

STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

Pursuant to § 91 item 5 point 4) of the Regulation of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state (Journal of Laws no.33 item 259 as amended), and the *Best Practice of GPW Listed Companies 2016* (Best Practice 2016), the Company Management Board submits the Statement on Application of Corporate Governance in 2016.

1. Indicating the applied set of corporate governance rules

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

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

In connection with the entry into force of the aforementioned set of Best Practice 2016 as of 1 January 2016, the Management Board of the Company adopted the recommendations and rules defined in the aforementioned document for application, excluding the rules defined in: IV.Z.2, VI.Z.1, VI.Z.2.

At the same time, the Management Board recognised that the following recommendations and rules of Best Practice 2016 do not apply to the Company: I.Z.1.10, III.Z.6, IV.R.2.

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

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

2. Indicating the abandoned rules of corporate governance

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

- 1) IV.Z.2. concerning ensuring of publicly available real-time broadcasts of general meetings, due to the lack of the relevant provisions of the Articles of Association enabling the aforementioned broadcast. In order to enable the application of the rule, the Company Management Board requested the Ordinary GM of the Company to adopt the relevant amendment to the Company Articles of Association ensuring publicly available real-time broadcast of general meetings. However, the Ordinary GM of the Company convened on 8 June 2016 did not adopt the amendment to the Company Articles of Association proposed by the Company Management Board in this scope.
- 2) VI.Z.1. concerning the construction of incentive schemes in a way necessary, among others, to tie the level of remuneration of members of the Company's management board and key managers to the actual long-term financial standing of the Company and long-term shareholder value creation as well as the Company's stability. This rule was not applied due to the remuneration and bonus system applicable in TAURON in relation to members of the Management Board of the Company and its key managers stipulates

that the level of remuneration will be tied to the financial situation of the Company within the annual perspective, in conjunction with the implementation of strategic objectives,

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

Due to the lack of a single document in the Company describing the applied policy of diversity in relation to the authorities of the Company and its key managers, referred to in the rule designated as I.Z.1.15. of Best Practice 2016, in the report published in 1 February 2016 concerning the abandoned detailed rules of corporate governance contained in the set of Best Practice 2016, the Company indicated the method of its application. The rules on diversity management were introduced for application under many documents constituting internal legal acts, including the *TAURON Group's Code of Business Ethics*. The Company plans to develop and implement the diversity policy for application in a single formal document.

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

- 1) I.Z.1.10. concerning placing financial projections on the Company website - if the company has decided to publish them - published at least in the last 5 years, including information about the degree of their implementation - due to the fact that financial forecasts are not published,
- 2) III.Z.6. stating that where the Company has no separate internal audit function in its organisation, the audit committee (or the supervisory board if it performs the functions of the audit committee) should review on an annual basis whether such function needs to be separated - due to the fact that the Company has a separate Internal Audit Department in its organisational structure,

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

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

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

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 11.3 of this report.

IT systems and financial and accounting processes

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

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

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

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

Internal audit

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

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

Annual financial statements of the Company and consolidated statements of TAURON Capital Group are subject to examination by an independent auditor. Semi-annual financial statements of the Company and semi-annual consolidated statements of TAURON Capital Group are subject to review by a chartered accountant. In 2016 the

Company selected the entity authorised to examine and review financial statements for significant companies of TAURON Capital Group as well as the consolidated financial statement. The agreement with the entity authorised to examine financial statements was concluded for the examination of financial statements for years 2016.

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

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

4. Shareholders holding large blocks of shares

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

Table no 1. Shareholders holding large blocks of shares

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

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

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

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

Since the day of submission of the previous periodical report, i.e. 9 November 2016, until the date of publication of this report, the Company has not received any notifications from shareholders concerning changes in proprietary structure of significant blocks of shares of TAURON.

During the Ordinary GM convened on 8 June 2016 and the Extraordinary GM convened on 9 November 2015, the following shareholders holding at least 5% of votes at those GMs were present:

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

5. Owners of securities providing special control rights

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

6. Limitations in exercising the voting right

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

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

1. The voting right of shareholders holding over 10% of total votes in the Company shall be limited in the way that none of them can exercise more than 10% of the total votes in the Company at the GM.
2. Voting right limitation included in point 1 above does not apply to the State Treasury and entities subsidiary to the State Treasury in the period of time in which the State Treasury together with subsidiary entities

subsidiary of the State Treasury has a number of the Company's shares entitling to performing at least 25% of total votes in the Company.

3. Shareholders' votes, between which there is a controlling or dependence relationship within the meaning of § 10 of the Articles of Association (Association of Shareholders) are cumulated; in case when the cumulated number of votes exceeds 10% of total votes in the Company, it is subject to reduction. Rules of votes accumulation and reduction are defined in items 6 and 7 below.
4. A shareholder, within the meaning of § 10 of the Articles of Association is every person, including its parent Company and subsidiary, which is entitled directly or indirectly to hold a voting right at the GM on the basis of any legal title; it also applies to a person who does not hold any Company shares, and in particular to a user, pledgee, person entitled on the basis of a depositary receipt under the regulations of the *Act of 29 July 2005 on financial instruments trading*, as well as a person entitled to take part in the GM despite having disposed of shares held after the date of establishing the right to participate in the GM.
5. A parent company and subsidiary company, for the purposes of § 10 of the Articles of Association, is, respectively, understood as a person:
 - 1) holding a status of a dominating entrepreneur, subsidiary or has both the status of a dominating entrepreneur and a subsidiary, within the meaning of the provisions of the *Act of 16 February 2007 on competition and consumers' protection* or,
 - 2) holding a status of a parent company, a higher level parent company, a subsidiary, a lower level subsidiary or which has both the status of a parent company (including a parent company with a higher status) and a subsidiary (including a lower level subsidiary or co-subsidiary) within the meaning of *Accounting Act of 29 September 1994*, or
 - 3) which exerts (a parent company) or which is under (a subsidiary) a determining influence within the meaning of the *Act of 22 September 2006 on the transparency of financial relationships between public bodies and public entrepreneurs and on financial transparency of some entrepreneurs*, or
 - 4) whose votes resulting from the Company's shares owned directly or indirectly are subject to accumulation with votes of another person or other persons on conditions defined in the *Act of 29 July 2005 on public offering and conditions of introducing financial instruments to an organized trading system and on public companies* in connection with holding, disposing of or acquiring large blocks of the Company shares.
6. Accumulation of votes is based on aggregating of the number of votes held by particular shareholders of Shareholders' Group.
7. Reduction of votes is based on decreasing the total number of votes in the Company that shareholders, who are a part of Association of Shareholders, are entitled to at the General Meeting to the level of 10% of total votes in the Company. Reduction of votes is performed in accordance with the following rules:
 - 1) number of votes of a shareholder who holds the largest amount of votes in the Company among all shareholders who are members of the Association of Shareholders is subject to reduction by a number of votes equal to surplus of over 10% total number of votes in the Company that all shareholders in total are entitled to hold and who are members of the Association of Shareholders,
 - 2) if, despite the aforementioned reduction, the total number of votes that shareholders who are members of the Association of Shareholders are entitled to hold exceeds 10% of the total number of votes in the Company, further reduction of votes held by other shareholders who are members of the Association of Shareholders is performed. Further reduction of particular shareholders' votes takes place in order established on the basis of the amount of votes that particular shareholders who are members of the Association of Shareholders hold (from the highest to the lowest one). Further reduction is performed until the moment when the total number of votes held by shareholders who are members of the Association of Shareholders does not exceed 10% of the total number of votes in the Company,
 - 3) in each case the shareholder whose voting right has been limited shall have the right to exercise at least one vote,
 - 4) limitation of execution of the voting right also applies to a shareholder absent at the GM.

8. Each shareholder who is going to take part in the GM, directly or through a proxy is obliged to, without a separate notice stipulated referred to in item 9 below, notify the Management Board or the Chairperson of the GM that she/he holds, directly or indirectly, more than 10% of the total number of votes in the Company.
9. Notwithstanding the provisions of item 8 above, in order to establish the basis for accumulation and reduction of votes, the Company's shareholder, the Management Board, the Supervisory Board or particular members of these bodies have the right to demand that the Company shareholder provides information whether she/he is a person holding the status of an entity dominating or subordinate towards other shareholder within the meaning of § 10 of the Articles of Association. The aforementioned entitlement includes also the right to demand revealing the number of votes that the Company's shareholder has independently or jointly with other shareholders of the Company.
10. A person who has failed to fulfil or fulfilled the information obligation stipulated in items 8 and 9 above improperly, until the moment of improvement of the information obligation performed improperly shall have the voting right from one share only; performing voting rights from other shares by such a person shall be null and void.

7. Limitations on transfer of securities property rights

As at 31 December 2016 and as at the day of this report, there are no limitations in the Company on the transfer of proprietary rights of Company securities.

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 Management Board members can be dismissed or suspended in office by the Supervisory Board or the GM.

Competence of the Management Board

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

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

Table no 2. Competence of the Management Board

Issues requiring resolution of the Management Board

as at 31 December 2016 and as at the day of this report

1. bylaws of the Management Board,
2. organizational regulations of the Company enterprise,
3. establishment and liquidation of branches,
4. appointment of a proxy,
5. incurring credits and loans,
6. adopting annual material and financial plans of the Company and the Capital Group, and the Corporate Strategy of the Capital Group,

Issues requiring resolution of the Management Board

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 section 2 items 4 and 5 of the Company Articles of Association,
8. making donations, redemption of interest or discharge from debt, subject to § 43 item 2 p.1 and 2 of the Company Articles of Association,
9. purchase of real property, perpetual usufruct or shares in property or in perpetual usufruct, subject to § 20 item 2 p. 1 of the Company Articles of Association,
10. purchase of components of fixed assets excluding real property, perpetual usufruct or share in real property or perpetual usufruct, with the value equal to or exceeding the equivalent of EUR 10 thousand in PLN, subject to the provisions of § 20 section 2 item 2 of the Company Articles of Association,
11. disposal of the components of fixed assets including real property, perpetual usufruct or share in real property or perpetual usufruct, with the value equal to or exceeding the equivalent of EUR 10 thousand in PLN, subject to the provisions of § 20 section 2 item 3 of the Company Articles of Association,
12. defining exercising a voting right at GMs or at SMs of companies in which the Company holds stocks or shares, in relation to issues covered by the competence of the GM or SM of such companies, subject to the provisions of § 20 section 3 item 9 of the Company Articles of Association,
13. rules of conducting sponsoring activity,
14. adoption of the annual plan of sponsoring activity,
15. issues, whose examination the Management Board refers to the Supervisory Board or to the GM.

8.2. Supervisory Board

Rules on appointing and dismissing members of the Supervisory Board

The Supervisory Board consists of five to nine persons, appointed for the joint term of office which lasts three years, except for the first term of office which lasted one year. In accordance with the Company Articles of Association, members of the Supervisory Board are appointed and dismissed by the General Meeting, subject to the following provisions:

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

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

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

Competence of the Supervisory Board

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

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

Table no 3. Competence of the Supervisory Board

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

Issues requiring the resolution of the Supervisory Board

3. adopting of consolidated text of the Company Articles of Association, prepared by the Company Management Board,
4. approval of the bylaws of the Company Management Board,
5. approving of the organisational regulations of the Company enterprise.
6. purchase of real property, perpetual usufruct or shares in property or in perpetual usufruct with the value exceeding the equivalent of EUR 5,000 thousand in PLN, excluding the real property or perpetual usufruct, or share in real property or in perpetual usufruct acquired from companies of the Capital Group,
7. purchase of components of fixed assets excluding real property, perpetual usufruct or share in real property or perpetual usufruct, bonds issued by companies of the Capital Group and other components of fixed assets acquired from companies of the Capital Group, of the value equal to or exceeding the equivalent of EUR 5,000 thousand in PLN,
8. disposal of components of fixed assets, including real property, perpetual usufruct or share in real property or perpetual usufruct, of the value equal to or exceeding the equivalent of EUR 5,000 in PLN, excluding the real property or perpetual usufruct, or share in real property or in perpetual usufruct, as well as other components of fixed assets which, as a result of the disposal, shall be sold or encumbered to the benefit of companies of the Capital Group,
9. incur contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of EUR 5,000 in PLN,
10. issuing bills of exchange with the value exceeding the equivalent of EUR 5,000 in PLN,
11. advance payment on account of the expected dividend,
12. taking over or purchase of shares or stocks in companies other than Companies of the Capital Group, with the value exceeding the equivalent of 5,000 EUR in PLN, excluding the situations when the takeover of stocks or shares of such companies occurs in exchange for Company liabilities under the composition or bankruptcy proceedings,
13. disposal of stocks or shares with the value exceeding the equivalent of EUR 5,000 in PLN, including defining of the conditions and procedure for their disposal, excluding:
 - a) disposal of shares which are traded on the regulated market,
 - b) disposal of stocks or shares that the Company holds in the amount not exceeding 10% share in the initial capital of particular companies.
 - c) disposal of shares or stocks to the benefit of Companies of the Capital Group,
14. concluding of the material agreement with the shareholder holding at least 5% of the total number of votes in the Company or an affiliate, excluding transactions typical and concluded under market terms within operations conducted by the Company with entities included in TAURON Capital Group,
15. granting permission to establish Company branches abroad,
16. defining the method of performing the voting right at the GM or at the SM of companies in which the Company holds over 50% of stocks or shares, in the following matters:
 - a) disposal and leasing of the Company enterprise or its organised part as well as establishing a limited proprietary right thereupon if their value exceeds the equivalent of the amount of EUR 5,000 in PLN,
 - b) winding up and liquidation of the Company.

Competence of the Company Supervisory Board related to the Management Board

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

Other competences of the Company Supervisory Board

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

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

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

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

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

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

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

Operation of the General Meeting

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

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

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

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

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

Competence of the General Meeting

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

Table no 4. Competence of the General Meeting

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

Issues which require the resolution of the General Meeting

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, a proxy, a liquidator or in favour of any of those persons,
9. increasing and lowering the share capital of the Company,
10. issue of convertible bonds or priority bonds as well as registered securities or bearer securities authorising its owner to subscribe or acquire the shares,
11. purchasing treasury shares in cases required by the regulations of the CCC,
12. compulsory redemption of shares pursuant to the stipulations of Article 418 of the CCC,
13. creating, using and liquidation of reserve capitals,
14. using of supplementary capital,
15. provisions concerning claims to repair a damage caused while establishing a Company or providing management or supervision,
16. merger, transformation and division of the Company,
17. redemption of shares,
18. amendment to the Articles of Association and change of the scope of the Company operations,
19. dissolving and liquidation of the Company.

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

Description of shareholders' rights and mode of their execution

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

Table no 5. Description of the Company shareholders' rights associated with the General Meeting

No.	Shareholder rights	Description of shareholders' rights
1.	Convening of the GM	A shareholder or shareholders representing at least one twentieth part of the share capital, may demand convening of the Extraordinary GM. Such a demand should include a concise justification. It can be submitted to the Management Board in writing or send in electronic form, to the Company e-mail address, indicated by the Company on at its website in "Investor Relations" tab. A shareholder or Shareholders representing at least a half of the share capital or at least a half of all votes in the Company may convene the Extraordinary GM and appoint the Chairperson of this Meeting.
2.	Placing issues on the agenda of the GM	Shareholders representing at least one twentieth of the share capital may demand including certain issues on the agenda of the nearest GM. Such a demand, including a justification or a draft resolution on the proposed item on the agenda shall be submitted to the Management Board not later than 21 days before the determined date of the GM in electronic form to the Company e-mail address, or in writing to the Company address.
3.	Getting acquainted with the list of shareholders	Shareholders may become acquainted with the shareholders' list in the Company Management Board registered office during three working days directly preceding the GM. Shareholders may demand sending him/her a list of shareholders free of charge by electronic mail, providing the address to which the list shall be sent.
4.	Participation in the GM	The right to take part in the GM shall be granted only to persons who were shareholders sixteen days before the date of the GM (registration date in the GM). In order to participate in the GM shareholders should submit a request to issue a certificate addressed to their name, concerning the right to take part in the GM to the investment Company holding their securities account. Such a request shall be submitted not earlier than a day after the announcement on convening of the GM and not later than on the first working day following the day of registering participation in the GM.

No.	Shareholder rights	Description of shareholders' rights
5.	Representing the shareholder by a proxy	Shareholders may take part in the GM as well as exercise the voting right personally or through a proxy. Persons co-authorized by means of shares may take part in the General Meeting and perform the voting right only through a joint representative (a proxy). The proxy may represent more than one Shareholder and vote differently based on shares of each Shareholder.
6.	Election of the Chairman of the General Meeting.	Shareholders select the Chairperson among persons entitled to take part in the GM. Each of the members of the GM shall have the right to submit one candidate to the post of the Chairperson. The election of the Chairperson takes place under secret ballot, with an absolute majority of votes. In case if only one candidate has been registered, the election can take place by acclamation.
7.	Appointment of the Returning Committee	Each Shareholder shall submit no more than three candidates to the member of Returning Committee, selected by the GM and vote for maximum three candidates.
8.	Submission of draft resolution	Until closing the discussion on a certain point of the agenda of the GM shareholders shall be authorised to submit a proposal of changes to the content of a draft of resolution proposed for adoption by the GM within a given item of the agenda or to put forward his/her draft of such a resolution. The proposal of changes or a draft of the resolution may be submitted in writing to the Chairperson or orally to the minutes of the meeting.
9.	Raising objections	Shareholders who voted against a resolution, and after its adoption by the GM want to raise their objection shall immediately after the announcement of results of voting raise their objection and demand its including in the minutes before proceeding to the next item of the agenda. In case of raising an objection at a later time which, however, shall not take place later than until closing of the GM, shareholders shall indicate which resolution passed at this GM they challenge. Shareholders raising their objection against the GM resolution may submit a concise justification of the objection to the minutes of the GM.

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

Personal composition of the Management Board as at 31 December 2016 and as at the day of this report

1. Filip Grzegorzczuk - President of the Management Board
2. Jarosław Broda - Vice-President of the Management Board for Asset Management and Development,
3. Kamil Kamiński - Vice-President of the Management Board for Corporate Management,
4. Marek Wadowski - Vice-President of the Management Board for Finance,
5. Piotr Zawistowski - Vice-President of the Management Board for Customer and Commercial Affairs

Changes in the personal composition of the Management Board in 2016 and in the period until the day of drawing up this report

As at 01 January 2016 the Management Board consisted of the following members: Remigiusz Nowakowski (President of the Management Board), Jarosław Broda (Vice-President of the Management Board), Anna Striżyk (Vice-President of the Management Board), Kamil Kamiński (Vice-President of the Management Board) and Piotr Zawistowski (Vice-President of the Management Board).

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

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

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

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

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

Experience and competences of members of the Management Board



Filip Grzegorzczak - President of the Management Board

Graduate of the Faculty of Law and Administration and the Faculty of International and Political Studies at the Jagiellonian University in Kraków, where he obtained the title of PhD in EU law, and then also his habilitation in the field of the economic law.

He also completed the Summer Advanced Course in European Law at University of London, King's College, Centre of European Law; the International Business and Trade Summer School at Catholic University of America – Columbus School of Law and École de droit français Université d'Orléans. He holds the position of professor at the University of Economics in Kraków, where he is a lecturer at the Faculties of Management and Economics and International Relations.

He has broad professional experience in energy and fuel sector. In 2011-2013, he worked for Kompania Węglowa (as management board proxy for energy sector development). In 2007-2008 he was a member of the management board of TAURON. From 2015 he acted in the capacity of Undersecretary of State at the Ministry of Treasury. He speaks English and French fluently.

Acting as the President of the Management Board of TAURON Polska Energia S.A. since 15 November 2016. He currently supervises the performance of the following business units: strategy and regulations, relations with the environment, legal and internal audit. In addition, he supervises the functioning of security, compliance and risk management system as well as human resources development policy.



Jarosław Broda - Vice-President of the Management Board

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

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

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

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 08 December 2015. He currently supervises the performance of the following business areas: asset management, research and innovation, investment projects, project assessment and analyses and occupational health and safety.



Kamil Kamiński - Vice-President of the Management Board

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

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

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

He has been acting in the capacity of the Vice-President of the Management Board of TAURON Polska Energia S.A. since 8 December 2015. He currently oversees the following areas of the Company's operation: corporate matters and support, human resources, procurement and administration, security and compliance.



Marek Wadowski - Vice President of the Management Board

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

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

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

acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 29 January 2016. Currently supervises performance of the following business units: finance, controlling, accounting and taxes, risk and IT.



Piotr Zawistowski - Vice President of the Management Board

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

He has experience in the area of trading in electricity, gas and related products in the country and abroad, commercial risk management, portfolio management in the scope of purchase and sales of electricity, property rights, CO₂ emission allowances and fuels. He took active part in works related to unbundling of electricity supply and distribution, in particular in establishment of EnergiaPro Gigawat (currently a part of TAURON Sprzedaż).

Since the beginning of his professional career he has been associated with energy sector entities, holding senior executive and managerial positions. He gained his professional experience working at Zakład Energetyczny Legnica, EnergiaPro Koncern Energetyczny (currently a part of TAURON Dystrybucja), EnergiaPro Gigawat and at TAURON, where he acted in the capacity of Portfolio Management Department from 2008, participating in many key projects, managing, among others, the works related to the development of the business model of TAURON Group or integration with GZE Group companies (Vattenfall) in the trading segment. From May 2014 he acted in the capacity of the President of the Management Board of TAURON Obsługa Klienta.

He has been acting in the capacity of the Vice-President of the Management Board of TAURON Polska Energia S.A. since 8 December 2015. As Vice-President of the Management Board for Customer and Commercial Affairs he oversees the following areas of the Company's operation: customers, analyses and planning, fuel trading, portfolio management, trading, settlements and sales reporting.

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

Description of operation

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

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

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

The Management Board votes in an open ballot. Results of the voting are recorded in the minutes of the meeting. The President of the Management Board orders a secret ballot on request of any Vice-Presidents of the Management Board.

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

Whenever there are less Vice-Presidents of the Management Board than Divisions, Vice-Presidents of the Management Board may combine responsibilities within two divisions, or distribute their competence in any other way which is compliant with the distribution of responsibilities adopted by the Supervisory Board.

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

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

The structure of the divisions reporting to individual members of the Management Board is specified in the organisational chart of the Company, presented in item 1.6.2 of this report.

11.2. Supervisory Board

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

Personal composition of the Supervisory Board as at 31 December 2016 and as at the date of drawing up this report

- | | | |
|----|-----------------------|---|
| 1. | Beata Chłodzińska | - Chairwoman of the Supervisory Board |
| 2. | Anna Mańk | - Deputy Chairwoman of the Supervisory Board, |
| 3. | Jacek Szyke | - Secretary of the Supervisory Board, |
| 4. | Stanisław Bortkiewicz | - Member of the Supervisory Board, |
| 5. | Leszek Koziorowski | - Member of the Supervisory Board, |
| 6. | Jan Pludowski | - Member of the Supervisory Board, |
| 7. | Jacek Rawecki | - Member of the Supervisory Board, |
| 8. | Stefan Świątkowski | - Member of the Supervisory Board. |
| 9. | Agnieszka Woźniak | - Member of the Supervisory Board. |

Changes in the personal composition of the Supervisory Board in 2016

As at 1 January 2016 the Supervisory Board consisted of the following Members: Beata Chłodzińska (Chairwoman of the Supervisory Board), Anna Mańk (Deputy Chairwoman of the Supervisory Board), Jacek Szyke (Member of the Supervisory Board), Anna Biesialska (Member of the Supervisory Board), Michał Czarnik (Member of the Supervisory Board), Maciej Koński (Member of the Supervisory Board), Leszek Koziorowski (Member of the Supervisory Board), Wojciech Myślecki (Member of the Supervisory Board) and Renata Wiernik-Gizicka (Member of the Supervisory Board).

On 6 June 2016 the Company received statements from the following Supervisory Board Members concerning the resignation from the function of Member of TAURON Polska Energia S.A. Supervisory Board, in which they declared that they had resigned for personal reason:

- 1) Maciej Koński,
- 2) Renata Wiernik-Gizicka.

On 8 June 2016 the Ordinary GM of the Company, acting pursuant to § 22 (1) of the Company Articles of Association, adopted the resolution on the appointment of the following members to the Company Supervisory Board of the common fourth term of office:

- 1) Jacek Rawecki,
- 2) Stefan Świątkowski.

On 14 November 2016 a Member of the Supervisory Board, Wojciech Myślecki submitted his resignation from the function of Member of TAURON Polska Energia S.A. Supervisory Board. (No reasons of submitted resignation were provided).

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

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

– dismissed the following members of the Supervisory Board of TAURON Polska Energia S.A.:

- 1) Michał Czarnik,
- 2) Anna Biesialska,

– appointed the following members of the Supervisory Board of TAURON Polska Energia S.A.:

- 1) Jan Płudowski,
- 2) Stanisław Bortkiewicz.

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

Experience and competences of members of the Supervisory Board

Beata Chłodzińska

- Chairwoman of the Supervisory Board

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

She has professional experience associated with supervising companies with State Treasury ownership. Professionally affiliated with the Ministry of Energy, currently coordinating the activities of the Team of Legal Counsels at the Legal Office. She represented the State Treasury on supervisory boards of companies supervised by the Ministry.

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

Anna Mańk

- Deputy Chairwoman of the Supervisory Board

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

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

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

Jacek Szyke

- Secretary of the Supervisory Board

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

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

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

Stanisław Bortkiewicz **- Member of the Supervisory Board,**

Graduate of Medical University of Gdańsk, medical doctor, manager, entrepreneur and business adviser with experience gained over the years.

He has rich experience in the scope of managing large production and service companies as well as in the scope of consulting, training and restructuring activity. He acted in the capacity of President of the Management Board of large companies many times, including, inter alia: Pracownicza Spółka Ursus S.A., ZPC Ursus S.A., MPWiK S.A. In Warsaw and Director for Strategy and Development at BOT Górnictwo i Energetyka S.A., and subsequently, at PZU S.A. Since 1990 he has been conducting own economic activity and he is the shareholder of economic, commercial, production and service entities. He also carried out consulting activity, providing advisory services to many large companies. In the framework of his professional activity he carried out many projects in the scope of organisational and financial restructuring of enterprises. Since February 2016 he has been acting in the capacity of Director of Office for Corporate Affairs in Telewizja Polska S.A.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 30 December 2016. Currently acting as the Chairman of the Audit Committee of the Supervisory Board.

Leszek Kozirowski **- Member of the Supervisory Board**

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

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

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

Jacek Rawecki **- Member of the Supervisory Board**

Graduate of the Faculty of Social Sciences of the University of Wrocław. Currently, in the course of preparation of a PhD thesis at the Faculty of Law and Administration of the Cardinal Stefan Wyszyński University in Warsaw, taking part in the Master of Business Administration management studies at the University of Economics in Wrocław.

Stefan Świątkowski - Member of the Supervisory Board

He has many years of experience in financial management, risk management, and strategic management. At present, he is the Vice-President of the Management Board for Finance at KGHM. Earlier he served as the Vice President of the Management Board of FM Bank/Polski Bank Przedsiębiorczości and the bank PKO BP responsible for risk management. He was also the Finance Director at Europejski Fundusz Leasingowy S.A. and the ALCO Director at Lukas Bank S.A. He also worked in Bank Handlowy S.A. at various positions related to risk and strategy management and at McKinsey & Company Poland sp. z o.o. as a consultant. He has experience in supervising commercial companies and partnerships. Author of articles on economic issues and a novel about Polish privatisation.

Jan Płudowski - Member of the Supervisory Board.

Professionally associated with the energy sector, he gained his professional experience holding positions at all levels of professional career. He worked, inter alia, at the following positions: Chief Regional Power Engineer (PKP Silesian Regional Directorate of State Railway in Katowice), Director of Railway Energy Department in Katowice and Head of Energy Management Division (PKP Directorate of Railway Energy in Warsaw), Director of the Office for Cash Flows ("PKP Energetyka" sp. z o.o. In Warsaw). He currently acts in the capacity of Director - Project Coordinator at "PKP Energetyka" S.A. in Warsaw. In the years 2007-2008 he acted in the capacity of a member of the Supervisory Board of the Energy Company Jastrzębie S.A.

Agnieszka Woźniak - Member of the Supervisory Board.

Has many years of experience in human resources management. She dealt with internal inspections, office organizational matters, procurement, HR matters. She held the position of the representative of the Director-General for integrated management system. She also has experience in supervision over companies with State Treasury shareholding. Currently she holds the position of Director of the Minister Office at the Ministry of Energy.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 16 December 2016. Currently acting as the member of the Nominations and Remuneration Committee of the Supervisory Board.

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

Description of operation

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

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

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

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

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

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

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

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

Meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in case of his/her absence - by the Vice-Chairperson of the Supervisory Board. Due to material reasons, with the consent of the majority of the members of the Supervisory Board present at the meeting, the person chairing the meeting is obliged to submit to voting a motion to stop the meeting and establish a new date of resuming the Supervisory Board meeting. The Supervisory Board makes decisions in the form of resolutions. The Supervisory Board resolutions are passed mainly at meetings. The Supervisory Board adopts resolutions if at least half of its members are present at the meeting and all its members were invited in the way defined in the By-laws of the

Supervisory Board. Subject to unconditionally binding legal regulations, including the CCC as well as provisions of the Company Articles of Association, the Supervisory Board passes resolutions by an absolute majority of votes of the persons present at the meeting, where the absolute majority of votes is understood as more votes submitted "for" than "against" and "abstain". Resolutions cannot be passed on issues not included in the agenda unless all members of the Supervisory Board are present and nobody voices an objection. This shall not apply to resolutions concerning justifying the Supervisory Board member's absence at the meeting. Voting of the resolutions is performed in an open ballot. A secret ballot is ordered:

- 1) on request of at least one of the members of the Supervisory Board,
- 2) in case of personal issues.

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

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

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

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

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

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

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

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

11.3. Audit Committee

In connection with the changes in the composition of the Supervisory Board of the Company of the fourth joint term of office performed in 2016, the Supervisory Board changed the composition of the Audit Committee.

Composition of the Audit Committee as at 31 December 2016

1. Beata Chłodzińska - Member of the Audit Committee,
2. Jacek Rawecki - Member of the Audit Committee.
3. Jacek Szyke - Member of the Audit Committee.

Changes in the personal composition of the Audit Committee

As at 01 January 2016 the Audit Committee consisted of the following members: Wojciech Myślecki (Chairman), Beata Chłodzińska, Michał Czarnik i Jacek Szyke.

On 8 January 2016 the Supervisory Board appointed Anna Biesialska as a member of the Audit Committee.

On 26 July 2016, Anna Biesialska resigned from her function of the member of the Audit Committee.

On 26 July 2016 the Supervisory Board appointed Jacek Rawecki as a member of the Audit Committee.

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

On 30 December 2016 the Minister of Energy, acting pursuant to § 23(1)(3) of the Company Articles of Association dismissed Anna Biesialska from the Supervisory Board of TAURON Polska Energia S.A. Consequently, his membership in the Audit Committee expired.

On 30 January 2017 the Supervisory Board appointed Stanisław Bortkiewicz and Jan Płudowski as members of the Audit Committee.

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

1. Stanisław Bortkiewicz - Chairman of the Audit Committee,
2. Beata Chłodzińska - Member of the Audit Committee,
3. Jan Płudowski - Member of the Supervisory Board,
4. Jacek Rawecki - Member of the Audit Committee.
5. Jacek Szyke - Member of the Audit Committee.

Tasks and competence of the Audit Committee

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

Table no 6. Competence of the Audit Committee

Issues requiring the resolution of the Audit Committee

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

1. monitoring of financial reporting process;
2. monitoring of the accuracy of financial information presented by the Company;
3. monitoring of the efficiency of internal control, risk management systems, compliance and internal audit functions existing in the Company,
4. monitoring of performing of financial revisions;
5. monitoring of independence and impartiality of the chartered accountant and the entity entitled to examine financial statements, including rendering by them services other than financial audit;
6. recommending of an entity entitled to examine financial statements to perform financial audit to the Supervisory Board.

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

11.4. Nominations and Remuneration Committee

In connection with the changes in the composition of the Supervisory Board of the Company of the fourth joint term of office performed in 2016, the Supervisory Board changed the composition of the Nominations and Remuneration Committee.

Personal composition of the Nominations and Remuneration Committee as at 31 December 2016 and as at the day of drawing up this report

1. Beata Chłodzińska - Chairwoman of the Nominations and Remuneration Committee,
2. Leszek Kozirowski - Member of the Nominations and Remuneration Committee,
3. Agnieszka Woźniak - Member of the Nominations and Remuneration Committee.

Changes in the personal composition of the Nominations and Remuneration Committee

As at 01 January 2016 the Nominations and Remuneration Committee consisted of the following members: Leszek Kozirowski (Chairman), Anna Biesalska, Beata Chłodzińska and Renata Wiernik-Gizicka.

On 06 June 2016 a Member of the Supervisory Board, Renata Wiernik-Gizicka submitted her resignation from the function of Member of TAURON Polska Energia S.A. Supervisory Board. Consequently, her membership in the Nominations and Remuneration Committee expired.

During its meeting on 19 December 2016 the Supervisory Board appointed Agnieszka Woźniak as a Member of the Nominations and Remunerations Committee.

On 30 December 2016 the Minister of Energy, acting pursuant to § 23(1)(3) of the Company Articles of Association dismissed Anna Biesalska from the Supervisory Board of TAURON Polska Energia S.A. Consequently, her membership in the Nominations and Remuneration Committee expired.

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

Tasks and competence of the Nominations and Remuneration Committee

The table below presents the tasks and competences of the Nominations and Remunerations Committee as of 31 December 2016 and on the day of this report.

Table no 7. Competence of the Nominations and Remuneration Committee

Issues requiring the resolution of the Nominations and Remunerations Committee

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

1. recommendations to the Supervisory Board on a recruitment procedure for the positions of the Company Management Board members,
2. assessing candidates for members of the Management Board as well submitting an opinion in this scope to the Supervisory Board,
3. recommendations to the Supervisory Board on the form and contents of agreements concluded with members of the Management Board,
4. recommendations to the Supervisory Board on remuneration and bonus system of the members of the Management Board,
5. recommendations to the Supervisory Board on the need to suspend a member of the Management Board due to material 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 2016, the Supervisory Board changed the composition of the Strategy Committee.

Composition of the Strategy Committee as at 31 December 2016 and as at the day of drawing up this report

- | | |
|-----------------------|---------------------------------------|
| 1. Jacek Szyke | - Chairman of the Strategy Committee, |
| 2. Beata Chłodzińska | - Member of the Strategy Committee, |
| 3. Anna Mańk | - Member of the Strategy Committee, |
| 4. Stefan Świątkowski | - Member of the Supervisory Board. |

Changes in the Strategy Committee personal composition

As at 01 January 2016 the Strategy Committee consisted of the following members: Jacek Szyke (Chairman), Beata Chłodzińska, Anna Mańk, Maciej Koński and Wojciech Myślecki.

On 06 June 2016 a Member of the Supervisory Board, Maciej Koński submitted his resignation from the function of Member of TAURON Polska Energia S.A. Supervisory Board. Consequently, his membership in the Strategy Committee expired.

On 26 July 2016 the Supervisory Board appointed Stefan Świątkowski as a member of the Strategy Committee.

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

Tasks and competence of the Strategy Committee

The table below presents the tasks and competences of the Strategy Committee as at 31 December 2016 and as at the day of drawing up this report.

Table no 8. Competence of the Strategy Committee

Issues requiring the resolution of the Strategy Committee

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

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

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

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

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

The Committees of the Supervisory Board are advisory and opinion-making bodies acting collectively as a part of the Supervisory Board and perform support and advisory functions towards the Supervisory Board. The tasks of the Committees of the Supervisory Board are carried out by submitting motions, recommendations, opinions and statements on the scope of its tasks to the Supervisory Board, by means of resolutions. The Committees of the

Supervisory Board are independent of the Management Board of the Company. The Management Board may not issue binding orders to the Committees of the Supervisory Board concerning performing their duties.

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

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

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

Members of the Committees of the Supervisory Board may also participate in meetings and vote of the adopted resolutions by using means of direct remote communication, i.e. tele- or videoconferences.

The Company Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the Committees of the Supervisory Board. Every year, the Committees of the Supervisory Board provide public record information, through the Company, on the composition of the Audit Committee, number of meetings held and participation in the meetings during the year as well as on main activities. In addition, the Audit Committee confirms its positive assessment of the independence of financial audit process and submits a short description of steps taken to formulate such a motion.

The Company Management Board provides the possibility to use the services of external advisers by the Committees in the scope required for performing the obligations of the specific Committee.

12. Description of the policy of diversity applied to the governing bodies of the Company

The Company uses the policy of equal treatment and strives to ensure diversity in terms of gender, educational background, age and professional experience in relation to all employees, in particular, in relation to the governing bodies of the Company and its key managers. As at the day of completion of the report, TAURON did not have the diversity policy formulated in the form of a single document. The rules on diversity management were introduced for application under many documents constituting internal legal acts, including the *TAURON Group's Code of Business Ethics*.

In relation to members of the corporate bodies of the Company, i.e. The Management Board and the Supervisory Board, persons acting as Members of the Management Board are selected by the Supervisory Board, whereas Members of the Supervisory Board are selected by the Minister of Energy within the statutory powers and GM TAURON. Information concerning qualifications and professional experience of persons appointed to the Management Board and the Supervisory Board is published in the relevant current reports as well as in the Company website.

TAURON plans to develop and implement the diversity policy for application in a single formal document.

13. Remuneration policy of management and supervisory staff

13.1. Remuneration system of Management Board members and key managers

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

In 2016 the principles of remuneration of members of the Company Management Board defined in the *Remuneration Policy for Members of supervisory and management bodies, including the description of the rules*

of defining the policy in TAURON Polska Energia S.A. applied (Remuneration Policy), adopted by the Supervisory Board of the Company pursuant to the resolution no. 15/II/2011 of 24 February 2011 as well as the rules of development of remuneration of Members of the Management Board (Rules of remuneration development), defined in the Resolution of the Extraordinary GM of WZ TAURON of 15 December 2016 specified in detail by the Supervisory Board of the Company pursuant to the Resolution no. 94/IV/2016 of 15 December 2016 *concerning the amendment to the Articles of Association the development of remuneration of Members of the Management Board of TAURON Polska Energia S.A.* The Rules of remuneration development were adopted as the implementation of the provisions of the *Act of 9 June 2016 concerning principles for determining remuneration of persons managing certain companies* (Journal of Laws of 2016, item 1202).

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

Objectives if applicable remuneration systems:

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

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

The remuneration model contained both in the Remuneration policy and in the Rules of remuneration development assume a two-component system for determining of the remuneration for members of the Management Board. Flat-rate monthly salary (fixed remuneration) and supplementary remuneration for a given financial year (variable remuneration), depending on the level of accomplishment of the management goals.

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

Taking into account the applicable regulations, the level of remuneration for members of the Management Board is defined by the Supervisory Board, within the brackets determined by the Company GM.

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

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

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

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

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

The structure of the remuneration consists of the following elements:

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

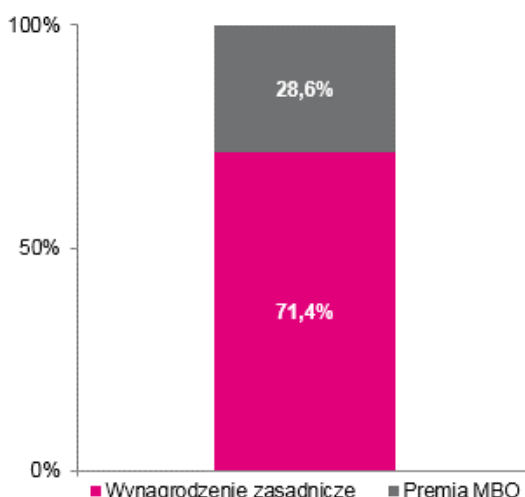
The bonus system based on market bonus mechanisms enables cascading the objectives set by the Management Board at a level of TAURON Capital Group and at a level of the Company, to specific tasks, defined by parameters, assigned to employees at lower levels of the organisation. Accordingly, the culture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

Moreover, in 2016 works on building a bonus system for the trade area started, aimed at motivating to achieve higher revenue for TAURON Capital Group.

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

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

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



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

The total amount of remuneration understood as the value of salaries, awards and benefits received in cash, in kind or in any other form, due or paid by the Company to the Management Board members in 2016 amounted to PLN 8,024 thousand gross.

The table below presents the remuneration of the Company Management Board members for 2016, divided into components.

Table no 9. Remuneration of members of the Company Management Board for 2016, divided into components

No.	Name and surname	Period of holding the function in 2016	Remuneration* (PLN thous.)	Bonus* (PLN thous.)	Other benefits* (PLN thous.)	Total (PLN thous.)
1.	Jarosław Broda	01.01.2016 - 31.12.2016	900	197	122	1,219
2.	Filip Grzegorzczak**	15.11.2016 - 31.12.2016	98	0	0	98
3.	Kamil Kamiński	01.01.2016 - 31.12.2016	900	194	51	1,145
4.	Remigiusz Nowakowski	01.01.2016 - 14.11.2016	884	249	166	1,299
5.	Anna Strzyżyk	01.01.2016 - 08.01.2016	30	53	0	83
6.	Marek Wadowski	29.01.2016 - 31.12.2016	829	151	40	1,020
7.	Piotr Zawistowski	01.01.2016 - 31.12.2016	900	197	164	1,261
Total			4,541	1,041	543	6,125

* no overheads

**Agreement for provision of management services

Members of the Management Board did not receive any remuneration or awards in 2016 on account of functions fulfilled in governing bodies of companies belonging to TAURON Capital Group.

In relation to Members of the Management Board listed in the above table, the Remuneration Policy applied, excluding the President of the Management Board to whom the Rules of remuneration development were applied.

Taking into account the foregoing, assumptions to two remuneration systems were presented:

1. The Remuneration Policy for Members of supervisory and management bodies, including the description of the rules of its defining in TAURON Polska Energia S.A.

The remuneration policy, adopted by the Supervisory Board of the Company pursuant to the resolution no. 15/II/2011 of 24 February 2011 consists of two components for determining the remuneration, the fixed part (monthly basic salary) and the variable part, depending on fulfilment of specific target criteria (implementation of the task commissioned). Both the monthly basic salary as well as the result-based criteria, whose fulfilment determines the level of an annual bonus, are defined by the Supervisory Board of the Company.

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

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

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

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

In accordance with the aforementioned Remuneration Policy the employment contract is concluded with Members of the Management Board.

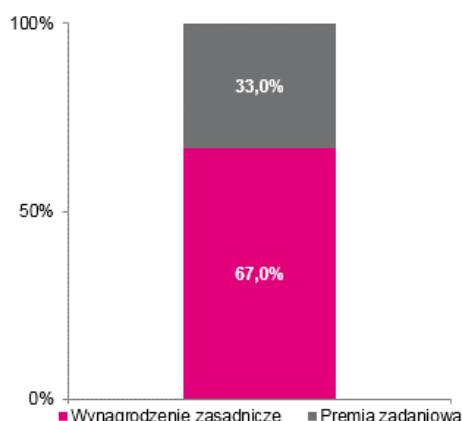
2. The rules of development of remuneration for Members of the Management Board

The Rules of remuneration development adopted pursuant to the Resolution of the Extraordinary GM of WZ TAURON of 15 December 2016, specified in detail by the Supervisory Board of the Company of 19 December 2016 concerning the rules of development of remuneration of Members of the Management Board of TAURON Polska Energia S.A., comprise a two-component system for defining the remuneration, consisting of the fixed part (monthly basic salary) and the variable part (supplementary remuneration) constituting the motivating element of the remuneration depending on the accomplishment of management targets in a given financial year. Both the monthly basic salary and the variable part is determined by the Supervisory Board of the Company pursuant to the rules and the general catalogue of management targets defined by the TAURON GM.

In accordance with the aforementioned Rules of remuneration development an agreement for provision of management services for the period of fulfilment of the function is concluded with a Member of the Management Board, with the obligation of personal rendering of services, irrespective of whether the member acts in the scope of conducted economic activity.

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

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



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

According to the agreement for provision of management services concluded with the President of the Management Board, in case of termination or dissolution of the Agreement by the Company for reasons other than defined therein, a Management Board Member may be awarded a severance payment at a level not higher than three-fold fixed part of the remuneration, under the condition of fulfilment of the function by the Member over a period of at least 12 months prior to the termination of this agreement. On the other hand, employment contracts concluded with other Management Board Members do not envisage severance payment in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation is caused by merger of the Company through takeover.

In connection with the access of members of the Management Board to confidential information whose disclosure could expose the Company and companies of TAURON Capital Group to losses, the aforementioned agreement for provision of management services includes non-competition provisions applicable after the expiry of the term of office. On the other hand, non-competition agreements have been concluded with other members of the

Management Board. Under the aforementioned agreements, persons refraining from conducting competitive activity in the specified period may receive compensation.

Members of the Company Management Board did not hold positions of members of Management Boards of companies included in TAURON Capital Group.

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

Members of the Management Board, excluding the President of the Board employed under the agreement for provision of management services, and staff members employed at key positions in the Company are entitled to use benefits and non-financial components of remuneration offered by the Company.

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

- 1) participate in the Employee Pension Scheme operated by the employer (under the condition of being employed in the Company or one of the companies of TAURON Capital Group over a period of at least one year),
- 2) use the medical package financed from the Company funds,
- 3) use a company car allocated for sole disposal,
- 4) use company accommodation in case if the availability of the employee is required due to the nature of his/her work and scope of responsibilities.

Pursuant to the agreement for provision of management services technical devices and resources constituting the Company assets are made available, required for the fulfilment of the function, including the right of exclusive use of a company car.

13.1.6. Information on changes in the remuneration policy over the last financial year

In the financial year 2016 the Extraordinary GM of TAURON introduced new rules of remuneration development for members of the Management Board as the implementation of the provisions of the Act of 9 June 2016 *concerning principles for determining remuneration of persons managing certain companies*. Accordingly, work was commenced with the purpose of development of a new Remuneration Policy, compliant with the aforementioned Resolution of the Extraordinary GM of TAURON and the Resolution of the Supervisory Board 19 December 2016 concerning the development of remuneration of Members of the Management Board of TAURON Polska Energia S.A.

Information concerning the aforementioned rules of development of remuneration of Members of the Management Board is contained in section 6.13.1.3 hereof.

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

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

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

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

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

The remuneration and bonus system for Members of the Management Board of the Company applicable in TAURON supports the implementation of strategic goals and determines the remuneration depending on the Company financial situation in an annual perspective.

13.2. Remuneration system of members of the Supervisory Board

In the period until 15 December 2016 the rules of remuneration for members of the Supervisory Board of the Company defined in the Remuneration policy and in the Resolution of the Ordinary GM of TAURON no. 29 of 6 May 2011 *concerning determining of the rules and level of remuneration for members of the Supervisory Board of TAURON Polska Energia S.A.* were applicable. On the other hand, as of 15 December 2016 the remuneration system for Members of the Supervisory Board applies, defined in the Resolution of the Extraordinary TAURON GM no. 6 of 15 December 2016 *concerning the rules of development of remuneration of Members of the Supervisory Board*, adopted as the implementation of the provisions of *the Act of 9 June 2016 concerning principles for determining remuneration of persons managing certain companies* (Journal of Laws of 2016 item 1202).

Both the earlier remuneration system of members of the Supervisory Board binding until 15 December 2016 as well as the system applicable as at the day of drawing up this report comprises a single-component monthly remuneration, adopting diversification of its level depending on the function in the Supervisory Board.

In accordance with the aforementioned Resolution of the Extraordinary TAURON GM of 15 December 2016, a monthly remuneration of Supervisory Board members is determined as a product of the average monthly remuneration in the enterprise sector, excluding payment of profit distribution bonuses in the fourth quarter of the preceding year, announced by the President of the Central Statistical Office and the multiplier:

- 1) for the chairperson of the Supervisory Board – 1.7
- 2) for other members of the Supervisory Board – 1.5

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

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

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

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

Remuneration of key supervising personnel

The table below presents the remuneration of members of the Company Supervisory Board Members for 2016

Table no 10. Remuneration of members of the Supervisory Board of the Company for 2016

No.	Name and Surname	Period of holding the function in 2016	Remuneration and awards (PLN thous.)
1.	Anna Biesialska	01.01.2016 - 30.12.2016	106
2.	Stanisław Bortkiewicz	30.12.2016 - 31.12.2016	0
3.	Beata Chłodzińska	01.01.2016 - 31.12.2016	142
4.	Michał Czarnik	01.01.2016 - 30.12.2016	106
5.	Maciej Koński	01.01.2016 - 06.06.2016	47
6.	Leszek Koziorowski	01.01.2016 - 31.12.2016	107
7.	Anna Mańk	01.01.2016 - 31.12.2016	130
8.	Wojciech Myślecki	01.01.2016 - 14.11.2016	94
9.	Jan Płudowski	30.12.2016 - 31.12.2016	0
10.	Jacek Rawecki	08.06.2016 - 31.12.2016	59
11.	Jacek Szyke	01.01.2016 - 31.12.2016	118
12.	Stefan Świątkowski	08.06.2016 - 31.12.2016	60
13.	Renata Wiernik-Gizicka	01.01.2016 - 06.06.2016	47
14.	Agnieszka Woźniak	16.12.2016 - 31.12.2016	3
Total			1,019

13.3. Liabilities arising from pensions and similar benefits for former of the Members of the Management Board and the Supervisory Board.

In the Company no liabilities towards former the Members of the Management Board and the Supervisory Board occur, arising from pensions and similar benefits.

At the same time, it is indicated that due to Company liabilities towards former members of TAURON Management Board, in 2016 the total amount of PLN 5,616 thousand was paid due to bonuses for accomplishment of KPIs in 2015 (excluding overheads) and compensations for compliance with the non-competition clause.