świątkowski as a member of the Strategy Committee.

On 14 November 2016 a Member of the Supervisory Board, Wojciech Myślecki submitted his resignation from the function of Member of TAURON Polska Energia S.A. Supervisory Board. Consequently, his membership in the Strategy Committee expired.

Tasks and competence of the Strategy Committee

The table below presents the tasks and competences of the Strategy Committee as at 31 December 2016 and as at the day of drawing up this report.

Table no 32. Competence of the Strategy Committee

Issues requiring the resolution of the Strategy Committee
as at 31 December 2016 and as at the day of drawing up this report
<ol style="list-style-type: none">1. assessment of the Strategy of the Company and the Capital Group 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 Supervisory Board operations 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.

Members of the Committees of the Supervisory Board may also participate in meetings and vote of the adopted resolutions 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. Description of the policy of diversity applied to the governing bodies of the Company

The Company uses the policy of equal treatment and strives to ensure diversity in terms of gender, educational background, age and professional experience in relation to all employees, in particular, in relation to the governing bodies of the Company and its key managers. As at the day of completion of the report, TAURON did not have the diversity policy formulated in the form of a single document. The rules on diversity management were introduced for application under many documents constituting internal legal acts, including the *TAURON Group's Code of Business Ethics*.

In relation to members of the corporate bodies of the Company, i.e. The Management Board and the Supervisory Board, persons acting as Members of the Management Board are selected by the Supervisory Board, whereas Members of the Supervisory Board are selected by the Minister of Energy within the statutory powers and GM TAURON. Information concerning qualifications and professional experience of persons appointed to the Management Board and the Supervisory Board is published in the relevant current reports as well as in the Company website.

TAURON plans to develop and implement the diversity policy for application in a single formal document.

6.13. Remuneration policy of management and supervisory staff

6.13.1. Remuneration system of Management Board members and key managers

6.13.1.1. General information on the adopted remuneration system for members of the Management Board

In 2016 the principles of remuneration of members of the Company Management Board 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.* applied (Remuneration Policy), adopted by the Supervisory Board of the Company pursuant to the resolution no. 15/II/2011 of 24 February 2011 as well as the rules of development of remuneration of Members of the Management Board (Rules of remuneration development), defined in the Resolution of the Extraordinary GM of WZ TAURON of 15 December 2016 specified in detail by the Supervisory Board of the Company pursuant to the Resolution no. 94/IV/2016 of 15 December 2016 *concerning the amendment to the Articles of Association the development of remuneration of Members of the Management Board of TAURON Polska Energia S.A.* The Rules of remuneration development were adopted as the implementation of the provisions of the *Act of 9 June 2016 concerning principles for determining remuneration of persons managing certain companies* (Journal of Laws of 2016, item 1202).

Both the Remuneration policy and the Rules of remuneration development define 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 adopted remuneration system is to ensure an incentive-based remuneration of the senior management staff and to create basis for its development.

Objectives if applicable remuneration systems:

- 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 systems do not envisage that remuneration shall be tied with instruments associated with the Company shares.

The remuneration model contained both in the Remuneration policy and in the Rules of remuneration development assume a two-component system for determining of the remuneration for members of the Management Board. Flat-rate monthly salary (fixed remuneration) and supplementary remuneration for a given financial year (variable remuneration), depending on the level of accomplishment of the management goals.

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.

Taking into account the applicable regulations, the level of remuneration for members of the Management Board is defined by the Supervisory Board, within the brackets determined by the Company GM.

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.

6.13.1.2. 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.

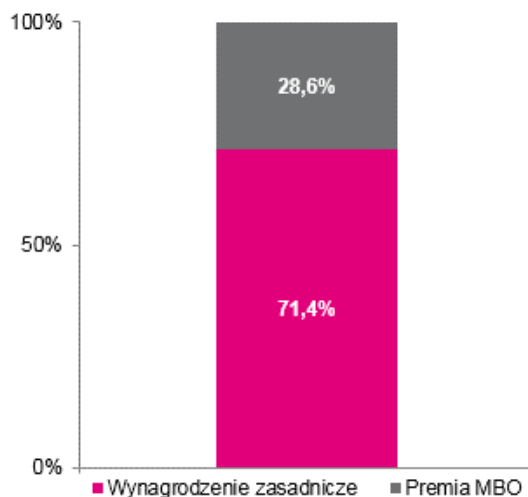
The bonus system based on market bonus mechanisms enables cascading the objectives set by the Management Board at a level of TAURON Capital Group and at a level of the Company, to specific tasks, defined by parameters, assigned to employees at lower levels of the organisation. Accordingly, the culture 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.

Moreover, in 2016 works on building a bonus system for the trade area started, aimed at motivating to achieve higher revenue for TAURON Capital Group.

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. 59 Structure of remuneration for the position of a key manager



6.13.1.3. Rules, terms and conditions and level of remuneration of Management Board members

The total amount of remuneration understood as the value of salaries, 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 2016 amounted to PLN 8,024 thousand gross.

The table below presents the remuneration of the Company Management Board members for 2016, divided into components.

Table no 33. Remuneration of members of the Company Management Board for 2016, divided into components

No.	Name and surname	Period of holding the function in 2016	Remuneration* (PLN thous.)	Bonus* (PLN thous.)	Other benefits* (PLN thous.)	Total (PLN thous.)
1.	Jarosław Broda	01.01.2016 - 31.12.2016	900	197	122	1,219
2.	Filip Grzegorzczak**	15.11.2016 - 31.12.2016	98	0	0	98
3.	Kamil Kamiński	01.01.2016 - 31.12.2016	900	194	51	1,145
4.	Remigiusz Nowakowski	01.01.2016 - 14.11.2016	884	249	166	1,299
5.	Anna Striżyk	01.01.2016 - 08.01.2016	30	53	0	83
6.	Marek Wadowski	29.01.2016 - 31.12.2016	829	151	40	1,020
7.	Piotr Zawistowski	01.01.2016 - 31.12.2016	900	197	164	1,261
Total			4,541	1,041	543	6,125

* no overheads

**Agreement for provision of management services

Members of the Management Board did not receive any remuneration or awards in 2016 on account of functions fulfilled in governing bodies of companies belonging to TAURON Capital Group.

In relation to Members of the Management Board listed in the above table, the Remuneration Policy applied, excluding the President of the Management Board to whom the Rules of remuneration development were applied.

Taking into account the foregoing, assumptions to two remuneration systems were presented:

1. The Remuneration Policy for Members of supervisory and management bodies, including the description of the rules of its defining in TAURON Polska Energia S.A.

The remuneration policy, adopted by the Supervisory Board of the Company pursuant to the resolution no. 15/II/2011 of 24 February 2011 consists of two components for determining the remuneration, the fixed part (monthly basic salary) and the variable 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 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 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.

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.

In accordance with the aforementioned Remuneration Policy the employment contract is concluded with Members of the Management Board.

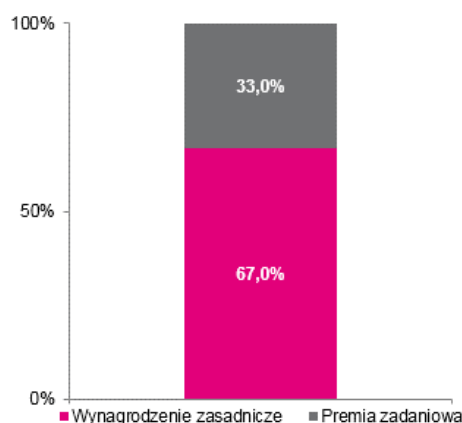
2. The rules of development of remuneration for Members of the Management Board

The Rules of remuneration development adopted pursuant to the Resolution of the Extraordinary GM of WZ TAURON of 15 December 2016, specified in detail by the Supervisory Board of the Company of 19 December 2016 concerning the rules of development of remuneration of Members of the Management Board of TAURON Polska Energia S.A., comprise a two-component system for defining the remuneration, consisting of the fixed part (monthly basic salary) and the variable part (supplementary remuneration) constituting the motivating element of the remuneration depending on the accomplishment of management targets in a given financial year. Both the monthly basic salary and the variable part is determined by the Supervisory Board of the Company pursuant to the rules and the general catalogue of management targets defined by the TAURON GM.

In accordance with the aforementioned Rules of remuneration development an agreement for provision of management services for the period of fulfilment of the function is concluded with a Member of the Management Board, with the obligation of personal rendering of services, irrespective of whether the member acts in the scope of conducted economic activity.

The figure below presents the structure of remuneration of Members of the Management Board.

Figure no. 60 Structure of remuneration for the position of a Management Board member



6.13.1.4. 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

According to the agreement for provision of management services concluded with the President of the Management Board, in case of termination or dissolution of the Agreement by the Company for reasons other than defined therein, a Management Board Member may be awarded a severance payment at a level not higher than three-fold fixed part of the remuneration, under the condition of fulfilment of the function by the Member over a period of at least 12 months prior to the termination of this agreement. On the other hand, employment contracts concluded with other Management Board Members do not envisage severance payment 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.

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, the aforementioned agreement for provision of management services includes non-competition provisions applicable after the expiry of the term of office. On the other hand, non-competition agreements have been concluded with other members of the Management Board. 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.

6.13.1.5. Non-financial components of remuneration allocated to members of the Management Board and key managers

Members of the Management Board, excluding the President of the Board employed under the agreement for provision of management services, 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.

Pursuant to the agreement for provision of management services technical devices and resources constituting the Company assets are made available, required for the fulfilment of the function, including the right of exclusive use of a company car.

6.13.1.6. Information on changes in the remuneration policy over the last financial year

In the financial year 2016 the Extraordinary GM of TAURON introduced new rules of remuneration development for members of the Management Board as the implementation of the provisions of the Act of 9 June 2016 *concerning principles for determining remuneration of persons managing certain companies*. Accordingly, work was commenced with the purpose of development of a new Remuneration Policy, compliant with the aforementioned Resolution of the Extraordinary GM of TAURON and the Resolution of the Supervisory Board 19 December 2016 concerning the development of remuneration of Members of the Management Board of TAURON Polska Energia S.A.

Information concerning the aforementioned rules of development of remuneration of Members of the Management Board is contained in section 6.13.1.3 hereof.

6.13.1.7. 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 and the rules of development of remuneration. The incentive-based and consistent system is provided, linked with the monitoring of annual financial plans and the adopted 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 supports the implementation of strategic goals and determines the remuneration depending on the Company financial situation in an annual perspective.

6.13.2. Remuneration system of members of the Supervisory Board

In the period until 15 December 2016 the rules of remuneration for members of the Supervisory Board of the Company 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. were applicable. On the other hand, as of 15 December 2016 the remuneration system for Members of the Supervisory Board applies, defined in the Resolution of the Extraordinary TAURON GM no. 6 of 15 December 2016 concerning the rules of development of remuneration of Members of the Supervisory Board, adopted as the implementation of the provisions of the Act of 9 June 2016 concerning principles for determining remuneration of persons managing certain companies (Journal of Laws of 2016 item 1202).

Both the earlier remuneration system of members of the Supervisory Board binding until 15 December 2016 as well as the system applicable as at the day of drawing up this report comprises a single-component monthly remuneration, adopting diversification of its level depending on the function in the Supervisory Board.

In accordance with the aforementioned Resolution of the Extraordinary TAURON GM of 15 December 2016, a monthly remuneration of Supervisory Board members is determined as a product of the average monthly remuneration in the enterprise sector, excluding payment of profit distribution bonuses in the fourth quarter of the preceding year, announced by the President of the Central Statistical Office and the multiplier:

- 1) the Supervisory Board – 1.7 for the chairperson of
- 2) the Supervisory Board – 1.5 for other members of

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.

Remuneration of key supervising personnel

The table below presents the remuneration of members of the Company Supervisory Board Members for 2016

Table no 34. Remuneration of members of the Supervisory Board of the Company for 2016

No.	Name and Surname	Period of holding the function in 2016	Remuneration and awards (PLN thous.)
1.	Anna Biesialska	01.01.2016 - 30.12.2016	106
2.	Stanisław Bortkiewicz	30.12.2016 - 31.12.2016	0
3.	Beata Chłodzińska	01.01.2016 - 31.12.2016	142
4.	Michał Czarnik	01.01.2016 - 30.12.2016	106
5.	Maciej Koński	01.01.2016 - 06.06.2016	47
6.	Leszek Koziorowski	01.01.2016 - 31.12.2016	107
7.	Anna Mańk	01.01.2016 - 31.12.2016	130
8.	Wojciech Myślecki	01.01.2016 - 14.11.2016	94
9.	Jan Płudowski	30.12.2016 - 31.12.2016	0
10.	Jacek Rawecki	08.06.2016 - 31.12.2016	59
11.	Jacek Szyke	01.01.2016 - 31.12.2016	118
12.	Stefan Świątkowski	08.06.2016 - 31.12.2016	60
13.	Renata Wiernik-Gizicka	01.01.2016 - 06.06.2016	47
14.	Agnieszka Woźniak	16.12.2016 - 31.12.2016	3
Total			1,019

6.13.3. Liabilities arising from pensions and similar benefits for former of the Members of the Management Board and the Supervisory Board.

In the Company no liabilities towards former the Members of the Management Board and the Supervisory Board occur, arising from pensions and similar benefits.

At the same time, it is indicated that due to Company liabilities towards former members of TAURON Management Board, in 2016 the total amount of PLN 5,616 thousand was paid due to bonuses for accomplishment of KPIs in 2015 (excluding overheads) and compensations for compliance with the non-competition clause.

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. Information on agreements concluded by companies of TAURON Capital Group

7.2.1. Agreements significant for operations of TAURON Capital Group

In the financial year 2016 the companies of TAURON Capital Group concluded the following agreements significant for operations of TAURON Capital Group:

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

On 28 July 2016, in reference to current report No. 61/2016 of 30 December 2013 on suspending the project for the construction of CCGT unit in Elektrownia Blachownia Nowa, on 28 July 2016 the companies: TAURON, KGHM and TAURON Wytwarzanie signed the agreement under which they jointly decided to withdraw from execution of the project for the construction of CCGT unit in Elektrownia Blachownia Nowa and terminate the Shareholders' Agreement binding KGHM and TAURON Wytwarzanie, which meant expiry of all obligations specified in the Shareholders' Agreement and termination of all works defined therein, in particular, those defined in the preliminary schedule of project execution, as well as in further arrangements and covenants.

KGHM and TAURON Wytwarzanie jointly agreed to participate in winding up of the Elektrownia Blachownia Nowa which would be carried out in line with the provisions of the articles of association of the Company and generally applicable laws.

The Parties will cooperate with each other and with the Company to guarantee execution of the Agreement. The Parties agreed to terminate the agreement of 30 December 2013 under which they decided to suspend temporarily the project for the construction of CCGT unit in Elektrownia Blachownia Nowa.

The Company informed of the aforementioned event in the current report no. 32/2016 of 28 July 2016.

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

On 27 October 2016, in reference to current report No. 9/2016 of 11 March 2011 concerning concluding of material agreements under the project "Construction of CCGT unit in Stalowa Wola:

- 1) a conditional agreement was concluded between TAURON, PGNiG and EC Stalowa Wola ("Agreement") concerning determination of boundary conditions for the project restructuring,
- 2) annex to the electricity purchase agreement of 11 March 2011 ("Electricity Purchase Agreement") between TAURON, PGNiG and EC Stalowa Wola;
- 3) annex to the gas fuel supply agreement of 11 March 2011 ("Gas Supply Agreement") between PGNiG and EC Stalowa Wola.

Agreement

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

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

Power Purchase Agreement and Gas Supply Agreement

The conditional amendments to the Gas Supply Agreement and the Power Purchase Agreement provide, in particular, for introducing market rates for the pricing formulas used under these agreements. Furthermore, in view of delays in the Project implementation, the annex to the Gas Supply Agreement provides for changes to the amounts, times and methodologies of charging contractual penalties.

Conditions Precedent

The Agreement and the annexes to the Gas Supply Agreement and Power Purchase Agreement enter into force simultaneously at the moment of amendment of the agreements for Project financing or repayment of the last of institutions currently funding EC Stalowa Wola (i.e. EIB, European Bank for Reconstruction and Development (EBRD), Bank Polska Kasa Opieki S.A. (Pekao)).

Standstill agreement

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

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

The entry into force of the Standstill Agreement is conditional, in particular, on the financial institutions being provided with bank guarantees up to the amount of about PLN 629 million until 30 October 2016, where 50% share determines the amount of bank guarantees each of the Sponsors should provide to the financial institutions (i.e. about PLN 314.5 million).

Notwithstanding the foregoing, EC Stalowa Wola will have the right to give notice to the financial institutions of voluntary early repayment of the loans by 20 March 2017. According to preliminary estimates, the newly signed documents should enable completion of the Project in 2019.

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

Signing agreements on hybrid financing with the European Investment Bank

On 14 December 2016, the following agreements were signed between TAURON and EIB:

- 1) project agreement (the "Project Agreement") determining detailed requirements relating to the financed investment task,
- 2) subscription agreement (the "Subscription Agreement") providing basis for conducting the issue of hybrid bonds ("Bonds") with the value of EUR 190 million.

Funds to be acquired through the issuance of Bonds will be allocated for covering expenditure of TAURON Dystrybucja S.A. associated with the development and modernisation of power grid infrastructure in the years 2016-2020.

Detailed information concerning the aforementioned issues is provided in section 4.7. of this report.

Information on the aforementioned event was published in the current report no. 45/2016 of 14 December 2016.

Concluding the agreement with Nowe Brzeszcze GT for coal sales

On 4 January 2016 the agreement for coal sales for energy generation purposes was concluded between TAURON and Nowe Brzeszcze GT, the subject matter of which is the purchase of coal by the Company for the needs of generation units of TAURON Wytwarzanie and TAURON Ciepło. The agreement was concluded for a period until 31 December 2016. On 1 December 2016 the merger of TAURON Wydobycie and Nowe Brzeszcze GT companies took place, pursuant to which TAURON Wydobycie entered into all rights and obligations of Nowe Brzeszcze GT.

Concluding the agreement with TGE for acting in the capacity of a market maker

On 1 February 2016 TAURON concluded the agreement with TGE for fulfilment of a market maker function in the scope of instruments for electricity at the RTT (commodity forward market). The aim of the cooperation is to increase the liquidity of animated instruments and to intensify the cooperation between TGE and TAURON.

The task of the animator is to ensure maintaining of trading liquidity and increase the number of transactions concluded on the TGE in products covered by the agreement. The effect of such activity is to enable the execution of purchase and sales orders at market prices by market participants. Through the fulfilment of the market maker function at TGE, TAURON obtains preferential rates for transaction fees and, additionally, through increasing the share of transactions, the Company gains additional discounts on transaction fees in the general trade.

Simultaneously, work with the Commodity Clearing House (IRGIT) was carried out in order to negotiate and sign an agreement concerning the level of fees for the market maker. This agreement introduces reduced rates for the market maker in the period from 1 February 2016 to 31 January 2017, i.e. in the period of effectiveness of the agreement for the fulfilment of a market maker function at TGE.

Conclusion of the annex for coal sales to TAMEH POLSKA

As of 1 July 2016 TAURON resumed coal sales to TAMEH POLSKA after a period of suspension of agreement execution (from 01 April 2015 to 30 June 2016), which resulted from the change in the market situation. The resumption of coal supplies occurred as a result of TAURON's offer of more favourable prices than attainable on the market by TAMEH POLSKA, after signing the relevant annex to the agreement.

Signing the Agreement with PSE on electricity sales for covering of transmission grid losses

On 5 October 2016 TAURON concluded the agreement for electricity sales with PSE for covering of losses in the transmission grid in the period from 1 January 2017 to 31 December 2017. The agreement was concluded as a result of public procurement procedure conducted by PSE.

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.

7.2.2. Transactions with the affiliated entities under terms 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 48 of the financial statements for the year ended on 31 December 2016.

7.2.3. 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 short-term 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).

Agreements on working capital credits and loans effective in 2016:

- 1) An overdraft agreement with BGK up to the amount of EUR 25,000 thousand, for financing of the transactions of purchase/ sales/ exchange of CO₂ emission allowances, trading in electricity and gas on the European exchanges, with the repayment deadline until 31 December 2017,
- 2) An overdraft agreement with mBank BGK up to the amount not exceeding of USD 2,000 thousand, allocated for financing of current activity, in particular, for financing of the collateral margin and commodity transactions. The repayment deadline of the loan, pursuant to the annex of 29 January 2016, falls on 31 March 2017.
- 3) Loan agreement concluded with TAURON Sweden Energy AB (publ) (TAURON Sweden Energy) for the amount of EUR 6,600 thousand. The repayment deadline of the loan, pursuant to the annex of 29 July 2016, falls on 30 July 2017.

The use of FX loans described above in subsections a) and b) is aimed at mitigating the currency risk associated with concluded commercial transactions.

The table below presents detailed specification of agreements for working capital credits and loans effective in TAURON in 2016.

Table no 35. Specification of working capital loan and credit agreements effective in TAURON as at 31 December 2016.

No.	Type of agreement	Interest rate	Amount of credit/loan (thou.)	Financing period	Balance as at 31 December 2016 (thou.)
1.	Overdraft facility	LIBOR 1M + fixed margin	USD 2,000	16/04/2015 - 30/03/2017	USD 411
2.	Overdraft facility	EURIBOR 1M + fixed margin	EUR 25,000	31/12/2015 - 31/12/2017	EUR 3,032
3.	Overdraft facility	WIBOR O/N + fixed margin	PLN 300,000	30/12/2014 - 29/12/2017	PLN 0
4.	Intraday Limit	None	PLN 500,000	18/12/2014 - 17/12/2017	PLN 0
5.	Loan	fixed margin	EUR 6,600	30/07/2015 - 30/07/2017	EUR 6,600

Investment credits and loans

In 2016 the Company did not incur any new and did not terminate any existing agreements on investment credits and loans.

The table below presents the detailed specification of investment credit and loan agreements as at 31 December 2016.

Table no 36. Specification of investment credit and loan agreements effective as at 31 December 2016.

No.	Type of agreement	Type and level of interest rate	Amount of credit/loan (thou.)	Financing period	Balance as at 31 December 2016 (thou.)
1.	EIB facility	fixed margin	PLN 210,000	30.01.2012 - 15.12.2021	PLN 105,000

No.	Type of agreement	Type and level of interest rate	Amount of credit/loan (thou.)	Financing period	Balance as at 31 December 2016 (thou.)
2.	EIB facility	fixed margin	PLN 300,000	20.02.2012 - 15.12.2021	PLN 150,000
3.	EIB facility	fixed margin	PLN 450,000	16.07.2012 - 15.06.2024	PLN 306,818
4.	EIB facility	fixed margin	PLN 200,000	25.01.2013 - 15.09.2024	PLN 145,455
5.	EIB facility	fixed margin	PLN 250,000	22.02.2013 - 15.09.2024	PLN 181,818
6.	EIB facility	fixed margin	PLN 295,000	17.07.2015 - 15.03.2027	PLN 295,000
7.	Loan from TAURON Sweden Energy	fixed margin	EUR 166,572	03/12/2014 - 29/11/2029	EUR 166,572

7.2.4. Information on loans and sureties granted as well as sureties and guarantees received

Loans granted

In 2016 TAURON granted financing to the co-subsiary, EC Stalowa Wola in the form of 5 loans allocated for the current activity of EC Stalowa Wola and repayment of loan instalments of this company.

On 30 December 2016 TAURON signed an annex with EC Stalowa Wola to the loan agreement up to the amount of PLN 2,600 thousand, pursuant to which the repayment of the loan, including accrued interest shall be made in a one-off operation, by 30 June 2017 at the latest.

On 25 February 2016 the Company concluded the annex to the agreement with TAURON EKOENERGIA on the loan granted in 2015 in the amount of PLN 1,120,000 thousand, extending the repayment term of the loan until 27 February 2017.

The table below presents the specification of loans granted by TAURON, effective as at 31 December 2016.

Table no 37. Specification of loans granted by TAURON, effective as at 31 December 2016.

No.	Type of agreement	Type and level of interest rate	Amount Credit/loan amount arising from the agreement (thou.)	Effective term of the Agreement	Balance as at 31 December 2016 (thou.)
1.	Loan EC Stalowa Wola	WIBOR 1 M + fixed margin	PLN 5,500	22/01/2016 - 30/06/2017	PLN 5,500
2.	Loan EC Stalowa Wola	WIBOR 1 M + fixed margin	PLN 1,200	22/04/2016 - 30/06/2017	PLN 600
3.	Loan EC Stalowa Wola	WIBOR 1 M + fixed margin	PLN 3,100	27/05/2016 - 30/06/2017	PLN 3,100
4.	Loan EC Stalowa Wola	WIBOR 1 M + fixed margin	PLN 3,800	31/08/2016 - 30/06/2017	PLN 2,875
5.	Loan EC Stalowa Wola	WIBOR 6M + fixed margin	PLN 15,300	15/12/2016 - 31/12/2027	PLN 11,000
6.	Loan EC Stalowa Wola	WIBOR 3M + fixed margin	PLN 177,000	20/06/2012 - 31/12/2032	PLN 177,000
7.	Loan EC Stalowa Wola	WIBOR 6M + fixed margin	PLN 2,600	25/11/2015 - 30/06/2017	PLN 2,600
8.	Loan EC Stalowa Wola	WIBOR 3M + fixed margin	PLN 15,850	14/12/2015 - 31/12/2027	PLN 15,850
9.	Loan TAURON EKOENERGIA	Fixed interest	PLN 1,120,000	27/02/2015 - 27/02/2017	PLN 1,120,000

Sureties and guarantees granted and received

The guaranties, sureties and commitments effective in 2016 arise from the adopted financing model of TAURON Capital Group companies and they were provided by TAURON in connection with activities carried out by subsidiaries 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 collaterals granted by TAURON, effective as at 31 December 2016.

Table no 38. Specification of securities granted by TAURON, effective as at 31 December 2016.

No.	Beneficiary	Agreement/Collateral	Entity whose liabilities are subject to the collateral	Amount (thou.)	Date of effectiveness
1.	WFOŚiGW	Bill of exchange with a promissory note	TAURON Wytwarzanie	PLN 40,000	15.12.2022
2.	WFOŚiGW	Bill of exchange with a promissory note	TAURON Ciepło	PLN 30,000	15.12.2022
3.	WFOŚiGW	Surety agreement	KW Czatkowice	PLN 914	15/06/2021
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.	PSG	Surety agreement	TAURON Sprzedaż	PLN 15,000	31/03/2017
11.	PSE	Surety agreement	TAURON Wytwarzanie	PLN 5,000	04.08.2019
12.	Millennium Leasing	Surety agreement	TAURON Wydobywanie	PLN 2,900	30/10/2017
13.	WFOŚiGW	Financing promise	TAURON Ciepło	PLN 178,300	31.12.2017

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

- 1) 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. (IRGIT.)
- 2) The agreement for the limit for bank guarantees of 12 July 2016 concluded with CaixaBank S.A (Spółka Akcyjna) Oddział w Polsce (CaixaBank) pursuant to which the limit for 36 months was granted, i.e. Until 11 July 2019. At the same time, the maximum period of effectiveness of bank guarantees must not exceed the date of 11 July 2019, to be used by TAURON and subsidiaries in connection with conducted operations.
- 3) Agreement for the guarantee limit concluded on 25 October 2016 with The Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTM UFJ). The guarantee limit up to the amount of PLN 314,486 thousand is allocated for bank guarantees granted in accordance with the standstill agreement of 15 September 2016 concluded between TAURON, EC Stalowa Wola, PGNiG and banks financing EC Stalowa Wola with the validity term until 14 April 2017.

At the same time, on 31 December 2016 the General Agreement of 22 September 2011 expired, including its subsequent annexes, for granting bank guarantees, concluded with PKO BP, for the amount of PLN 100,000 thousand, to be used by TAURON and its subsidiaries.

The table below presents the specification of bank guaranties granted under the agreements effective as at 31 December 2016.

Table no 39. Specification of bank guaranties granted under the agreements effective as at 31 December 2016.

No.	Bank	Company	Beneficiary	Type of guarantee	Amount (thou.)	Date of commencement	Date of effectiveness
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No.	Bank	Company	Beneficiary	Type of guarantee	Amount (thou.)	Date of commencement	Date of effectiveness
1.	BZ WBK	TAURON	IRGIT	payments	PLN 30,000	14/12/2016	17/01/2017
2.	BZ WBK	TAURON	IRGIT	payments	PLN 40,000	11/08/2016	17/01/2017
3.	BZ WBK	TAURON	IRGIT	payments	PLN 30,000	11/08/2016	17/01/2017
4.	BTM UFJ	TAURON	Bank Pekao	payments	PLN 74,992	30/10/2016	14/04/2017
5.	BTM UFJ	TAURON	EBOR	payments	PLN 83,494	30/10/2016	14/04/2017
6.	BTM UFJ	TAURON	EIB	payments	PLN 156,000	30/10/2016	14/04/2017
7.	CaixaBank	TAURON	GAZ-SYSTEM	performance bond	PLN 3,664	01/12/2016	30/11/2017
8.	CaixaBank	KW Czatkowice	PGE	performance bond	PLN 147	09/09/2016	31/01/2018
9.	CaixaBank	TAURON Dystrybucja Serwis	Strabag Infrastruktura Południe	performance bond	PLN 116	09/09/2016	15/06/2019

Moreover, on 31 December 2016 four guarantees issued within the limit in PKO BP in the previous years expired, i.e.:

- 1) TAURON Wydobycie guarantee in favour of Polskie Koleje Państwowe S.A. in the amount of PLN 76 thousand,
- 2) Guarantee of Kopalnia Wapienia "Czatkowice" sp. z o.o. (KW Czatkowice) in favour of CEZ Chorzów S.A. in the amount of PLN 1,422 thousand,
- 3) TAURON Dystrybucja guarantee in favour of Jelenia Góra city in the amount of PLN 97 thousand,
- 4) TAURON Dystrybucja Serwis guarantee in favour of Dragados Oddział w Polsce S.A. in the amount of PLN 96 thousand.

At the same time, under the agreement on limit for bank guarantees concluded with BZ WBK during 2016 TAURON ordered issuance of bank guarantees in favour of IRGIT for hedging the transactions carried out at TGE, with the effective term below one year.

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 the 1st quarter the agreement of 14 October 2015 was effective, pursuant to which TAURON Wytwarzanie granted the surety to TAURON in favour of the IRGIT, on account of the settlement of future transactions up to the amount of PLN 123,000 thousand. The agreement was effective until 31 March 2016.

Company Management Board

Katowice, ...13 March 2017

Filip Grzegorzczak - President of the Management Board

Jarosław Broda - Vice-President of the Management Board

Kamil Kamiński - Vice-President of the Management Board.....

Marek Wadowski - Vice President of the Management Board.....

Piotr Zawistowski - Vice President of the Management Board.....

Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

Below the glossary of trade terms and the list of abbreviations and acronyms most commonly used in this report, is presented.

Table no 40. Explanation of abbreviations and acronyms, and trade terms applied in the text of the report

No.	Abbreviation and trade term	Full name/explanation
1.	BGK	Bank Gospodarstwa Krajowego with the seat in Warsaw
2.	Biomass TAURON Group:	Biomasa Grupa TAURON sp. z o.o. with the seat in Stalowa Wola
3.	BZ WBK	Bank Zachodni WBK S.A. with the seat in Wrocław
4.	B2B	(business-to-business) the acronym designating transaction between two or more economic operators
5.	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.
6.	Coloured certificates	Property rights resulting from certificates of origin of energy generated in the way subject to support, the so-called colour certificates: 1) green - certificates of origin of electricity from renewable energy sources, 2) violet - certificates of origin of electric energy 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) red - certificates of origin of electric energy from co-generation (CHP certificates - Combined Heat and Power), 4) yellow - certificates of origin of electric energy generated in cogeneration from sources of total installed capacity below 1 MW or gas-burning, 5) blue - certificates of origin of electricity from agricultural biogas. white – certificates of energy efficiency (mechanism stimulating pro-saving behaviour).
7.	CSI	(Customer Satisfaction Index) Index used in marketing to determine the level of clients' satisfaction from products or services offered by the company
8.	CSR	(Corporate Social Responsibility) social responsibility of business
9.	CUW	Centre of Common Services, CUW R – services in the area of accounting
10.	DM	Brokerage House
11.	Best Practice 2016	Best Practice of GPW Listed Companies 2016, effective as of 01 January 2016
12.	EIB	The European Investment Bank with the seat in Luxemburg
13.	EBIT	(Interest Rate Swap) result on operating activity before taxing
14.	EBITDA	(Earnings Before Interest, Taxes, Depreciation and Amortization) result on operating activity before taxing, increased by amortization and depreciation
15.	EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. with the seat in Stalowa Wola
16.	ElectroMobility Poland	ElectroMobility Poland S.A. company with its registered office in Warsaw
17.	Elektrownia Blachownia Nowa in liquidation	Elektrownia Blachownia Nowa sp. z o.o. with the seat in Kędzierzyn Koźle.
18.	ENEA	ENEA S.A. with the seat in Poznań
19.	ENERGA	ENERGA S.A. with the seat in Gdańsk
20.	ERM	Enterprise risk management system
21.	EU ETS	(European Union Emission Trading System) the European system of CO ₂ emission allowances trading
22.	EUA	(European Union Allowances) - allowance to introduce the equivalent to the air, within the meaning of art. 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 ₂), which is used for

No.	Abbreviation and trade term	Full name/explanation
		settlements of emission size within the system, which can be managed based on principles stipulated in the <i>Act of 28 April 2011 on the system of greenhouse gases emission allowances trading</i> (Journal of Laws No. 122, item 695)
23.	EUR	Euro - a common European currency introduced in some EU Member States
24.	GAZ-SYSTEM	Operator of Transmission Gas Pipelines GAZ-SYSTEM S.A. with its seat in Warsaw
25.	GPW	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) with the seat in Warsaw
26.	GRI	Global Reporting Initiative
27.	TAURON Capital Group/Group	TAURON Polska Energia S.A. Capital Group
28.	GUS	Central Statistical Office
29.	GZE	Górnośląski Zakład Elektroenergetyczny
30.	IRGIT	Izba Rozliczeniowa Giełd Towarowych S.A. (Commodity Exchange Clearing House) with the seat in Warsaw
31.	IRS	(Interest Rate Swap) contract on exchange of interest rate payments, one of the basic derivatives subject to trade at the interbank market
32.	EC	European Commission
33.	KGHM	KGHM Polska Miedź S.A. with the seat in Lubin
34.	KIC InnoEnergy	Community of Knowledge and Innovation - KIC InnoEnergy, with its seat in Kraków
35.	Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.,
36.	Nominations and Remuneration Committee	Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A.
37.	Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
38.	KPI	(Key Performance Indicators) key financial and non-financial indicators used as measures in processes of measurement of the level of organisation goal accomplishment
39.	KSE	National Power System
40.	KSH	Code of Commercial Companies
41.	KW Czatkowice	Kopalnia Wapienia Czatkowice sp. z o.o. with the seat in Krzeszowice
42.	KZEE	National consumption of electricity
43.	Business model	The document entitled <i>Code of TAURON Group</i> , adopted by the Management Board of the Company
44.	mBank	mBank S.A. with the seat in Warsaw
45.	Marselwind	Marselwind sp. z o.o. with the seat in Katowice
46.	Mg	Megagram – million gram (1,000,000 g) i.e. 1 t
47.	MSR	(Market Stability Reserve) stabilisation reserve on the market of allowances
48.	IFRS	International Financial Reporting Standards
49.	(NCBR)	National Centre for Research and Development with its registered Warsaw
50.	Nowe Brzeszcze GT	Nowe Brzeszcze Grupa TAURON sp. z o.o. with the seat in Brzeszcze, currently ZG Brzeszcze in TAURON Wydobycie
51.	Business Area	Seven Business Areas of core activity of TAURON Capital Group: Trade, Mining, Generation, RES, Heat, Distribution and Sales;
52.	OPEC	Organization of the Petroleum Exporting Countries with its seat in Vienna
53.	ORM	Operating Power Reserve
54.	TSO	Transmission System Operator
55.	OTC (OTC market)	(Over The Counter Market) - the European market operating outside the regulated exchange market

No.	Abbreviation and trade term	Full name/explanation
56.	RES	Renewable Energy Sources
57.	Efficiency Improvement Programme	the Efficiency Improvement Programme in TAURON Group for 2016-2018
58.	PEPKH in liquidation	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. with the seat in Warsaw, in liquidation
59.	PGE	PGE Polska Grupa Energetyczna S.A. with the seat in Warsaw
60.	PGE EJ1	PGE EJ1 sp. z o.o. with the seat in Warsaw
61.	PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. with its registered office in Warsaw
62.	GDP	Gross Domestic Product
63.	PKO BP	Powszechna Kasa Oszczędności Bank Polski S.A. with the seat in Warsaw
64.	PLN.	The symbol of Polish currency - Polish Zloty
65.	PMEC	Property rights for certificates of origin confirming generation of electricity in other co-generation sources
66.	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
67.	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.
68.	PMOZE	Property rights for certificates of origin confirming generation of electricity in RES in the period before 1 March 2009
69.	PMOZE_A	Property rights for certificates of origin confirming generation of electricity in RES in the period after 1 March 2009
70.	PMOZE-BIO	Property rights resulting from certificates of origin of electricity generated from agricultural biogas as of 1 July 2016
71.	PSE	Polskie Sieci Elektroenergetyczne S.A. with the seat in Konstancin-Jeziorna
72.	PSG	Polska Spółka Gazownictwa sp. z o.o. with the seat in Warsaw
73.	RB	Balancing Market
74.	RDN	Day Ahead Market
75.	RESPECT Index	Exchange index where companies operating in accordance with the sustainable development rules are listed
76.	RTT	Commodity Forward Market
77.	Segment Segments of activity	Segments of activity of TAURON Capital Group used in the process of statutory reporting. Results of TAURON Capital Group, activities were assigned to the following five Segments of TAURON Capital Group hereinafter also referred to as Areas: Mining, Generation, Distribution, Sales and Other
78.	SPOT (SPOT Market)	In relation to electric energy, it is the place of concluding of trade transactions for electric energy, 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 electric energy is strongly linked with RB operating provided by the TSO
79.	Company, TAURON	TAURON Polska Energia S.A. with the seat in Katowice
80.	Strategy	The document entitled <i>Strategy of TAURON Group for 2016 - 2025</i> being the update of the document <i>Corporate Strategy of TAURON Group for 2014 - 2017 with estimates until the year 2023</i> , effective until 1 September 2016
81.	Sustainability Strategy	The document entitled <i>Sustainability Strategy of TAURON Group for 2016 - 2018 with estimates until the year 2020</i> , being the update of the document <i>Sustainability Strategy of TAURON Group for 2012 - 2015 with estimates until the year 2020</i> .
82.	TAMEH Czech	TAURON Czech s.r.o. with the seat in Ostrava, Czech Republic
83.	TAMEH HOLDING	TAMEH HOLDING sp. z o.o. with the seat in Dąbrowa Górnicza
84.	TAMEH POLSKA	TAMEH HOLDING sp. z o.o. with the seat in Dąbrowa Górnicza
85.	TAURON/Company	TAURON Polska Energia S.A. with the seat in Katowice

No.	Abbreviation and trade term	Full name/explanation
86.	TAURON Ciepło	TAURON Ciepło sp. z o.o. with the seat in Katowice
87.	TAURON Czech Energy	TAURON Czech Energy s.r.o. with the seat in Ostrava, Czech Republic
88.	TAURON Dystrybucja	TAURON Dystrybucja S.A. with the seat in Kraków
89.	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. with the seat in Tarnów
90.	TAURON Dystrybucja Serwis	TAURON Dystrybucja Serwis S.A. with the seat in Wrocław
91.	TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with the seat in Jelenia Góra
92.	TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław
93.	TAURON Serwis	TAURON Serwis sp. z o.o. with the seat in Katowice
94.	TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with its seat in Kraków
95.	TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with the seat in Gliwice
96.	TAURON Sweden Energy	TAURON Sweden Energy AB (publ) with the seat in Stockholm, Sweden
97.	TAURON Wydobywanie	TAURON Wydobywanie S.A. with the seat in Jaworzno
98.	TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with the seat in Jaworzno
99.	TAURON Wytwarzanie Serwis	TAURON Wytwarzanie Serwis sp. with the seat in Jaworzno
100.	TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange) with the seat in Warsaw
101.	EU	European Union
102.	UOKiK	Office for Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
103.	USD	(United States Dollar) international abbreviation of American dollar
104.	ERO	Energy Regulatory Office (Urząd Regulacji Energetyki)
105.	WFOŚiGW	Regional Fund of Environmental Protection and Water Management in Katowice or in Kraków
106.	GM/SM	General Meeting/ Shareholders' Meeting
107.	ZG	Mining Plant
108.	ZW Katowice, ZW Tychy	Generation plants in Katowice and Tychy

Appendix B: INDEX OF TABLES AND FIGURES

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