

STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

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

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

1. Indicating the applied set of corporate governance rules

Application of the set of corporate governance rules in 2015

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

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

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

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

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

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

2. Indicating the waived rules of corporate governance

Waiver of the application of corporate governance rules in 2015

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

- 1) transmission of the General Meeting session in real time,

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

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

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

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

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

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

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

Recommendation concerning the remuneration policy

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

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

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

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

In accordance with recommendation I.9 of the Best Practice, GPW recommends that the public companies and their shareholders should provide for the balanced participation of women and men in performing the management and supervisory functions in enterprises. In the Company, members of Supervisory Board are appointed in accordance with the provisions of the Articles of Association, by the GM and the State Treasury,

under its personal powers, whereas the members of the Management Board are appointed by the Supervisory Board. The rules applicable in the Company in this scope do not restrict a possibility of participation in the Company governance bodies due to gender. Simultaneously, in fulfilment of the requirements specified in Section II p. 1 subsection 2a) of the Best Practice, in the 4th quarter of 2015 the Company published information on participation of men and women in the Supervisory Board and the Management Board of TAURON in the period of the last two years, on its website.

Non-applied recommendations and rules of the Best Practice 2016

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

- 1) IV.Z.2. concerning ensuring of publicly available real-time broadcasts of general meetings, due to the lack of the relevant provisions of the Articles of Association enabling the aforementioned broadcast. At the same time, the Management Board of the Company indicated that taking into consideration the provisions of Article 406⁵ of the CCC, it would request the GM to introduce the amendment to the Company Articles of Association enabling the shareholders to participate in the GM using electronic means of communication, comprising the real-time broadcasts of general meetings,
- 2) VI.Z.1. concerning the construction of incentive schemes in a way necessary, among others, to tie the level of remuneration of members of the company's management board and key managers to the actual long-term financial standing of the company and long-term shareholder value creation as well as the company's stability. Justifying the failure to adopt this rule for application, the Management Board of the Company has indicated that the remuneration and bonus system applicable in TAURON in relation to members of the Management Board of the Company and its key managers stipulates that the level of remuneration will be tied to the financial situation of the Company within the annual perspective, in conjunction with the implementation of strategic objectives,
- 3) VI.Z.2. stating that in order to tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years. Justifying the failure to adopt this rule for application, the Management Board of the Company has indicated that the remuneration and bonus system applicable in TAURON in relation to Members of the Management Board of the Company and its key managers does not provide that remuneration should be tied to instruments linked with the Company shares.

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

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

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

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

Internal audit

In the Company Internal Audit Department operates whose objective is to plan and implement the auditing tasks, among others, of advisory nature, as well as to perform the commissioned temporary inspections. The procedures and rules of implementation of the audit are specified in *Regulations of Internal audit in TAURON Group* as well as in rules of cooperation binding in individual companies of TAURON Capital Group. While implementing the function of internal audit, the Company acts in compliance with the Code of Ethics and International Standards of Internal Audit Professional Practice.

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

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

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

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

4. Shareholders holding large blocks of shares

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

Table no 1. Shareholders holding large blocks of shares, directly or indirectly

No.	Shareholders	Number of Shares held	Percentage interest in the share capital	Number of votes held	Percentage interest in general number of votes
1.	State Treasury	526,848,384*	30.06%	526,848,384	30.06%
2.	KGHM Polska Miedź S.A.	182,110,566**	10.39%	182,110,566	10.39%
3.	Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open Pension Fund – formerly: ING Otwarty Fundusz Emerytalny)	88,742,929***	5.06%	88,742,929	5.06%

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

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

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

Since the day of submission of the previous periodical report, i.e. 10 November 2015, until the date of publication of this report, the Company has not received any notifications from shareholders concerning changes in proprietary structure of significant blocks of shares of TAURON.

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

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

5. Owners of securities providing special control rights

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

6. Limitations on performing of the voting right

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

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

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

- 3) in each case the shareholder whose voting right has been limited shall have to right to perform at least one vote,
 - 4) limitation on performing the voting right applies also to a shareholder absent at the GM.
8. Each shareholder who is going to take part in the GM, in person or through a proxy is obliged to, without a separate notice stipulated 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 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.

7. Limitations on transfer of securities property rights

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

8. Rules on appointing and dismissing managing and supervising persons and their powers

8.1. Management Board

Rules on appointing and dismissing members of the Management Board

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

Members of the Management Board or the whole Management Board are appointed and dismissed by the Supervisory Board. Each of the members of the Management Board can be dismissed or suspended in office by the Supervisory Board or the 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 not restricted by the regulations of law and provisions of the Company Articles of Associations for the GM or Supervisory Board lie within the competences of the Company's Management Board.

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

Table no 2. Competence of the Management Board

Issues requiring the Resolution of the Management Board

as at 31 December 2015 and as at the day of this report

1. Management Board bylaws,
2. organizational regulations of the Company enterprise,
3. establishment and liquidation of branches,
4. appointment of a proxy,

Issues requiring the Resolution of the Management Board

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

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 GM, subject to the following provisions:

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

minister competent for the issues of the State Treasury shall be entitled to appoint and dismiss one member of the Supervisory Board.

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

At least two members of the Supervisory Board shall meet the criteria of independence in relation to the Company and subsidiaries significantly related to the Company (independent members of the Supervisory Board). The definition of an "independent member of the Supervisory Board" shall mean an independent member of the Supervisory Board within the meaning the EC Recommendation 2005/162/EC of 15 February 2005, on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC) taking into consideration the Best Practice.

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

Competence of the Supervisory Board

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

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

Table no 3. Competence of the Supervisory Board

Issues requiring the Resolution of the Supervisory Board	
as at 31 December 2015 and as at the day of drawing up this report	
Opinion-making competence	
1.	assessment of the Management Board report on the Company operations as well of the financial statement for the previous financial year in the scope of their compliance with the books, documents as well as with the actual status. It also applies to the consolidated financial statement of the Capital Group, provided that it is generated,
2.	assessment of the Management Board conclusions on profit distribution or loss coverage,
3.	submitting of a written report to the GM on the results of operations covered by items 1 and 2,
4.	preparing, together with the report on results of the annual financial statement of the Company, an opinion of the Supervisory Board on the issue of economic legitimacy of involving the Company capital committed in a given financial year in other entities of commercial law,
5.	giving opinions on the Corporate Strategy of the Capital Group,
6.	giving opinions and approval of the rules of conducting sponsoring activity,
7.	giving opinions on the annual plan of conducting of the sponsoring activity as well as annual reports on its implementation,
Decision-making competence	
1.	selecting of the chartered accountant to carry out the examination of the Company financial statement and consolidated financial statement of the Capital Group,
2.	determining the scope and deadlines of submitting of annual material and financial plans as well as long-term strategic plans of the Company and the Capital Group, by the Management Board,
3.	adopting of consolidated text of the Company Articles of Association, prepared by the Company Management Board,
4.	approving of the bylaws of the Company Management Board,
5.	approving of the organisational regulations of the Company enterprise.
6.	purchase of real property, perpetual usufruct or shares in property or in perpetual usufruct with the value exceeding the equivalent of EUR 5,000 thousand in PLN, excluding the real property or perpetual usufruct, or share in real property or in perpetual usufruct purchased from Companies of the Capital Group,
7.	purchase of the components of fixed assets excluding real property, perpetual usufruct or share, in real property or perpetual usufruct, bonds issued by the companies of the Capital Group and other components of fixed assets purchased from companies

Issues requiring the Resolution of the Supervisory Board

- of the Capital Group, of the value equal to or exceeding the equivalent of EUR 5,000 thousand in PLN,
8. disposal of the components of fixed assets, including real property, perpetual usufruct or share in real property or perpetual usufruct, of the value equal to or exceeding the equivalent of 5,000 EUR in PLN, excluding the real property or perpetual usufruct, or share in real property or in perpetual usufruct, as well as other components of fixed assets which, as a result of the disposal, shall be sold or encumbered to the benefit of Companies of the Capital Group,
 9. incur contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of EUR 5,000 in PLN,
 10. issuing bills of exchange with the value exceeding the equivalent of 5,000 EUR 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 5,000 EUR in PLN, including the defining of the conditions and procedure for their disposal, excluding:
 - a) disposal of shares which are traded on the regulated market,
 - b) disposal of stocks or shares that the Company holds in the amount not exceeding 10% share in the initial capital of particular companies.
 - c) disposal of shares or stocks to the benefit of Companies of the Capital Group,
 14. granting permission to establish Company branches abroad,
 15. defining the way of performing the right of vote at the GM or at the Shareholders' Meeting of companies in which the Company holds over 50% of stocks or shares, in matters concerning:
 - a) disposal and leasing of the company's enterprise or its organized part as well as establishing a limited proprietary right if their value exceeds the equivalent of the amount of 5,000 EUR in PLN,
 - b) winding up and liquidation of a company.

Competence of the Company Supervisory Board related to the Management Board

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

Other competences of the Company Supervisory Board

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

9. Description of the procedure of amendment of the Company Articles of Association

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

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

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

10. Way of operating of the GM, its fundamental authorities and description of shareholders' rights and mode of their performance

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

Operation of the GM

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

The GM is opened by the Chairperson of the Supervisory Board, and in case of his/her absence to open the GM shall be authorized the following persons in the following order: Vice-Chairperson of the Supervisory Board, President of the Management Board, a person appointed by the Management Board or a shareholder who registered at the GM shares entitling him/her to exercise the biggest number of votes. Then, among the persons entitled to take part in the GM the Chairperson of the Meeting is selected.

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

Competence of the General Meeting

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

Table no 4. Competence of the General Meeting

Issues which require the resolution of the General Meeting

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

1. examination and approval of financial statement for the previous financial year as well as the Management Board's report on the Company operations,
2. granting the acknowledgement of the fulfilment of duties to the members of the governing bodies of the Company,
3. profit distribution and coverage of loss,
4. appointing and dismissing of members of the Supervisory Board,
5. suspending members of the Management Board in performance of their duties,
6. establishing the rules of remuneration for the members of the Supervisory Board, subject to § 29 item e of the Company Articles of Association,
7. disposal and lease of the Company enterprise or its organized part as well as establishing a limited proprietary right on them,
8. concluding of a credit, loan, surety agreement or any other similar agreement by the Company with a member of the Management Board, Supervisory Board, proxy and liquidator or for any of these persons. Concluding of a loan, surety or any other similar agreement with a member of the Management Board, Supervisory Board, proxy, liquidator or for any by a subsidiary company,
9. increasing and lowering the share capital of the Company,
10. issuing convertible bonds or priority bonds as well as registered securities or bearer securities entitling its owner to subscribe or acquire the shares,
11. purchasing of treasury shares in cases required by the regulations of the Code of Commercial Companies,
12. compulsory redemption of shares in accordance with the stipulations of art. 418 of the Code of Commercial Companies,

Issues which require the resolution of the General Meeting

13. creating, using and liquidation of reserve capitals,
14. using of supplementary capital,
15. provisions concerning claims to repair damage caused at establishing of the company or serving in the board or performing supervision,
16. merger, transformation and division of the Company,
17. redemption of shares,
18. amendment to the Articles of Association and change of the scope of the Company operations,
19. dissolving and liquidation of the Company.

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

Description of shareholders' rights and mode of their execution

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

Table no 5. Description of rights of the Company shareholders associated with the GM

No.	Shareholder rights	Description of shareholders' rights
1.	Convening of the GM	A shareholder or shareholders representing at least one twentieth of the share capital, may demand convening of the Extraordinary GM. Such a demand shall include its concise justification. It can be submitted to the Management Board in writing or send in electronic form, to the Company e-mail address, indicated by the Company on 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.	Including 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 of resolution on the proposed point of agenda shall be submitted to the Management Board not later than 21 days before the given date of the GM in electronic form to the Company e-mail address, or in writing to the Company address.
3.	Becoming acquainted with the list of shareholders	Shareholders may become acquainted with the shareholders' list in the Company's Management Board registered office during three days directly preceding the GM. The shareholder may demand sending him/her the list of Shareholders free of charge by mail, providing address to which the list shall be sent.
4.	Participation in the General Meeting	The right to take part in the GM shall be given only to persons who are Shareholders sixteen days before the date of the GM (registration date of participation in the GM). In order to participate in the GM such shareholders should report the investment company holding their securities account a request to issue a certificate with their name on the right to take part in the GM. Such a request shall be submitted not earlier than a day after the announcement on convening of the GM and not later than on the first working day after the day of registering participation in the GM.
5.	Representing the shareholder by a proxy	The shareholder may take part in the GM as well as perform the voting right personally or through a proxy. Persons co-authorized by means of shares may take part in the GM and perform the voting right only through a joint representative (proxy). The proxy may represent more than one Shareholder and vote differently based on shares of each Shareholder.
6.	Election of the Chairman of the General Meeting.	Shareholders select the Chairperson among persons entitled to take part in the GM. Each of the members of the GM shall have the right to submit one candidate to the post of the Chairperson. The election of the Chairperson takes place by secret voting, with an absolute majority of votes. In case there is just one candidate to the Chairperson, the election can take place by acclamation.
7.	Appointment of the Returning Committee	Each Shareholder shall submit no more than three candidates to the member of Returning Committee, selected by the GM and vote for maximum three candidates.

No.	Shareholder rights	Description of shareholders' rights
8.	Submission of draft resolution	Until closing the discussion on a certain point of the agenda of the GM shareholders shall be authorised to submit a proposal of changes to the content of a draft of resolution proposed for adoption by the GM within a given item of the agenda or to put forward his/her draft of such a resolution. The proposal of changes or a draft of the resolution may be submitted to the Chairperson or orally or in writing to the minutes of the meeting.
9.	Raising objections	The shareholder who was voting against a resolution, and after its adoption by the GM wants to raise his/her objection shall immediately after the announcement of results of voting raise his/her objection and demand its including in the minutes before proceeding to the next item of the agenda. In case of a later raising of objection, which however shall not take place later than until closing the GM, the Shareholder shall indicate to which resolution passed at this GM she/he is raising his/her objection. The shareholder raising his/her objection to the GM resolution may submit to the minutes of the GM a concise justification of the objection.

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

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 joint term of office. In accordance with the Company Articles of Association the joint term of office lasts three years.

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

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

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

As at 1 January 2015 the Management Board consisted of the following members: Dariusz Lubera (President of the Management Board), Aleksander Grad (Vice President of the Management Board), Katarzyna Rozenfeld (Vice President of the Management Board), Stanisław Tokarski (Vice President of the Management Board) and Krzysztof Zawadzki (Vice President of the Management Board).

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

As of 1 October 2015, the Supervisory Board of the Company appointed the following persons to the Management Board: Jerzy Kurella who was appointed as the President of the Management Board, Michał Gramatyka who was appointed as Vice-President of the Management Board for Commercial Affairs and Henryk Borczyk who was appointed as Vice-President of the Management Board for Corporate Affairs.

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

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

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

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

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

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

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

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

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

Experience and competences of members of the Management Board



Remigiusz Nowakowski - President of the Management Board

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

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

Since the beginning of his professional career, he has been associated with energy sector entities or companies associated with the energy sector, having acted in the capacity of the President or the Vice-President of the Management Board and holding senior executive positions. He gained his professional experience working in the INERCON consulting company, EnergiaPro Koncern Energetyczny S.A. (currently, a part of TAURON Dystribucja), Fortum Power and Heat Polska, Fortum Zabrze and Fortum Bytom. From December 2012 he managed the

business line of production optimisation and fuel management in the Heat Electricity Sales and Solutions Division of Fortum in Poland, where he was responsible, in particular, for the development of Fortum's strategy in Poland, development and implementation of fuel procurement strategy, coordination of fuel procurement process, planning and optimization of electricity and heat generation at combined heat and power plants, preparing analyses of the energy market and forecasting trends in fuel and energy prices.

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



Jarosław Broda - Vice-President of the Management Board

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

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

Since the beginning of his professional career he has been associated with energy sector entities, holding senior executive and managerial positions. He gained his professional experience working at the Ministry of State Treasury as well as at TAURON and GDF Suez Energia Polska. Recently associated with GDF Suez Energia Polska – Katowice and GDF Suez (Branch Energy Europe), where he was responsible for market analyses and preparation of the company development strategy, regulatory management and M&A projects. He also participated in drafting of sales and marketing development strategy in Europe. From mid-2015 he was responsible for the development of the commercial strategy and contract for difference under a nuclear project in Great Britain.

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



Kamil Kamiński - Vice-President of the Management Board

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

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

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

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



Marek Wadowski - Vice President of the Management Board

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

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

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

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

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



Piotr Zawistowski - Vice President of the Management Board

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

He has experience in the area of trading in electricity, gas and related products in the country and abroad, commercial risk management, portfolio management in the scope of purchase and sales of electricity, property rights, 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.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 08 December 2015. He currently supervises the performance of the following business units: trade, market operator and trade service, portfolio management, fuels and analyses.

The detailed description of experience and competences of Management Board members is published on the Company website <http://www.tauron.pl/>.

Description of operation

The Management Board of the Company operates on the basis of the CCC and other regulations of law, provisions of the Company Articles of Association and provisions of the *Bylaws of the Management Board of TAURON Polska Energia Spółka Akcyjna z siedzibą w Katowicach*, which is available on the website of the Company <http://www.tauron-pe.pl/>. While performing their obligations, members of the Management Board are governed by regulations included in the Best Practice.

Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for submitting of statements on behalf of the Company. Should the Management Board be single person, one member of the Management Board or a proxy shall be entitled to submit statements on behalf of the Company.

Meetings of the Management Board are convened by the President of the Management Board or a Vice-President of the Management Board appointed by him/her. Meetings of the Management Board are also convened upon the motion of the majority of Vice-Presidents of the Company as well as upon the motion of the Chairperson of the Supervisory Board. The meetings take place in the Company's seat, on the date set by the person convening the meeting. In justified cases, the Management Board's meetings may take place outside the seat of the Company. President of the Management Board or a Vice-President appointed by him/her shall chair the meeting.

The Management Board votes in an open voting. The result of voting is recorded in the minutes of the meeting. The President of the Management Board orders a secret ballot upon the request of any member of the Management Board.

Resolutions of the Management Board are passed by an absolute majority of votes in the presence of 3/5 of the composition of the members of the Management Board. In case of an equal number of votes the President of the Board has a casting vote. The Management Board may pass resolutions in a written mode or by using means of direct remote communication. Voting in the aforementioned modes is ordered by the President of the Management Board or the Vice-President appointed by him/her, defining the deadline to vote by the members of the Management Board. It is acceptable to submit a different opinion. It shall be recorded in the minutes together with justification. Decisions of the Management Board, regulating business as usual, not requiring a resolution, are recorded only in the minutes.

Under the circumstances when the number of Vice-Presidents of the Management Board is lower than the Divisions, the Vice-Presidents of the Management Board may join the capacity of directors of two divisions, or distribute the competence in any other way which would be in compliance with the distribution of responsibilities performed by the Supervisory Board.

Scope of activities of the President of the Management Board covers competence in the area of operations of business units reporting to the Division of the President of the Board, in accordance with the organisational structure of the Company.

Scope of activities of the Vice-Presidents of the Management Board covers competence in the area of operations of business units reporting to the Divisions of the Vice-Presidents of the Board, in accordance with the organisational structure of the Company.

The structure of the divisions reporting to individual members of the Management Board is specified in the organisational chart of the Company, presented in item 1.5.2 of this report.

11.2. Supervisory Board

The current, fourth term of office of the Supervisory Board, started on 15 May 2014, i.e. on the day of convening of the Ordinary GM of the Company approving the financial statement for the last full financial year of the tenure of the members of the Supervisory Board of the third term, i.e. for the financial year 2013. In accordance with the Company Articles of Association this is a joint term of office and it shall last three years.

Personal composition of the Supervisory Board as at 31 December 2015 and as at the date of drawing up this report

- | | |
|----------------------|---|
| 1. Beata Chłodzińska | - Chairwoman of the Supervisory Board |
| 2. Anna Mańk | - Deputy Chairwoman of the Supervisory Board, |
| 3. Jacek Szyke | - Secretary of the Supervisory Board, |
| 4. Anna Biesalska | - Member of the Supervisory Board, |
| 5. Michał Czarnik | - Member of the Supervisory Board, |
| 6. Maciej Koński | - Member of the Supervisory Board, |

- | | |
|---------------------------|------------------------------------|
| 7. Leszek Koziorowski | - Member of the Supervisory Board, |
| 8. Wojciech Myślecki | - Member of the Supervisory Board, |
| 9. Renata Wiernik-Gizicka | - Member of the Supervisory Board. |

Changes in the personal composition of the Supervisory Board in 2015

As at 1 January 2015 the Supervisory Board consisted of the following members: Antoni Tajduś (Chairman of the Supervisory Board), Agnieszka Woś (Deputy Chairwoman of the Supervisory Board), Jacek Szyke (Secretary of the Supervisory Board), Andrzej Gorgol (Member of the Supervisory Board), Maciej Koński (Member of the Supervisory Board), Leszek Koziorowski (Member of the Supervisory Board), Michał Michalewski (Member of the Supervisory Board), Marek Ściążko and Maciej Tybura (Member of the Supervisory Board).

On 7 August 2015 the State Treasury, acting pursuant to its personal powers specified in § 23 item 1(3) of the Company Articles of Association, dismissed Marek Ściążko (Member of the Supervisory Board) from the Supervisory Board of TAURON.

On 7 August 2015, the Chairman of the Supervisory Board, Antoni Tajduś submitted his resignation from his function of the Chairman of the Supervisory Board, effective as of 7 August 2015.

On 12 August 2015 the State Treasury, acting pursuant to its personal powers specified in § 23 item 1(3) of the Company Articles of Association, dismissed the following persons from the Supervisory Board of TAURON: Agnieszka Woś (Deputy Chairwoman of the Supervisory Board), Andrzej Gorgol (Member of the Supervisory Board) and Michał Michalewski (Member of the Supervisory Board).

On 12 August 2015 the State Treasury, acting pursuant to its personal powers specified in § 23 item 1(1) and (3) of the Company Articles of Association, appointed the following persons as members of the Supervisory Board of TAURON for the fourth joint term: Grzegorz Barszcz, Beata Chłodzińska, Piotr Ciach, Katarzyna Kosińska and Jarosław Zagórowski.

On 6 October 2015, Member of the Supervisory Board, Maciej Tybura, resigned from his function of the Member of the Supervisory Board, with the effect as of 7 October 2015.

On 2 December 2015 the State Treasury, acting pursuant to its personal powers specified in § 23 item 1(3) of the Company Articles of Association, dismissed the following persons from the Supervisory Board of TAURON: Piotr Ciach (Member of the Supervisory Board), Grzegorz Barszcz (Member of the Supervisory Board), Katarzyna Kosińska (Member of the Supervisory Board) and Jarosław Zagórowski (Deputy Chairman of the Supervisory Board).

On 2 December 2015 the State Treasury, acting pursuant to its personal powers specified in § 23 item 1(1) and (3) of the Company Articles of Association, appointed the following persons as members of the Supervisory Board of TAURON for the fourth joint term: Anna Biesialska, Michał Czarnik, Anna Mańk and Wojciech Myślecki.

On 8 December 2015, the Extraordinary GM of the Company, convened on 9 November 2015, continued on 23 November 2015 and 8 December 2015, after the ordered adjournments of the meeting, adopted the resolution on determining of the number of members of the Supervisory Board and the resolution on the appointment of Renata Wiernik-Gizicka as a member of the Company Supervisory Board of the fourth joint term of office, effective as of 9 December 2015.

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

Experience and competences of members of the Supervisory Board

Beata Chłodzińska - Chairwoman of the Supervisory Board

Graduate of the Faculty of Law and Administration of Warsaw University. She is a legal counsel.

She has professional experience associated with supervising companies with State Treasury ownership. Professionally affiliated with the Ministry of State Treasury, currently working in the Department of Strategic Companies. She represented the State Treasury on supervisory boards of companies supervised by the Ministry.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 12 August 2015. Currently acting in the capacity of the Chairwoman of the Supervisory Board as well as the member of the Audit Committee of the Supervisory Board, the Nominations and Remunerations Committee of the Supervisory Board and the Strategy Committee of the Supervisory Board.

Anna Mańk - Deputy Chairwoman of the Supervisory Board

Graduate of Warsaw School of Economics and postgraduate studies in financial and economic law at University of Łódź.

She has professional experience in the scope of supervision and ownership transformations at the Ministry of State Treasury. Professionally associated with the Ministry of State Treasury, holding senior executive positions, currently acting in the capacity of Director General. She represented the State Treasury on supervisory boards of companies supervised by the Ministry, including those listed on the GPW.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 2 December 2015. Currently acting in the capacity of Deputy Chairwoman of the Supervisory Board and a member of the Strategy Committee of the Supervisory Board.

Jacek Szyke - Secretary of the Supervisory Board

Graduate of Faculty of Economics at Łódź University and Electric Faculty of Technical University in Poznań, where he also obtained PhD in technical sciences.

He has broad professional experience associated with power industry where he had climbed through all levels in the career ladder, working both in the country and abroad. Holding senior executive and managerial positions he worked, inter alia, at ZE Kalisz, EC Łódź, ZE Płock and EC Siekierki. He is an honorary President of the Chamber of Power Engineering and Energy Consumers. He is a consultant in electrical engineering matters. Author of many improvement recommendations, designs, publications and books on energy industry and power engineering.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010. Currently acting in the capacity of the Secretary of the Supervisory Board, Chairman of the Strategy Committee of the Supervisory Board and the Member of the Audit Committee of the Supervisory Board.

Anna Biesialska - Member of the Supervisory Board

Graduate of the Faculty of Law and Administration at Warsaw University and postgraduate studies in law and economy of the capital market at Warsaw School of Economics, legal counsel at the Regional Chamber of Legal Counsels in Warsaw.

She gained her professional experience at law firms. At present, she is employed at the Ministry of State Treasury where she provides legal support, in particular, in the scope of reviewing agreements for pre-privatisation analyses and privatisation-related tasks. She is a member of supervisory boards of companies as a representative of the State Treasury.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 2 December 2015. Currently acting as the member of the Audit Committee of the Supervisory Board and Nominations and Remuneration Committee of the Supervisory Board.

Michał Czarnik - Member of the Supervisory Board

Graduate of the Faculty of Law and Administration of Warsaw University, legal counsel at the Regional Chamber of Attorneys in Warsaw, tax advisor.

He gained his professional experience in international consulting companies and as an arbitrator of the Court of Arbitration at the Polish Financial Supervision Authority of the first term of office. At present he is a managing partner of a law firm specialising in economic law, in particular, in fiscal and commercial law. He is the head of the team of advisers to the Minister of State Treasury dealing with corporate governance reform and managing some of the elements of the public property.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 2 December 2015. Currently acting as the member of the Audit Committee of the Supervisory Board.

Maciej Koński - Member of the Supervisory Board

Graduate of the Warsaw School of Economics, faculty of Banking and finance, PhD in technical sciences at Wrocław University of Technology.

He has experience in the scope of building strategy of a mining company and the development of resource base as well as analysis of the commodity and foreign currency market and market risk management. He actively participates in scientific activity in the aforementioned areas. At present, General Director of Resource Base and Strategic Analyses Centre at KGHM. He is a co-author of books and the author of numerous publications on commodity market.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 1 September 2014. Currently acting as the member of the Strategy Committee of the Supervisory Board.

Leszek Koziorowski - Member of the Supervisory Board

Graduate of Faculty of Law and Administration of Warsaw University, legal counsel in the Regional Chamber of Attorneys in Warsaw.

He has rich experience in the scope of securities law, which he gained as a counsel in the Securities Commission, arbitrator in the Stock Exchange Court at the Warsaw Stock Exchange and in Arbitration Court at the Private Employers' Organisation "Lewiatan", and a judge of the Stock Exchange Court. At present, he is the general partner in a law firm where he deals with legal advice in the scope of capital market law and preparation of companies for listing at the stock exchange. Author of numerous publications concerning capital market law, received multiple recommendations as the best legal counsel in Poland in the aforementioned scope. He was the member of numerous supervisory boards.

Appointed as the member of the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010, he acted as the member of the Supervisory Board in the period until 15 May 2014, i.e. the day of termination of the third joint term of office of the Supervisory Board. In the aforementioned period he acted as the secretary of the Supervisory Board and member of the Audit Committee of the Supervisory Board. Re-elected to the Supervisory Board as of 1 September 2014. Currently acting as the member of the Nominations and Remuneration Committee of the Supervisory Board.

Wojciech Myślecki - Member of the Supervisory Board

Graduate of the Faculty of Electronics of Wrocław University of Technology, PhD, engineer in technical sciences.

Long-time researcher and lecturer, author of several dozen scientific publications in the field of telecommunications, industrial IT as well as political and economic issues. He managed or participated in numerous Polish and international economic programmes, in particular, in the field of power engineering. Several times he held the position of the CEO of large commercial law companies, including Polskie Sieci Elektroenergetyczne S.A. (Polish Transmission System Operator). At present, he is the President of the Management Board of a consulting company Global Investment Corporation sp. z o. o. and an advisor for strategic programmes at BZ WBK. He was the member of numerous supervisory boards.

Appointed as a member of the Supervisory Board of TAURON Polska Energia S.A. as of 2 December 2015. Currently acting as the Chairman of the Audit Committee of the Supervisory Board and the member of the Strategy Committee of the Supervisory Board.

Renata Wiernik-Gizicka - Member of the Supervisory Board

Graduate of Wrocław University of Economics, Department of Finance and Banking and postgraduate studies on Management of International Mining Projects at AGH University of Science and Technology in Kraków, and Management Accounting at Wrocław University of Economics.

She has experience in the area of financial analysis, planning and budgeting, investment project effectiveness account and economic managerial information. Professionally associated with mining and metallurgy within the KGHM holding, currently acting in the capacity of Director General for Controlling and Economic Analyses. She actively participates in the process of building relations with shareholders and stakeholders of KGHM Capital Group.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 8 December 2015. Currently acting as the member of the Nominations and Remuneration Committee of the Supervisory Board.

The detailed description of experience and competences of the member of the Supervisory Board is published on the Company website <http://www.tauron.pl/>.

Description of operation

A detailed description of the Supervisory Board operations is included in the CCC, in the Company Articles of Association, which is available on the Company website <http://www.tauron-pe.pl/> and in the *Bylaws of the Supervisory Board of TAURON Polska Energia S.A. z siedzibą w Katowicach*.

The main form of performing supervision by the Supervisory Board over the Company's operations are meetings of the Supervisory Board. The Supervisory Board performs its obligations jointly. Meetings of the Supervisory Board are convened by the Chairperson of the Supervisory Board or Vice-Chairperson of the Supervisory Board by presenting a detailed agenda.

- 1) in accordance with decisions adopted by the Supervisory Board,
- 2) on his/her own initiative,
- 3) upon a written proposal of each member of the Supervisory Board,
- 4) upon a written proposal of the Management Board.

Meetings of the Supervisory Board take place in the Company's seat. In justified cases the venue of the meeting may be changed.

In order to convene a meeting, written invitation of all members of the Supervisory Board at least 7 days before the date of the Supervisory Board's meeting is required. Due to material reasons the Chairperson of the Supervisory Board may shorten this period to 2 days, defining the mode of giving the invitation. Notifications of the Supervisory Board meeting are sent by means of fax or electronic mail. In the notification of the Supervisory Board meeting the Chairperson defines the date of the meeting, venue of the meeting as well as detailed draft of the agenda. The Supervisory Board shall meet when the need arises, however, not less frequently than once in every two months. The Supervisory Board may meet without convening a formal meeting if all members of the Supervisory Board are present and nobody appeals against the fact of holding the meeting or against the agenda.

A change of the proposed agenda may take place when all members of the Supervisory Board are present at the meeting and nobody appeals against the agenda. An issue not included on the agenda shall be included into the agenda of the next meeting.

Taking part in meetings of the Supervisory Board is the Supervisory Board Member's duty. A Member of the Supervisory Board shall give reasons of his/her absence in writing. Justification of the Supervisory Board Member's absence requires the Supervisory Board resolution. Members of the Management Board may take part in the meetings of the Supervisory Board meetings unless the Supervisory Board raises an objection. Participation of the Management Board members in the Supervisory Board meetings is compulsory if they were invited by the Chairperson of the Supervisory Board. Other persons may also take part in the meetings if they were invited in the above mentioned way.

The Supervisory Board may seek opinion of legal advisers who render regular legal advice for the Company, as well as, in justified cases, it may appoint and invite to meetings of the Supervisory Board appropriate experts in order to ask their advice and make an appropriate decision. In the aforementioned cases the Supervisory Board shall pass a resolution concerning commissioning the work to a selected expert (audit or consulting company, law firm) obliging the Company's Management Board to conclude an appropriate agreement.

Meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in case of his/her absence - by the Vice-Chairperson of the Supervisory Board. Due to material reasons, with the consent of the majority of the members of the Supervisory Board present at the meeting, the person chairing the meeting is obliged to submit to voting a motion to stop the meeting and establish a new date of resuming the Supervisory Board meeting. The Supervisory Board makes decisions in the form of resolutions. The Supervisory Board resolutions are passed mainly at the meetings. The Supervisory Board passes resolutions if at least half of its members are present at the meeting and all its members were invited in the way defined in the Regulations. Subject to unconditionally binding regulations of law, including the CCC as well as provisions of the Company's

Articles of Association, the Supervisory Board passes resolutions by an absolute majority of votes of the persons present at the meeting, where the absolute majority of votes is understood as more votes submitted “for” than “against” and “abstain”. Resolutions cannot be passed in issues not included in the agenda unless all members of the Supervisory Board are present and nobody voices an objection. It shall not apply to resolutions on justifying the Supervisory Board’s member absence at the meeting. Voting of the resolutions is open. A secret ballot is ordered:

- 1) upon the request of at least one of the members of the Supervisory Board,
- 2) in personnel-related issues

The Supervisory Board, in accordance with the Articles of Association, may pass resolutions in writing or by using means of direct remote communication. Passing a resolution in such a mode requires a justification and a prior submitting of the draft of the resolution to all members of the Supervisory Board. Passing resolutions in this mode does not apply to the appointing the Chairperson, the Deputy Chairperson and the Secretary of the Board, appointing or suspending in the activities of a member of the Supervisory Board and dismissing these persons as well as other issues the settlement of which requires a secret voting. Voting on a resolution passed in the aforementioned mode, a member of the Supervisory Board indicates the mode of his/her voting, “for”, “against” or “abstain”. Resolution with a note that it was passed in a written mode or by mode of voting using means of direct distance communication shall be signed by the Chairperson of the Supervisory Board. Resolutions passed in this mode shall be submitted at the first coming meeting of the Supervisory Board with announcing the result of the voting.

A possibility is allowed for members of the Supervisory Board to participate in the meeting and vote on the resolutions adopted within such a meeting using means of direct remote communication, i.e. tele- or videoconferences, provided that at the venue of the session, indicated in the notice of the meeting, at least half of the members is present as well as the technical possibility to ensure secure connection is provided.

Members of the Supervisory Board shall take part in meetings and perform their duties in person, and while performing their duties they are obliged to exercise due diligence. Members of the Supervisory Board are obliged to keep information connected with the Company activity which they have acquired in connection with holding their seat or at other occasion secret. The Supervisory Board performs its obligations jointly.

The Supervisory Board may, due to material reasons, delegate particular members to perform certain actions independently for a defined period of time. The Supervisory Board may delegate its members, for a period no longer than three months, to temporarily perform duties of the members of the Management Board who have been dismissed, submitted their resignation or if due to other reasons they cannot perform their functions. The aforementioned delegation requires obtaining permission from the member of the Supervisory Board who is to be delegated.

The detailed description of activities of the Supervisory Board in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the GM and then published on the Company website <http://www.tauron-pe.pl/>.

The Supervisory Board may appoint among its members permanent or temporary working groups or committees to perform particular actions. The permanent committees of the Supervisory Board include:

- 1) Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. (Audit Committee),
- 2) Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A. (Nominations and Remuneration Committee),
- 3) Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. (Strategy Committee).

Composition, tasks and rules of operation of the aforementioned committees are defined in their regulations adopted by the Supervisory Board.

11.3. Audit Committee

In connection with the changes in the composition of the Supervisory Board of the Company of the fourth joint term of office performed in 2015, the Supervisory Board changed the composition of the Audit Committee.

Composition of the Audit Committee as at 31 December 2015

1. Wojciech Myślecki - Chairman of the Audit Committee,
2. Beata Chłodzińska - Member of the Audit Committee,
3. Michał Czarnik - Member of the Audit Committee,
4. Jacek Szyke - Member of the Audit Committee.

Changes in the personal composition of the Audit Committee

As at 1 January 2015 the Audit Committee consisted of the following members: Agnieszka Woś (Chairwoman), Michał Michalewski, Jacek Szyke and Maciej Tybura.

In connection with dismissing of Agnieszka Woś (Chairwoman) and Michał Michalewski from the Supervisory Board by the State Treasury on 12 August 2015, on 26 August 2015 the Supervisory Board appointed Beata Chłodzińska and Grzegorz Barszcz to the Audit Committee. On the same day, the Audit Committee elected Grzegorz Barszcz as the Chairman of the Audit Committee among its members.

In connection with the resignation from the function of the Member of the Supervisory Board submitted by Maciej Tybura on 6 October 2015, effective as of 7 October 2015, and dismissing of Grzegorz Barszcz from the Supervisory Board by the State Treasury on 2 December 2015, and the appointment of new members of the Supervisory Board, on 8 December 2015 the Supervisory Board appointed the following persons to the Audit Committee: Michał Czarnik and Wojciech Myślecki. On the same day, the Audit Committee elected Wojciech Myślecki as the Chairman of the Audit Committee among its members.

In connection with the appointment of new members of the Supervisory Board by the State Treasury on 2 December 2015, on 8 January 2016 the Supervisory Board appointed Anna Biesalska as a member of the Audit Committee.

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

Personal composition of the Audit Committee as of the day of drawing up this report:

1. Wojciech Myślecki - Chairman of the Audit Committee,
2. Anna Biesalska - Member of the Audit Committee,
3. Beata Chłodzińska - Member of the Audit Committee,
4. Michał Czarnik - Member of the Audit Committee,
5. Jacek Szyke - Member of the Audit Committee.

Tasks and competences of the Audit Committee

The table below presents the tasks and competences of the Audit Committee as at the day of drawing up this report.

Table no 6. Competence of the Audit Committee

Issues requiring the resolution of the Audit Committee

as at the day of drawing up this report:

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;

Issues requiring the resolution of the Audit Committee

as at the day of drawing up this report:

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/>.

11.4. Nominations and Remuneration Committee

In connection with the changes in the composition of the Supervisory Board of the Company of the fourth joint term of office performed in 2015, the Supervisory Board changed the composition of the Nominations and Remuneration Committee.

Personal composition of the Nominations and Remuneration Committee as at 31 December 2015 and as at the day of drawing up this report

1. Leszek Kozirowski - Chairman of the Nominations and Remuneration Committee,
2. Anna Biesalska - Member of the Nominations and Remuneration Committee,
3. Beata Chłodzińska - Member of the Nominations and Remuneration Committee,
4. Renata Wiernik-Gizicka - Member of the Nominations and Remuneration Committee.

Changes in the personal composition of the Nominations and Remuneration Committee

As at 1 January 2015 the Nominations and Remuneration Committee consisted of the following members: Antoni Tajduś (Chairman), Andrzej Gorgol, Leszek Kozirowski and Marek Ściążko.

In connection with the resignation from the function of the Chairperson of the Supervisory Board submitted by Antoni Tajduś on 7 August 2015, and dismissing of Marek Ściążko from the Supervisory Board by the State Treasury on 7 August 2015, followed by dismissing of Andrzej Gorgol on 12 August 2015, on 26 August 2015 the Supervisory Board appointed the following persons to the Nominations and Remuneration Committee: Beata Chłodzińska, Katarzyna Kosińska and Piotr Ciach. On the same day the Nominations and Remuneration Committee elected Leszek Kozirowski as the Chairman of the Nominations and Remuneration Committee among its members.

In connection with the dismissal of Katarzyna Kosińska and Piotr Ciach from the Supervisory Board by the State Treasury on 2 December 2015, and the appointment of new members, on 8 December 2015 the Supervisory Board appointed Anna Biesalska as a member of the Nominations and Remuneration Committee.

In connection with the appointment of new member of the Supervisory Board by the GM of the Company as of 9 December 2015, on 17 December 2015 the Supervisory Board appointed Renata Wiernik-Gizicka as a member of the Nominations and Remuneration Committee.

Until the day of submission of this report, no other changes in the composition of the Nominations and Remuneration Committee have taken place.

Tasks and competence of the Nominations and Remuneration Committee

The table below presents the tasks and competences of the Nominations and Remunerations Committee as of 31 December 2015 and on the day of this report.

Table no 7. Competence of the Nominations and Remuneration Committee

Issues requiring the resolution of the Nominations and Remunerations Committee

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

Issues requiring the resolution of the Nominations and Remunerations Committee

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

1. recommendations to the Supervisory Board on a recruitment procedure for the positions of members of the Company Management Board,
2. assessing candidates for members of the Management Board as well submitting an opinion in this scope to the Supervisory Board,
3. recommendations to the Supervisory Board on the form and contents of agreements concluded with members of the Management Board,
4. recommendations to the Supervisory Board on remuneration and bonus system of the members of the Management Board,
5. recommendations to the Supervisory Board on the need to suspend a member of the Management Board due to material reasons
6. recommendations to the Supervisory Board on the need to delegate a member of the Supervisory Board to temporarily perform the duties of members of the Management Board who cannot perform their duties together with a proposal of remuneration.

The detailed description of activities of the Nominations and Remuneration Committee in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the GM and then published on the Company website <http://www.tauron-pe.pl/>.

11.5. Strategy Committee

In connection with the changes in the composition of the Supervisory Board of the Company of the fourth joint term of office performed in 2015, the Supervisory Board changed the composition of the Strategy Committee.

Composition of the Strategy Committee as at 31 December 2015 and as at the day of drawing up this report

1. Jacek Szyke - Chairman of the Strategy Committee,
2. Beata Chłodzińska - Member of the Strategy Committee,
3. Maciej Koński - Member of the Strategy Committee,
4. Anna Mańk - Member of the Strategy Committee,
5. Wojciech Myślecki - Member of the Strategy Committee.

Changes in the Strategy Committee personal composition

As at 1 January 2015 the Strategy Committee consisted of the following members: Jacek Szyke (Chairman), Maciej Koński, Michał Michalewski and Marek Ściążko.

In connection with the dismissing of Marek Ściążko from the Supervisory Board by the State Treasury on 7 August 2015, followed by dismissing of Michał Michalewski on 12 August 2015, and the appointment of new members of the Supervisory Board, on 26 August 2015 the Supervisory Board appointed the following persons to the Strategy Committee: Beata Chłodzińska and Jarosław Zagórowski.

In connection with the dismissing of Jarosław Zagórowski from the Supervisory Board by the State Treasury on 2 December 2015, and the appointment, on the same day, of new members of the Supervisory Board, on 8 December 2015 the Supervisory Board appointed the following persons to the Strategy Committee: Anna Mańk and Wojciech Myślecki.

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

Tasks and competences of the Strategy Committee

The table below presents the tasks and competences of the Strategy Committee as at 31 December 2015 and as at the day of drawing up this report.

Table no 8. Competence of the Strategy Committee**Issues requiring the resolution of the Strategy Committee****as at 31 December 2015 and as at the day of drawing up this report:**

1. assessment of the Corporate Strategy and presenting its results to the Supervisory Board;
2. recommending the scope and terms of submitting the strategic multi-annual plans to the Supervisory Board;
3. assessment of impact of the planned and undertaken strategic investments on assets of the Company;
4. monitoring the implementation of the strategic investment tasks;
5. assessment of activities concerning availability of significant Company assets;
6. opinion on strategic documents submitted to the Supervisory Board by the Management Board.

The detailed description of activities of the Strategy Committee in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the GM and then published on the Company website <http://www.tauron-pe.pl/>.

11.6. Description of activities of the Committees of the Supervisory Board

A detailed description of the activities of the Supervisory Board is included in the Regulations of individual Committees of the Supervisory Board of TAURON Polska Energia S.A.

The Committees of the Supervisory Board are advisory and opinion-making bodies acting collectively as a part of the Supervisory Board and perform support and advisory functions towards the Supervisory Board. The tasks of the Committees of the Supervisory Board are carried out by submitting motions, recommendations, opinions and statements on the scope of its tasks to the Supervisory Board, by means of resolutions. The Committees of the Supervisory Board are independent of the Management Board of the Company. The Management Board may not issue binding orders to the Committees of the Supervisory Board concerning performing their duties.

The Committees of the Supervisory Board consist of three to five members. The activities of the individual Committees are managed by their Chairpersons.

Meetings of the Committees are convened by the Chairperson of the specific Committee on his/her own initiative or upon the motion of a member of the Committee or Chairperson of the Supervisory Board and they are held as needed. In case of the Audit Committee the meetings are convened at least on a quarterly basis. The Chairpersons of the Committees may invite members of the Supervisory Board, who are not members of the specific Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company to the meetings of the Committees. The Chairperson of the specific Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board.

The Committees of the Supervisory Board pass resolutions if at least a half of their members were present at the meeting and all their members have been duly invited. The resolutions of the Committees of the Supervisory Board are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain". The Committees of the Supervisory Board may pass resolutions in writing or by using means of direct remote communication.

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.

12. Remuneration policy of management and supervisory staff

12.1. Remuneration system of Management Board members and key managers

12.1.1. General information on the adopted remuneration system for members of the Management Board

The objectives and principles of remuneration of members of the Company Management Board are defined in the *Remuneration Policy for Members of supervisory and management bodies, including the description of the rules of defining the policy in TAURON Polska Energia S.A.* (Remuneration policy) adopted by the Supervisory Board of the Company under Resolution no. 15/II/2011 of 24 February 2011.

The Remuneration policy shapes the remuneration system for members of the Management Board, in connection with outstanding tasks aimed at implementation of the adopted strategy of the Company, development directions and financial plans. The overriding objective of the Remuneration policy is to ensure an incentive-based remuneration of the senior management staff and to create basis for its development.

Remuneration policy objectives

- 1) ensuring an incentive-based and consistent remuneration system,
- 2) linking the remuneration rules with monitoring of implementation of the adopted strategic plans and implementation of the financial plans,
- 3) developing the level of remuneration of Management Board members in connection with the implementation of the delegated tasks,
- 4) growth in the Company value through the development of the senior management staff,
- 5) improvement of remuneration systems translating into implementation of the Company strategy and development directions.

The remuneration and bonus system for Members of the Management Board of the Company applicable in the Company stipulates that the level of remuneration should be tied to the financial situation of the Company and growth in an annual perspective, in connection with the implementation of strategic goals. The said system does not envisage that remuneration shall be tied with instruments associated with the Company shares.

Linking of the remuneration system with the implementation of the allocated tasks supports the implementation of the adopted development strategies and directions and develops a new organisational culture of the Company.

The remuneration model covered by the Remuneration policy assumes a two-component system for determining of the remuneration for members of the Management Board.

In the scope of the remuneration model of the top management staff, remuneration consisting of a fixed and variable part has been adopted, depending on the fulfilment of the specific resultant criteria.

The major assumption of the Remuneration policy is defining of the remuneration system motivating members of the Management Board to achieve their targets arising from the Company strategy and tasks defined in the financial plans.

The remuneration system has been defined taking into consideration the remuneration policy in listed companies and best market practices used in economic undertakings, particularly in the energy and fuel sectors, with the size comparable to the Company.

In order to enable the use of benefits available to the Company employees by members of the Management Board, the remuneration policy was supplemented with a catalogue of additional benefits of social and welfare, communication and insurance nature.

Taking into account the statutory regulations, the rules and the level of remuneration for members of the Management Board are defined by the Supervisory Board.

Members of the Management Board of the Company are neither covered by the bonus programme based on the capital of the Company, nor do they receive any remuneration or awards due to fulfilment of their functions in governing bodies of companies belonging to TAURON Capital Group.

12.1.2. General information on the adopted remuneration system for key managers

The rules concerning remuneration and bonus system for key managers and other employees are defined in the *Regulations on Remuneration of Employees of TAURON Polska Energia S.A.*, adopted for application by the Management Board of the Company.

The remuneration and bonus system for key managers stipulates that the level of remuneration should be tied to the financial situation of the Company in an annual perspective, in connection with the implementation of strategic goals. It assumes a two-component system for defining of the remuneration, comprising the basic monthly salary and a variable incentive component based on the implementation of the assigned tasks, both of financial and non-financial nature.

The overriding assumption of the applicable remuneration system is to ensure the optimum and motivating remuneration level, depending on the value and type of work on a given position as well as the quality of work and effects achieved by employees.

The structure of the remuneration consists of the following elements:

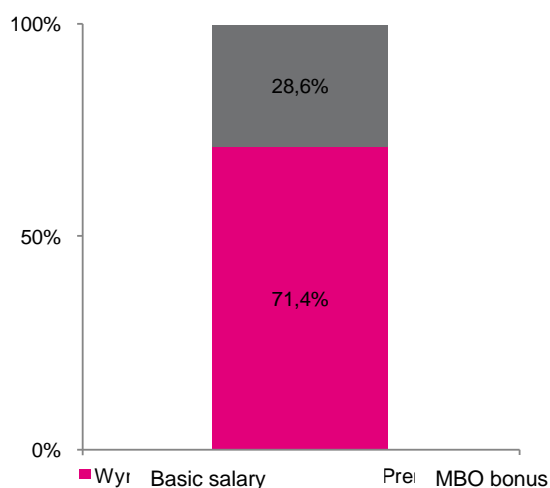
- 1) a fixed part - constituting the basic salary determined in accordance with the table of grade categories applicable in the Company and monthly rates of personal grade. The allocated level of basic salary reflects the value and type of work as well as the quality of employee's work, defined through the assessment of employee's competence level,
- 2) variable part - which depends on performance results, defined through the level of accomplishment of targets and tasks within the MBO bonus system,
- 3) benefits - which are defined in internal regulations of the Company.

The bonus system based on market bonus mechanisms enables cascading the objectives set by the Management Board at a level of TAURON Capital Group and at a level of the Company, to specific tasks, defined by parameters, assigned to employees at lower levels of the organisation. Accordingly, the culture of managing through objectives applied in the Company reflects the specific nature of individual functions implemented in the Company and allows for application of mechanisms based on dialogue of the supervisor with the subordinate during the process of determining and assessment of implementation of objectives translating into the effectiveness of the overall organisation. At the same time, this tool enables precise correlating of objectives (KPIs) defined for members of the Management Board with objectives set for key managers of the Company for a given year. The preliminary assessment of accomplishment of the objectives takes place after the first semi-annual period, whereas after the end of the second half of the year members of the Management Board perform the final evaluation of the implementation of the objectives of Company key managers.

Employees of the Company do not receive any remuneration or awards on account of functions fulfilled in governing bodies of companies belonging to TAURON Capital Group.

The figure below presents the structure of remuneration for the position of a key manager.

Figure no. 1 Structure of remuneration for the position of a key manager



12.1.3. Rules, terms and conditions and level of remuneration of Management Board members

The total amount of remuneration understood as the value of wages, awards and benefits received in cash, in-kind or in any other form, due or paid by the Company to the Management Board members in 2015 amounted to PLN 8.024 thousand gross.

The table below presents the remuneration of members of the Company Management Board for 2015, divided into components

Table no 9. Remuneration of members of the Company Management Board for 2015, divided into components (in PLN thousand)

No.	Name and surname	Period of holding the function in 2015	Remuneration*	Bonus*	Other benefits*	Total
1.	Henryk Borczyk	01.10.2015 - 08.12.2015	182	0	52	234
2.	Jarosław Broda	08.12.2015 - 31.12.2015	57	0	42	99
3.	Aleksander Grad	01.01.2015 - 01.10.2015	678	450	149	1,277
4.	Michał Gramatyka	01.10.2015 - 08.12.2015	197	0	37	234
5.	Kamil Kamiński	08.12.2015 - 31.12.2015	57	0	36	93
6.	Piotr Kołodziej	10.10.2015 - 08.12.2015	162	0	14	176
7.	Jerzy Kurella	01.10.2015 - 08.12.2015	223	0	11	234
8.	Dariusz Lubera	01.01.2015 - 01.10.2015	768	510	166	1,444
9.	Remigiusz Nowakowski	08.12.2015 - 31.12.2015	65	0	48	113
10.	Katarzyna Rozenfeld	01.01.2015 - 01.10.2015	678	450	146	1,274
11.	Anna Strzyk	10.10.2015 - 31.12.2015	201	0	49	250
12.	Stanisław Tokarski	01.01.2015 - 01.10.2015	678	450	123	1,251
13.	Krzysztof Zawadzki	01.01.2015 - 01.10.2015	676	450	117	1,243
14.	Piotr Zawistowski	08.12.2015 - 31.12.2015	57	0	45	102
Total			4,679	2,310	1,035	8,024

* no overheads

Members of the Management Board did not receive any remuneration or awards in 2015 on account of functions fulfilled in governing bodies of companies belonging to TAURON Capital Group.

The model of remuneration of Board Members consists of two components for determining the remuneration, the fixed part (monthly basic salary) and the floating part, depending on fulfilment of specific target criteria (implementation of the task commissioned). Both the monthly basic salary as well as the result-based criteria, whose fulfilment determines the level of an annual bonus, are defined by the Supervisory Board of the Company.

The annual bonus constitutes up to 50% of the basic salary for the financial year, assuming that ratios for the annual bonus are met, as defined for a given financial year by the Supervisory Board.

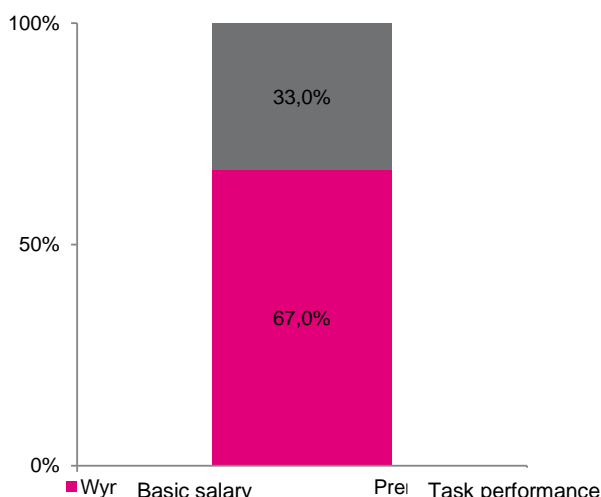
The Supervisory Board determines the percentage level of the annual bonus for each of the following ratios:

- 1) consolidated EBITDA derived from the approved consolidated material and financial plan for a given financial year,
- 2) consolidated gross profit derived from the approved consolidated material and financial plan for a given financial year,
- 3) current liquidity ratio measured for TAURON Capital Group derived from the approved consolidated material and financial plan for a given financial year,
- 4) Implementation of non-financial objectives indicated for a given year in the approved Corporate Strategy.

The components of the annual bonus of financial nature are allocated based on the data derived from the audited consolidated financial statements of the Company for the first half of a given financial year and for a given financial year. The component of the annual bonus of non-financial nature is allocated in connection with the achievement of specific objectives in a given financial year, based on the semi-annual and annual assessment of their performance by the Supervisory Board.

The figure below presents the structure of remuneration of Members of the Management Board.

Figure no. 2 Structure of remuneration for the position of a Management Board member



12.1.4. Agreements concluded with managing persons which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation takes place as a result of the merger of the Company through takeover

Between the Company and managing persons no agreements were concluded which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation is caused by merger of the Company through takeover.

Members of the Management Board are not entitled to receive the severance pay due to termination of the employment relationship, contract for specific work or other similar legal relationship of similar nature. In connection with the access of members of the Management Board to confidential information whose disclosure could expose the Company and companies of TAURON Capital Group to losses, non-competition agreements are concluded with members of the Management Board in order to protect interests of the Company. Under the aforementioned agreements, persons refraining from conducting competitive activity in the determined 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.

12.1.5. Non-financial components of remuneration allocated to members of the Management Board and key managers

Members of the Management Board and staff members employed at key positions in the Company are entitled to use benefits and non-financial components of remuneration offered by the Company.

Within the additional benefits the aforementioned employees are entitled, inter alia, to:

- 1) participate in the Employee Pension Scheme operated by the employer (under the condition of being employed in the Company or one of the companies of TAURON Capital Group over a period of at least one year),
- 2) use the medical package financed from the Company funds,

- 3) use a company car allocated for sole disposal,
- 4) use company accommodation in case if the availability of the employee is required due to the nature of his/her work and scope of responsibilities.

In addition, members of the Management Board are authorised to use the additional civil liability insurance under the concluded employment contract.

12.1.6. Information on the lack of changes in the remuneration policy over the last financial year

In financial year 2015 no changes in the Remuneration policy for members of the Management Board occurred.

12.1.7. Assessment of functioning of the remuneration policy in terms of fulfilment of its objectives, in particular, the long-term growth in shareholders' value and stability of the undertaking performance

The applied remuneration system for members of the Management Board is compliant with the adopted Remuneration policy, which allows for achievement of the adopted objectives. The incentive-based and consistent system is provided, linked with the monitoring of annual financial plans and the adopted Corporate Strategy and development directions.

The form, structure and level of remuneration correspond to market conditions and are oriented towards enabling the recruitment and maintaining of individuals fulfilling the criteria required for running the company in the manner taking into account shareholders' interests (building the Company value for shareholders), as well as prevent conflicts of interest from arising among members of the Management Board and shareholders. At the same time, they are constructed in the manner which is transparent for investors, so that their trust towards the Company is built, and ensure the incentive function for the Management Board.

The disbursement of variable components of remuneration is linked with the pre-defined, measurable result criteria fostering the long-term stability of the Company, including also the criteria other than financial, associated with the generation of the long-term value of the Company.

The indicators determining obtaining and level of variable components of the remuneration are defined in accordance with the SMART principle, thus, they also indicate such features as: precision, measurability, possibility to achieve, significance and defining in time.

The remuneration and bonus system for members of the Management Board applicable in TAURON stipulates that the level of remuneration will be tied to the financial situation of the Company within a perspective of one year, in connection with the accomplishment of strategic goals.

12.2. Remuneration system of members of the Supervisory Board

The objectives and rules of remuneration for members of the Supervisory Board of the Company are defined in the Remuneration policy and in the Resolution of the Ordinary GM of TAURON no. 29 of 6 May 2011 *concerning determining of the rules and level of remuneration for members of the Supervisory Board of TAURON Polska Energia S.A.*

The remuneration system of members of the Supervisory Board comprises single-component monthly remuneration, adopting diversification of its level depending on the function in the Supervisory Board (Chairperson, Deputy Chairperson, Secretary).

The remuneration of members of the Supervisory Board is defined at a level comparable to other listed companies, where regulations on limitation of remuneration binding for companies with the majority share of the State Treasury apply.

Members of the Supervisory Board are entitled to receive the remuneration irrespective of the frequency of formally convened meetings.

The remuneration does not apply for a month in which a member of the Supervisory Board was not present at any of the formally convened meetings, for unjustified reasons. The decision on excusing or failure to excuse the absence of a member of the Supervisory Board at its meeting is taken by the Supervisory Board by means of a resolution.

The remuneration is calculated on a pro rata basis, in relation to the number of days when the function was fulfilled in case if the appointment or dismissal occurred during the calendar month.

The Company covers costs incurred in connection with the fulfilment of functions assigned to members of the Supervisory Board, in particular: costs of return transfer between the place of residence and the venue of the Supervisory Board meeting or meeting of the Supervisory Board Committee, costs of individual supervision and costs of accommodation and board.

In financial year 2015 no changes in the Remuneration policy for members of the Supervisory Board occurred.

Remuneration of key supervising personnel

The table below presents the remuneration of members of the Company Supervisory Board Members for 2015

Table no 10. Remuneration of members of the Supervisory Board of the Company for 2015 (in thousand PLN)

No.	Name and surname	Period of holding the function in 2015	Remuneration and awards
1.	Grzegorz Barszcz	12.08.2015 - 02.12.2015	33
2.	Anna Biesialska	02.12.2015 - 31.12.2015	9
3.	Beata Chłodzińska	12.08.2015 - 31.12.2015	55
4.	Piotr Ciach	12.08.2015 - 02.12.2015	33
5.	Michał Czarnik	02.12.2015 - 31.12.2015	9
6.	Andrzej Gorgol	01.01.2015 - 12.08.2015	66
7.	Maciej Koński	01.01.2015 - 31.12.2015	108
8.	Katarzyna Kosińska	12.08.2015 - 02.12.2015	33
9.	Leszek Koziorowski	01.01.2015 - 31.12.2015	108
10.	Anna Mańk	02.12.2015 - 31.12.2015	10
11.	Michał Michalewski	01.01.2015 - 12.08.2015	66
12.	Wojciech Myślecki	02.12.2015 - 31.12.2015	9
13.	Jacek Szyke	01.01.2015 - 31.12.2015	120
14.	Marek Ściążko	01.01.2015 - 07.08.2015	65
15.	Antoni Tajduś	01.01.2015 - 07.08.2015	87
16.	Maciej Tybura	01.01.2015 - 07.10.2015	83
17.	Renata Wiernik-Gizicka	09.12.2015 - 31.12.2015	7
18.	Agnieszka Woś	01.01.2015 - 12.08.2015	81
19.	Jarosław Zagórowski	12.08.2015 - 02.12.2015	40
Total			1 022