



## **STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE**

**MARCH 2018**

## STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

Pursuant to § 91(5)(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's Management Board submits the statement on application of corporate governance in 2017.

### 1. Indication of applied set of corporate governance rules

In 2017 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 13, 2015, which came into force on January 1, 2016.

The text of the Best Practice 2016 the Company is subject to is published on the GPW website at the address: [www.gpw.dobre-praktyki.pl](http://www.gpw.dobre-praktyki.pl).

### 2. Indication of abandoned rules of corporate governance

In 2017 the Company did not apply the following detailed rules provided 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 respect,
- 2) VI.Z.1. concerning the construction of incentive schemes in a way necessary, among others, to tie the level of compensation 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 compensation 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 compensation 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 compensation 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 compensation 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 compensation should be tied to instruments linked with the Company shares.

In 2017 the following rules did 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 organization, 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 organizational structure.

Furthermore, the Management Board of the Company, adopting the detailed rules of 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 manner of applying them. The detailed description of the manner of applying the above rules is provided in the *Information on the status of applying by the Company of the recommendations and rules provided in Best Practice 2016*, constituting an appendix to the above mentioned report on not applying the detailed rules provided in Best Practice 2016 and provided on the Company's website.

In 2017 the Company developed and introduced into use the document *Diversity Policy at TAURON Group*, that was described in detail in section 6.12. of this report. Before that the Company had not had a single document 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 on February 1, 2016 concerning the abandoned

detailed rules of corporate governance contained in Best Practice 2016, the Company indicated the method of applying the diversity policy. It was indicated at then that the rules on diversity management were introduced for application under many documents constituting internal legal acts.

### Information concerning abandonment of recommendations provided in Best Practice 2016 for application

In 2017 the Company did not apply only the recommendation provided 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 8 June 2016 to adopt the relevant amendments to the Company Articles of Association ensuring publicly available real-time broadcast of general meetings.

The other recommendations provided in Best Practice 2016 were applied by the Company in 2017.  
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### 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 audit and risk management system with respect to the process of drawing up the financial statements and consolidated financial statements is implemented on three levels:

#### Level I

#### **General principles of management at the Company and TAURON Capital Group.**

TAURON Capital Group's subsidiaries operate based on organizational regulations and possess defined organizational structures based on internal documents adopted for the entire Group. These define the business units responsible for preparing financial statements and consolidated financial statements. Such units have the duty to perform regular control of the tasks vested and functional control of their activities. Business Model of the TAURON Capital Group resulted in implementation of Process Documentation of Megaprocess 3.4 Accounting, containing procedures associated with financial reporting of the Company and the TAURON Capital Group. Process documents define responsibilities of business units within the reporting processes.

#### Level II

#### **Risk management.**

TAURON Capital Group implemented a Risk Area managed by the Executive Director for Risk Management, whose role is to oversee and establish the risk management process for the entire TAURON Capital Group. These functions are implemented within the Company by Corporate, Market and Credit Risk Management Teams. The purpose of risk management is to improve the predictability of attaining strategic objectives by the TAURON Capital Group, including stable creation of the financial result through early identification of threats allowing preventive activities to commence. Risk management standards applicable at the TAURON Capital Group have been defined in the *Strategy for corporate risk management at the TAURON Group* and in policies for managing specific risks. The ERM system encompasses all spheres of TAURON Capital Group business and business processes within the Group, including the process of preparing financial statements. Risks associated with this process are managed, monitored and reported within the ERM system. Standardization aims to ensure coherence in managing the individual risk categories, defining general principles, standards and tools of system architecture. Oversight of the ERM system at TAURON Capital Group is performed by the Risk Committee.

#### Level III

#### **Internal Audit.**

Internal Audit Department is functioning in the Company. The goal of the Internal Audit is planning and implementing audit tasks, including performance of commissioned ad-hoc inspections, and also activities of advisory and opinion (feedback) providing nature. Methods and rules of implementing the Internal Audit function are defined by the Process Documentation of the Megaprocess 1.5 Audit along with the related document *Regulations of Internal Audit at TAURON Group*. The introduction of Megaprocess 1.5 Audit was a consequence of the adoption of the Business Mode by the Management Board of TAURON. In implementing the internal audit function the Company shall be acting in compliance with the *TAURON Group's Corporate Social Responsibility Code* and the International Standards for the Professional Practice of Internal Auditing.

**Key aspects with respect to internal control and risk management in reference to the process of preparing financial statements and consolidated financial statements include:**

#### ***Supervision over application of consistent accounting rules by TAURON Capital Group's subsidiaries when developing reporting packages for the purpose of preparing TAURON Capital Group's consolidated financial statements***

In order to ensure consistent accounting principles based on International Financial Reporting Standards (IFRS) approved by the European Union the Accounting Policy of TAURON Polska Energia S.A. Capital Group (Accounting Policy) was developed and implemented in TAURON Capital Group. This document shall be accordingly updated in case there are changes to the regulations. The rules defined in the Accounting Policy shall be applicable to TAURON's stand-alone financial statements and TAURON Capital Group's consolidated financial statements. TAURON Capital Group's

subsidiaries shall be obligated to apply the Accounting Policy when preparing the reporting packages that provide the basis for preparing TAURON Capital Group's consolidated financial statements.

Furthermore, TAURON Capital Group developed and implemented an intra-group regulation that comprehensively regulates issues related to the rules and deadlines for preparing the reporting packages for the purpose of consolidated financial statements. The reporting packages shall be validated by the holding company's Consolidation and Reporting Office and by an independent certified auditor during an audit or review of TAURON Capital Group's consolidated financial statements.

***Procedures used to authorize and provide opinions on the Company's financial statements and TAURON Capital Group's consolidated financial statements***

The Company has implemented financial statements' authorization procedures. Quarterly, half year and full year financial statements of the Company and TAURON Capital Group's consolidated financial statements shall be approved by the Company's Management Board before being published. Full year financial statements of TAURON and TAURON Capital Group's consolidated financial statements shall be additionally presented for evaluation to the Company's Supervisory Board before being published. Vice President of the Management Board for economic and financial affairs (Chief Financial Officer) shall oversee the preparation of financial statements, while the Management Boards of the subsidiaries included in the consolidation shall be responsible for preparing the reporting packages for TAURON Capital Group's consolidated financial statements.

Supervisory Board's structure includes the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A., whose membership, competence and description of activities are provided in clause 6.11.3 of this report

***IT systems as well as financial and accounting processes***

TAURON Capital Group's subsidiaries maintain accounting books (ledgers) which constitute the basis for preparing financial statements using ERP financial and accounting computer systems, enabling system audits of the correctness of the document flow and classifying of the business events. Consolidated financial statements are prepared using an IT tool used to consolidate financial statements, providing system control with respect to the coherence (integrity) and timeliness of preparing the consolidation data.

TAURON Capital Group's subsidiaries have implemented IT and organizational solutions that provide control of access to the financial and accounting system and ensure adequate protection and archiving of the accounting books. Access to IT systems is restricted based on applicable access rights assigned to authorized personnel. Control mechanisms are applied in the process of granting and changing access rights to the financial and accounting systems. Granted rights are also subject to periodic verification.

Due to the integration of the accounting functions and the transfer of TAURON Capital Group's material subsidiaries' financial and accounting services to CUW-R (Shared Services Center – Accounting) TAURON Capital Group's financial and accounting processes were gradually unified. The subsidiaries adjusted their own procedures to the flow of the financial and accounting processes, taking into account the specifics of the individual segments.

TAURON Capital Group's Business Model clearly distributes responsibilities with respect to the financial and accounting processes between the Company (indicated as the Corporate Centre) and the subsidiaries and CUW R, indicating that the Corporate Centre is the owner of processes associated with accounting and reporting of TAURON Capital Group. With respect to the 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 the implementation of standards in the accounting area in the subsidiaries and CUW R. Moreover, it was indicated that the Company as the Corporate Centre is responsible for drawing up the Company's financial statements and the consolidated financial statements of TAURON Capital Group. A clear split of responsibilities and strong emphasis on the fulfillment of the supervisory functions by the Corporate Centre in relation to CUW R and the subsidiaries is, inter alia, aimed at improving the process of preparing the financial statements.

***Subjecting the Company's financial statements and TAURON Capital Group's consolidated financial statements to an audit and reviews by an independent certified auditor***

Full year financial statements of the Company and full year consolidated financial statements of TAURON Capital Group are subject to an audit by an independent certified auditor. Half year financial statements of the Company and half year consolidated financial statements of TAURON Capital Group are subject to a review by a certified auditor. In 2017 the Company selected an entity authorized to audit and review the financial statements of the material subsidiaries of TAURON Capital Group and the consolidated financial statements. The agreement with the entity authorized to audit financial statements was concluded to conduct an audit and review of the 2017 financial statements. Due to the selection by TAURON's Supervisory Board on February 26, 2018 of an audit company to conduct an audit of the Company's and TAURON Capital Group's 2018 financial statements and a review of the Company's and TAURON Capital Group's 2018

financial statements for the period ended on June 30, 2018 it is planned that an amendment to the agreement with the audit company will be signed.

Due to the coming into force of the *law of May 11, 2017 on certified auditors, audit companies and public supervision*, the Audit Committee TAURON's Supervisory Board adopted the following regulations on October 16, 2017:

- 1) *Policy of selecting an audit company to conduct an audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.,*
- 2) *Procedure of selecting an audit company to conduct an audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A., and*
- 3) *Policy of providing at TAURON Group, by an audit company conducting of an audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., entities related to this audit company and a member of the audit company's network, of the permitted services that are not an audit.*

The above regulations in a clear manner define the principles and rules of the process of selecting an audit company to audit the Company's financial statements, as well as the principles of providing permitted services for the benefit of TAURON Capital Group's, in order to ensure independence of an audit company and certified auditors towards the Company and guarantee for the Company the provision of audit services of high subject matter quality, while meeting the required deadlines that the Company must comply with.

#### **Principle of changing the Company and TAURON Capital Group's audit company**

The principle of changing the Company's and TAURON Capital Group's audit company was changed in 2017. The following rule was established in the *Policy of selecting an audit company to conduct an audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia SA*, adopted by the Audit Committee of the Company's Supervisory Board on October 16, 2017:

- 1). maximum period of continuous orders for audits to be conducted by the same audit company or an entity related to that audit company or any member of the network operating in the European Union countries that such audit companies are members of, shall not exceed 5 years,
- 2) after a 5-year duration of the order neither the audit company, nor any member of its network operating within the European Union shall conduct an audit of the Company for the subsequent 4 years,
- 3) a key certified auditor shall not conduct an audit of the Company for a period longer than 5 years,
- 4) a key certified auditor may again conduct an audit of the Company after at least 3 years have elapsed from the completion of the last audit.

Before that the principle adopted by the Supervisory Board of the Company on August 27, 2010 had been in force according to which the rule was adopted concerning changing of the entity authorized to audit the financial statements of the Company and TAURON Capital Group at least once every five 5 financial years. The entity authorized to audit the financial statements of the Company and TAURON Capital Group was able to perform these activities again after the elapse of two financial years.

#### **4. Shareholders holding substantial blocks of shares**

The below table presents shareholders holding, as of December 31, 2017 and as of the day of drawing up this report, directly or indirectly substantial blocks of the Company's shares.

##### **Shareholders holding, directly or indirectly, substantial blocks of shares**

#	Shareholders	Number of shares held	Percentage share in share capital	Number of votes held	Percentage share in the total 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	88 742 929	5.06%	88 742 929	5.06%

Since the day of publishing the previous periodical report, i.e. since November 8, 2017, until the day of publishing this report the Company did not receive any notifications from its shareholders on any changes in the ownership structure of substantial blocks of TAURON shares.

## 5. Holders of securities providing special control rights

The Company did not issue securities that would provide special control rights with respect to the Company.

## 6. Restrictions on exercising the voting right

Restrictions on exercising the right to vote are provided in § 10 of the Company's Articles of Association which are available on the Company's website <http://www.tauron.pl/>.

The above restrictions on exercising the voting right are formulated in the following way:

1. The voting right of shareholders holding over 10% of total votes in the company shall be limited so that none of them can exercise more than 10% of the total votes in the company at the General Meeting of Shareholders.
2. The restriction on exercising the voting right mentioned in clause 1 above shall not apply to the State Treasury and entities controlled thereby in the period during which the State Treasury, together with entities controlled thereby, hold a number of the company's shares that entitle them to exercise at least 25% of the total votes in the company.
3. Votes of shareholders who have a parent/subsidiary relationship in the understanding of § 10 of the Articles of Association (Shareholder Cluster) shall be aggregated; in case the aggregate number of their votes exceeds 10% of total votes in the company it shall be subject to reduction. Rules of votes' aggregation and reduction are defined in clauses 6 and 7 below.
4. A shareholder, in the understanding of § 10 of the Articles of Associations, shall be any party (entity), including its parent and subsidiary company, entitled directly or indirectly to a voting right at the General Meeting of Shareholders on the basis of any legal title; it shall also be applicable to a party (entity) that does not hold the company's shares, and in particular to a user, lien holder, party (entity) entitled on the basis of a depositary receipt under regulations of the Act of July 29, 2005 on financial instruments trading, as well as a party (entity) entitled to take part in the General Meeting of Shareholders in spite of disposing of its shares after the date of establishing (registering) the right to take part in the General Meeting of Shareholders.
5. A parent company and subsidiary company, for the purposes of § 10 of the Articles of Association, shall be understood, accordingly, as a party (entity):
  - 1) having the status of a controlling undertaking, controlled undertaking or, at the same time, both the status of a controlling undertaking and controlled undertaking in the understanding of the *Act of February 16, 2007 on the protection of competition and consumers*, or
  - 2) having the status of a parent company, higher level parent company, subsidiary company, lower level subsidiary company, co-controlled company or one that has both the status of a parent company (including a higher level parent company) and the status of a subsidiary (including a lower level subsidiary company and a co-controlled company) in the understanding of the *Act of September 29, 1994 on accounting*, or
  - 3) which has (parent company) or one which is under controlling influence (subsidiary company) in the understanding of the *Act of September 22, 2006 on transparency of financial relationships between public bodies and public undertakings and on financial transparency of some undertakings*, or
  - 4) whose votes due to the company's shares owned directly or indirectly are subject to aggregation with votes of another party (entity) or other parties (entities) on conditions defined in the *Act of July 29, 2005 on a 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's shares.
6. Aggregation of votes is based on totalling the number of votes held by individual shareholders that are members of the Shareholders' Cluster.
7. Reduction of votes involves decreasing the total number of votes in the company that shareholders that are members of the Shareholders' Cluster, are entitled to exercise at the General Meeting of Shareholders to the level of 10% of total votes in the company. Reduction of votes shall take place in accordance with the following rules:
  - 1) number of votes of a shareholder who holds the largest number of votes in the company among all shareholders that are members of the Shareholders' Cluster shall be reduced by a number of votes equal to a surplus above 10% of total votes in the company held by all shareholders that are members of the Shareholders' Cluster,
  - 2) if, despite the above mentioned reduction, the total number of votes that shareholders that are members of the Shareholders' Cluster are entitled to exceeds 10% of the total votes in the company, a further reduction of votes held by other shareholders that are members of the Shareholders' Cluster shall be made. The further reduction of individual shareholders' votes shall take place in an order established on the basis of the number of votes that

individual shareholders that are members of the Shareholders' Cluster hold (from the highest to the lowest one). The further reduction shall take place until the total number of votes held by shareholders that are members of the Shareholders' Cluster does not exceed 10% of the total votes in the Company,

- 3) in any case a shareholder whose voting rights have been reduced shall have the right to exercise at least one vote,
- 4) restriction on exercising the voting right shall also apply to a shareholder absent at the General Meeting of Shareholders.
8. Each shareholder who is going to take part in the General Meeting of Shareholders, in person or through a proxy, shall be obliged to, without a separate notice mentioned in clause 9 below, notify the Management Board or the Chairperson of the General Meeting of Shareholders that she/he holds, directly or indirectly, more than 10% of the total votes in the company.
9. Notwithstanding the provisions of clause 8 above, in order to establish the basis for aggregating and reducing the votes, a Company's shareholder, Management Board, Supervisory Board and individual members of such bodies shall have the right to demand that a shareholder of the Company provide information whether she/he is a party (entity) having the status of a parent or subsidiary company towards another shareholder in the understanding of § 10 of the Articles of Association. The entitlement mentioned in the preceding sentence shall also include the right to demand the revealing of the number of votes that the company's shareholder holds on its own or jointly with other shareholders of the Company.
10. A party (entity) that has failed to fulfill or has fulfilled the information obligation mentioned in clauses 8 and 9 above improperly, shall, until the failure to fulfill the information obligation has been remedied, be able to exercise its voting right with respect to one share only; exercising voting rights with respect to other shares by such party (entity) shall be null and void.

## **7. Restrictions on transfer of securities ownership right**

As of December 31, 2017 and as of the day of drawing up this report TAURON's Articles of Association do not envisage limitations on the transfer of the Company's securities ownership right.

However, in accordance with the *law of July 24, 2015 on the control of some investments* an entity intending to purchase or achieve a material shareholding or purchase the dominating control over TAURON, which is an entity subject to protection, shall, each time, be obligated to submit a notification to the control body – Minister of Energy of its intention to do so, unless such obligation rests on other entities.

## **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**

Management Board of the company shall be composed of one to six persons, including the President and Vice Presidents. Members of the Management Board shall be appointed and dismissed by the Supervisory Board for a common term of office lasting 3 years, except for the 1st term that lasted 2 years.

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

In order to recruit a person with whom an agreement on performing the management board level function at the Company, Supervisory Board announces the competition and conducts a qualification procedure for the position of the President or Vice President aimed at verifying and assessing the candidates' qualifications and selecting the best candidate. A candidate for a member of the Management Board must meet the requirements set forth in §16 clauses 3 and 4 of the Company's Articles of Association. The announcement of the qualification process is published on the Company's web site and in the Public Information Bulletin of the Ministry of Energy. The Company notifies the shareholders of the results of the qualification procedure.

#### **Management Board's competence**

Management Board shall conduct the company's affairs and represent the company in all court and out of court proceedings. Any matters related to conducting the Company's affairs, not assigned, based on the legal regulations or the provisions of the Articles of Association, to the scope of competence of the General Meeting of Shareholders or Supervisory Board, shall be within the scope of competence of the Management Board.

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

**Management Board's competence****Matters that require a resolution of the Management Board****as of December 31, 2017 and as of the day of drawing up this report**

1. Management Board bylaws,
2. company's organizational regulations,
3. establishment and liquidation of branches,
4. appointment of a proxy,
5. taking on credits and loans,
6. approving annual material and financial plans of the company and of the Capital Group as well as the Capital Group's Corporate Strategy,
7. assuming contingent liabilities in the understanding of the *Act of September 29, 1994 on accounting*, including granting guaranties and sureties by the company as well as issuing bills of exchange, subject to § 20 clause 2 item 4 and 5 of the company's Articles of Association,
8. making donations, cancelling interest or releasing from debt, subject to § 43 clause 3 items 1 and 2 of the company's Articles of Association,
9. purchase of real estate, perpetual usufruct or shares in real estate or in perpetual usufruct, subject to § 20 clause 2 item 1 of the company's Articles of Association,
10. purchase of fixed assets excluding real estate, perpetual usufruct or share in real estate or perpetual usufruct with the value equal to or exceeding the PLN equivalent of EUR 10,000, subject to the provisions of § 20 clause 2 item 2 of the Company's Articles of Association,
11. disposal (control) of fixed assets including real estate, perpetual usufruct or share in real estate or perpetual usufruct with the value equal to or exceeding the PLN equivalent of EUR 10,000, subject to the provisions of § 20 clause 2 item 3 of the company's Articles of Association,
12. defining the way the voting right will be exercised at the General Meeting of Shareholders or the Meeting of Shareholders of companies in which the company holds shares, on matters within the scope of competence of the General Meeting of Shareholders or the Meeting of Shareholders of such companies, subject to the provisions of § 20 clause 3 item 9 of the company's Articles of Association,
13. rules of conducting sponsoring activities,
14. adoption of the annual plan of sponsoring activities,
15. matters which the Management Board refers to the Supervisory Board or the General Meeting of Shareholders for review.

**8.2. Supervisory Board****Rules on appointing and dismissing members of the Supervisory Board**

Supervisory Board shall be composed of five to nine persons, appointed for a common term of office lasting three years, except for the first term that lasted 1 year. In accordance with the Company's Articles of Association members of the Supervisory Board shall be appointed and dismissed by the General Meeting of Shareholders, subject to the following:

- 1) during the time when the State Treasury, together with the State Treasury controlled entities in the understanding of § 10 clause 5 of the Articles of Association, hold a number of the company's shares that entitle them to exercise at least 25% of the total votes in the company, the State Treasury, represented by the minister competent to handle the State Treasury's affairs, shall be entitled to appoint and dismiss members of the Supervisory Board in the number equal to half of the maximum number of members of the Supervisory Board defined in the Articles of Association (in case such number is not integral it shall be rounded down to an integral number, for example 4.5 shall be rounded down to 4) and increased by 1, provided that the State Treasury:
  - a) shall be obliged to vote at the General Meeting of Shareholders on establishing the number of members in the Supervisory Board that would correspond to the maximum number of members of the Supervisory Board defined in the Articles of Association in case such a motion is submitted to the Management Board by a shareholder or shareholders who hold a number of votes that entitle them to exercise at least 5% of the total number of votes in the Company,
  - b) shall be excluded from the voting at the General Meeting of Shareholders on appointing and dismissing other members of the Supervisory Board, including independent members of the Supervisory Board; this shall not, however, apply to the case when the Supervisory Board cannot act due to its membership being smaller than required by the Articles of Association, and the shareholders present at the General Meeting of Shareholders, other than the State Treasury, do not supplement the membership of the Supervisory Board in accordance with the distribution of seats in the Supervisory Board defined in this section;



- 2) during the time when the State Treasury, together with the State Treasury controlled entities in the understanding of § 10 clause 5 of the Articles of Association, hold a number of the company's shares that entitle them to exercise less than 25% of the total number of votes in the company, the State Treasury, represented by the minister competent to handle the State Treasury's affairs, shall be entitled to appoint and dismiss one member of the Supervisory Board.
- 3) appointing and dismissing members of the Supervisory Board by the State Treasury pursuant to the above mentioned clause 1) or 2) shall take place by means of a statement submitted to the Company.

In accordance with the Best Practice at least two members of the Supervisory Board shall meet the criteria of independence. Phrase an "independent member of the Supervisory Board" shall denote an independent member of the Supervisory Board in the understanding of Appendix II to the *European Commission's Recommendation of February 15, 2005 related to the role of non-executive directors or members of a supervisory board of publicly listed companies and a supervisory board's committee* (2005/162/EC).

Members of the Supervisory Board shall submit to the Company, prior to their appointment as members of the Supervisory Board, a written statement on compliance with the independence criteria. In case a situation occurs where the independence criteria are not complied with a member of the Supervisory Board shall be obligated to forthwith inform the company thereof. The company shall inform shareholders of the up to date number of independent members of the Supervisory Board.

### Supervisory Board's competence

Supervisory Board shall continuously oversee the Company's activities in all areas of its operations.

According to the Company's Articles of Association the Supervisory Board's tasks and competences shall include in particular the matters listed in the below table.

#### Supervisory Board's competence

Matters that require a resolution of the Supervisory Board	
as of December 31, 2017 and as of the day of drawing up this report	
Competences related to providing opinions	
<ol style="list-style-type: none"> <li>1. evaluate the Management Board's report on the company's operations (Directors' Report) as well as the financial statements for the last financial year with respect to their compliance with books, documents as well as with the actual status. This shall also apply to the Capital Group's consolidated financial statements, provided they are prepared,</li> <li>2. evaluate the Management Board's recommendations on profit distribution or loss coverage,</li> <li>3. submit a written report to the General Meeting of Shareholders on the outcome of activities covered in clauses 1 and 2,</li> <li>4. prepare once a year and submit to the General Meeting: <ol style="list-style-type: none"> <li>a) evaluation of the company situation, including the assessment of the internal control, risk management systems, compliance and internal audit functions, including all significant control mechanisms, in particular, those related to financial reporting and operations,</li> <li>b) report on activities of the Supervisory Board comprising at least information concerning: <ul style="list-style-type: none"> <li>– the composition of the Supervisory Board and its committees,</li> <li>– fulfilment of independence criteria by Members of the Supervisory Board,</li> <li>– number of meetings of the Supervisory Board and its committees,</li> <li>– self-assessment of the Supervisory Board</li> </ul> </li> <li>c) assessment of the method of fulfillment 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,</li> <li>d) assessment of rationality of sponsoring, charitable policy, or other similar policy pursued by the Company, or information concerning the lack of such policy,</li> </ol> </li> <li>5. prepare, along with the report on the results of the Company's annual financial statements' evaluation, the Supervisory Board's opinion on the financial viability of the company's capital investments in other commercial law entities made in the given financial year,</li> <li>6. provide opinions on the Capital Group's Corporate Strategy,</li> <li>7. provide opinions on the rules of conducting sponsoring activities,</li> <li>8. provide opinions on the annual plan of conducting sponsoring activities as well as on the annual report on its implementation,</li> <li>9. provide opinions on the reports prepared, by the Management Board, on entertainment expenses, expenditures on legal services, marketing services, public relations and social communications service as well as advisory services related to management,</li> <li>10. provide opinions on the changes of the rules of divesting fixed assets, defined in § 38<sup>1</sup> of the Company's Articles of Association.</li> </ol>	

## Matters that require a resolution of the Supervisory Board

## Competences that include

1. selecting a certified auditor to carry out an audit of the company's financial statements and the Capital Group's consolidated financial statements,
2. defining the scope and deadlines for submitting the company's and the Capital Group's annual material and financial plan by the Management Board,
3. adopting the consolidated text of the company's Articles of Association, prepared by the company's Management Board,
4. approving the Management Board's bylaws,
5. approving the organizational regulations of the company's enterprise,
6. purchasing real estate, perpetual usufruct or shares in real estate or in perpetual usufruct with the value exceeding the PLN equivalent of EUR 5,000,000, except for real estate, perpetual usufruct or shares in real estate or in perpetual usufruct purchased from the Capital Group's subsidiaries,
7. purchasing fixed assets, excluding real estate, perpetual usufruct or share in real estate or perpetual usufruct, bonds issued by the Capital Group's subsidiaries and other fixed assets purchased from the Capital Group's subsidiaries of the value exceeding the PLN equivalent of EUR 5,000,000,
8. disposing of fixed assets, including real estate, perpetual usufruct or share in real estate or perpetual usufruct, of the value equal to or exceeding the PLN equivalent of EUR 5,000,000, except for real estate, perpetual usufruct or shares in real estate or in perpetual usufruct, and also other fixed assets that as a result of disposing will be sold or encumbered in favor of the Capital Group's subsidiaries,
9. assuming contingent liabilities, including granting guaranties and sureties by the company with the value exceeding the PLN equivalent of EUR 5,000,000,
10. issuing bills of exchange of the value exceeding the PLN equivalent of EUR 5,000,000,
11. making an advance payment on account of the expected dividend,
12. taking over or purchasing shares in other companies than the Capital Group's subsidiaries with the value exceeding the PLN equivalent of EUR 5,000,000, except for situations when taking over shares in such companies takes place in exchange for the company's liabilities as a part of composition or bankruptcy proceedings,
13. selling shares with the value exceeding the PLN equivalent of EUR 5,000,000 along with defining the conditions and procedure to be applied in their sale, except for:
  - a) selling shares which are traded on the regulated market,
  - b) selling shares that the company holds in the amount not exceeding a 10% interest in the share capital of particular companies,
  - c) selling shares in favor of the Capital Group's subsidiaries,
14. concluding a material agreement with a shareholder holding at least 5% of the total number of votes in the Company or a related company, with a proviso, that this obligation shall not cover typical transactions and concluded at arm's length as part of the business operations conducted by the Company with entities that are members of TAURON Capital Group,
15. concluding an agreement on legal services, marketing services, public relations and social communications services as well as advisory services related to management, if the amount of total net compensation for the services provided exceeds PLN 500 000, on a yearly basis,
16. amending an agreement on legal services, marketing services, public relations and social communications services as well as advisory services related to management, increasing the compensation above the amount mentioned in the above clause j,
17. concluding an agreement on legal services, marketing services, public relations and social communications services as well as advisory services related to management, under which the maximum compensation amount is not envisaged,
18. concluding a donation agreement or another agreement with similar consequences of the value exceeding PLN 20 000 or 0.1% of the total assets in the understanding of the *law of September 29, 1994 on accounting*, determined on the basis of the last approved financial statements,
19. relieving from debt or from another agreement with similar consequences of the value exceeding PLN 50 000 or 0.1% of the total assets in the understanding of the *law of September 29, 1994 on accounting*, determined on the basis of the last approved financial statements,
20. granting a permission to establish the company's branches abroad,
21. defining the way of exercising the voting right at the General Meeting of Shareholders or at the Meeting of Shareholders of companies in which the company holds more than 50% of shares, with respect to the following matters:
  - a) selling and leasing out the company's enterprise or its organized part as well as establishing a limited proprietary right on them if their value exceeds the PLN equivalent of EUR 5 000 000,
  - b) dissolving and liquidating the company.
22. defining the manner of exercising the voting right by a representative of TAURON during the GMs of companies (subsidiaries) with respect to which the Company is a dominating entrepreneur in the understating of art. 4 section 3 of the *law of February 16, 2007 on competition and consumer protection*, with respect to the following issues:
  - a) company setting up another company,
  - b) change to the Articles of Association or the shareholders agreement and the subject of the company's operations,
  - c) merging, transforming, splitting, dissolving and liquidating the company,
  - d) increasing or decreasing the company's share capital,
  - e) selling and leasing out the company's enterprises or its organized part and establishing a limited property right thereupon,

**Matters that require a resolution of the Supervisory Board**

- f) redeeming (retiring) of shares,
  - g) setting the compensation of members of Management Boards and Supervisory Boards,
  - h) provision on claims for remedying damage inflicted when setting up the company or performing management or supervision,
  - i) matters mentioned in art. 17 of the law of December 16, 2016 on the principles of managing state property, subject to § 15 clause 4 of the Company's Articles of Association,
23. approving compensation policy for the capital group.

**Competences related to the Management Board**

1. appoint and dismiss members of the Management Board,
2. establish the rules of compensation and the amounts of compensation for the members of the Management Board, subject to § 18 of the Company's Articles of Association,
3. suspend members of the Management Board from office for important reasons,
4. delegate members of the Supervisory Board to temporarily perform duties of the members of the Management Board who cannot perform their duties and establish their compensation subject to the provision that the total compensation of the delegated person as a Member of the Supervisory Board's as well as on account of being delegated to temporarily perform duties of a Member of the Management Board shall not exceed the compensation established for the Member of the Management Board to replace whom the Member of the Supervisory Board was delegated,
5. conduct a recruitment process for the position of a Member of the Management Board,
6. conduct a competition in order to select a person with whom an agreement to perform the management board functions in the Company shall be concluded and conclude such agreement to perform the management board functions in the Company,
7. grant a permission to Members of the Management Board to take positions in governing bodies of other companies.

**Other competences of the Company's Supervisory Board**

1. prepare reports on overseeing the implementation of investment projects by the Management Board, including fixed asset purchases, and in particular provide opinions on the correctness and effectiveness of expenditures related thereto,
2. approve the Management Board's annual report on the supervision over the implementation of investment projects,
3. pass regulations describing in detail the Supervisory Board's procedures.

**9. Description of the procedure of amendment of the Company's Articles of Association**

Amendments to the Company's Articles of Association in accordance with the provisions of the Ksh, in particular: amendments to the Company's 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's 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's 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.

Ordinary GM on May 29, 2016 adopted the resolutions concerning amendments to the Company's Articles of Association; the relevant information is provided in section 2.8. of this report.

**10. Procedures of the General Meeting of Shareholders, its fundamental powers and description of shareholders' rights and the manner of exercising thereof**

The Company's General Meeting of Shareholders' procedures and its empowerments are defined in the company's Articles of Association and in the Regulations of the General Meeting of Shareholders of TAURON Polska Energia S.A. which are available on the Company's website <http://www.tauron.pl/>.

**Procedures of the General Meeting of Shareholders**

General Meeting of Shareholders shall be convened by a notice published on the company's website and in a manner defined for providing current information by public companies. In case the General Meeting is convened by an entity or a body other than the Management Board on the basis of regulations of the Code of Commercial Companies, as convening a General Meeting of Shareholders requires the Management Board's cooperation, the Management Board shall be obligated to perform any activities required by law in order to convene, organize and conduct General Meetings of Shareholders that take place either at the Company's seat or in Warsaw.

General Meeting of Shareholders shall be opened by the Chairperson of the Supervisory Board, and in case he/she is absent the following persons shall be entitled to open the General Meeting of Shareholders in the given order: Vice Chairperson of the Supervisory Board, President of the Management Board, a person designated by the Management

Board or the shareholder who registered at the General Meeting of Shareholders such number of shares that provide the right to exercise the highest number of votes. Then, the chairperson of the General Meeting of Shareholders shall be elected from among persons entitled to participate in the General Meeting of Shareholders.

General Meeting of Shareholders shall pass resolutions irrespective of the number of shares represented at the Meeting, unless regulations of the Code of Commercial Companies, as well as provisions of the company's Articles of Association state otherwise. General Meeting of Shareholders may order a break in the meeting by the majority of two thirds of votes. The breaks shall not exceed 30 days in total.

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 of Shareholders

In accordance with the Company's Articles of Association the matters listed in the below table shall require a resolution of the General Meeting of Shareholders.

#### Competence of the General Meeting of Shareholders

Matters that require a resolution of the General Meeting of Shareholders
as of December 31, 2017 and as of the day of drawing up this report
<ol style="list-style-type: none"> <li>1. reviewing and approving the financial statements of the Company and the consolidated financial statements of TAURON Capital Group for the previous financial year for the previous financial year as well as the Management Board's report on the Company's operations (Directors' Report) and the Management Board's report on the operations of TAURON Capital Group</li> <li>2. granting the acknowledgement of the fulfillment of duties to the members of the Company's corporate bodies,</li> <li>3. profit distribution and coverage of loss,</li> <li>4. appointing and dismissing members of the Supervisory Board,</li> <li>5. suspending members of the Management Board in performance of their duties,</li> <li>6. establishing the amount of compensation for members of the Supervisory Board, subject to § 29 clause 4 of the company's Articles of Association,</li> <li>7. establishing the principles of determining compensation and the amount of compensation of members of the Management Board taking into account the provisions of the <i>law of June 9, 2016 on the principles of determining compensation of persons managing some companies</i>,</li> <li>8. selling and leasing out the company's enterprise or its organized part as well as establishing a limited proprietary right on them,</li> <li>9. concluding a credit, loan, surety agreement or any other similar agreement by the company with a member of the Management Board, Supervisory Board, proxy, liquidator or for the benefit of any such person. Concluding a credit, loan, surety or any other similar agreement by a subsidiary with a member of the Management Board, Supervisory Board, proxy, liquidator or for the benefit of any such person,</li> <li>10. increasing and decreasing the company's share capital,</li> <li>11. issuing convertible bonds or senior bonds as well as registered securities or bearer securities entitling their holder to subscribe or acquire the shares,</li> <li>12. purchasing of treasury shares in cases required by the regulations of the Code of Commercial Companies,</li> <li>13. mandatory redemption of shares (squeeze-out) in accordance with the provisions of art. 418 of the Code of Commercial Companies,</li> <li>14. setting up, using and liquidating reserve capitals,</li> <li>15. using supplementary capital,</li> <li>16. provisions related to claims to repair damage caused while establishing the company or serving on the management board or performing supervision,</li> <li>17. merger, transformation and division of the company,</li> <li>18. redemptions (retirements) of shares,</li> <li>19. amendment to the Articles of Association and change of the subject of the Company's operations,</li> <li>20. dissolving and liquidating the company.</li> </ol>

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

## Description of shareholders' rights and the manner of exercising thereof

Description of the Company's shareholders' rights related to the General Meeting of Shareholders in accordance with the Company's Articles of Association, Code of Commercial Companies and the *Regulations of the General Meeting of Shareholders of TAURON Polska Energia S.A.* is presented in the below table.

### Description of the shareholders' rights related to the General Meeting of Shareholders

#	Shareholders' rights	Description of shareholders' rights
1.	Convene a General Meeting of Shareholders	Shareholders representing at least one twentieth of the share capital, may request convening of an Extraordinary General Meeting of Shareholders. Such request should include a concise justification. It may be submitted to the Management Board in writing or in an electronic form, to the company's e-mail address, provided by the company on its website under the "Investor Relations" tab. Shareholders representing at least a half of the share capital or at least a half of all votes in the company may convene an Extraordinary General Meeting of Shareholders and appoint a chairperson of such General Meeting.
2.	Include matters (items) in the agenda of the General Meeting of Shareholders	Shareholders representing at least one twentieth of the share capital, may request that certain matters (items) be included in the agenda of the forthcoming General Meeting of Shareholders. Such request, including a justification or a draft resolution related to the proposed item of the agenda, should be submitted to the Management Board not later than 21 days prior to the set date of the General Meeting of Shareholders in electronic form to the company's e-mail address or in writing to the company's address.
3.	Become acquainted with the list of shareholders	Shareholders may become acquainted with the shareholders' list at the company's Management Board's seat for three weekdays preceding directly the General Meeting of Shareholders. Shareholders may also request that the list of shareholders be sent to them free of charge by electronic mail, providing the address to which the list should be sent.
4.	Participate in the General Meeting of Shareholders	Only persons who are Shareholders sixteen days before the date of the General Meeting of Shareholders (date of registering to participate in the General Meeting of Shareholders) shall have the right to take part in the General Meeting of Shareholders. In order to participate in the General Meeting shareholders should submit a request to issue a name bearing affidavit on the right to take part in the General Meeting of Shareholders to an investment (brokerage) company running their securities account. Such request should be submitted not earlier than following the announcement on convening of the General Meeting of Shareholders and not later than on the first weekday following the day of registering the participation in the General Meeting of Shareholders.
5.	Represent a shareholder by a proxy	Shareholders may take part in the General Meeting of Shareholders as well as exercise the voting right in person or through a proxy. Shares' co-owners may take part in the General Meeting of Shareholders and exercise the voting right only through a joint representative (proxy). A proxy may represent more than one shareholder and vote differently based on shares of each shareholder..
6.	Elect the Chairperson of the General Meeting of Shareholders	Shareholders shall elect the Chairperson of the General Meeting of Shareholders from among the persons entitled to take part in the General Meeting of Shareholders. Each of the participants of the General Meeting of Shareholders shall have the right to propose one candidate for the post of the Chairperson. Chairperson shall be elected by a secret ballot, by an absolute majority of votes. In case there is just one candidate for the Chairperson, election can take place by acclamation.
7.	Elect the Returning Committee	Each shareholder may propose no more than three candidates for members of the Returning Committee to be elected by the General Meeting of Shareholders, and vote for three candidates maximum.
8.	Submit a draft resolution	During the General Meeting of Shareholders a shareholder shall have the right, until the discussion on a certain item of the agenda is closed, to submit a proposal of changes to the content of a draft resolution proposed for adoption by the General Meeting of Shareholders, as part of the given item of the agenda, or put forward his/her own draft of such resolution. Proposals of changes or draft resolutions, including justifications, may be submitted in writing to the Chairperson or verbally to be recorded in the minutes of the meeting.
9.	Raise an objection	Shareholders who voted against a resolution and, after the General Meeting of Shareholders has adopted it, want to raise their objection, should, immediately after the results of the voting have been announced, raise their objection and request it be included in the minutes of the meetings before proceeding to the next item of the agenda. In case such objection is raised later, which however shall not take place later than by the time the General Meeting of Shareholders is closed, the shareholders shall indicate against which resolution passed by the General Meeting they are raising their objection. Shareholders raising their objection against a resolution of the General Meeting may request their concise justification of the objection be recorded in the minutes of the meeting.



## **11. Composition of the Company's managing and supervising bodies and their committees, its changes, description of operation**

### **11.1. Management Board**

The current, fifth term of office of the Management Board began its run on March 16, 2017, i.e. on the day of appointing the Management Board of the Company for the fifth common term of office. In accordance with the Company's Articles of Association the common term of office shall last 3 years.

#### **Composition of the Management Board as of December 31, 2017 and as of the day of drawing up 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 Customer and Corporate Support,
4. Marek Wadowski - Vice-President of the Management Board for Finance.

#### **Changes to the Management Board's composition in 2017 and in the period up to the day of drawing up this report**

As of January 1, 2017 the Management Board was composed of the following members: Filip Grzegorzczuk (President of the Management Board), Jarosław Broda (Vice-President of the Management Board), Kamil Kamiński (Vice-President of the Management Board), Marek Wadowski (Vice-President of the Management Board) and Piotr Zawistowski (Vice-President of the Management Board).

On March 15, 2017 the Company's Supervisory Board dismissed, effective as of the end of day on March 15, 2017, all members of the Company's Management Board. On the same day Piotr Zawistowski up to then performing the function of Vice-President of the Management Board for Customer and Trade provided the Supervisory Board with the information on the resignation from applying for being selected to be a member of TAURON's Management Board of the 5<sup>th</sup> common term of office. The other members of the Management Board were appointed as of March 16, 2017 to the Company's Management Board of the 5<sup>th</sup> common term of office.

There were no other changes to the composition of the Management Board by the day of publishing this report

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



##### ***Filip Grzegorzczuk - President of the Management Board***

A graduate of the Faculty of Law and Administration and the Faculty of International and Political Studies of the Jagiellonian University in Cracow where he obtained a PhD degree in the EU law, and then a post-PhD degree in the business law.

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

He has broad professional experience in the energy and fuel sector. In 2011-2013 he was associated with Kompania Węglowa as a management board proxy for energy sector development at Kompania Węglowa S.A. In 2007-2008 he was a member of the Management Board of TAURON. From November 2015 he served as the Undersecretary of State at the Ministry of State Treasury. He speaks fluent English and French.

He has been holding the position of the President of the Management Board of TAURON Polska Energia S.A. since November 15, 2016. He is currently overseeing the following areas of the operations: strategic management and regulatory solutions, relationships with the environment (stakeholders), legal support and investor relations, risk management, legal and internal audit, security and compliance as well as human resources development and social dialogue policy.



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

A graduate of the Warsaw School of Economics, a holder of a postgraduate diploma in project management from the Kozmiński University.

He has experience in the area of consolidation and operation of the energy sector, privatization of state-owned utility groups, developing processes associated with the restructuring and strategy building as well as energy entities' expansion projects.

Since the beginning of his professional career he has been associated with the energy sector's 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 developing the company's expansion strategy, regulatory management and M&A projects. He was also involved in developing the sales and marketing expansion strategy in Europe. Since mid-2015 he was responsible for developing the commercial strategy and the contract for difference related to the nuclear project in Great Britain.

He has been holding the position of the Vice-President of the Management Board of TAURON Polska Energia S.A. since December 8, 2015. He is currently overseeing the following areas of the operations: asset management, research and innovation, investment projects and programs as well as occupational health and safety.



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

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

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

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 the consolidation of electricity and heat generation assets of Kompania Węglowa and Węglukoks. At that time he was the head of the Management Committee. Previous professional experience includes, among others, work at the Research and Development Centre of the Refining Industry (OBR) in Płock or Jan Paweł II International Cracow-Balice Airport. 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 the aviation fuel segment which resulted in the *joint venture* with Air BP Ltd. and the establishment of Lotos Air BP.

He has been holding the position of the Vice-President of the Management Board of TAURON Polska Energia S.A. since December 8, 2015. He is currently overseeing the following areas of the operations: corporate management, human resources, marketing strategy and customer relations, IT systems functioning and management, personal data protection as well as procurement and administration.



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

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

He has professional experience in the field of financial, controlling and accounting process management in industry (power sector, mining, steel industry), as well as in financing of investment projects and international commercial transactions. He was involved in the implementation of the *due diligence* projects and valuations of many enterprises (using income-based, equity and comparison valuation methods).

From the beginning of his professional career he was associated with the energy, mining and steel sector entities, acting

in the capacity of the President or the Vice-President of the Management Board and holding senior managerial positions. He gained his professional experience working at BRE Corporate Finance S.A., Huta Cynku Miasteczko Śląskie S.A. and at Jastrzębska Spółka Węglowa S.A. Capital Group's subsidiaries. From 2008, acting in the capacity of the Vice-President of the Management Board in charge of the financial division at Jastrzębska Spółka Węglowa S.A. Capital Group's subsidiaries, he was responsible, inter alia, for structuring commercial transactions, implementing the foreign exchange risk hedging policy, financial costs reduction, liquidity management, acquiring funds from the consortium of banks in the form of a bond issue program. He was also involved in the IPO of JSW S.A. (implementation of the International Accounting Standards, modification of the management information system, preparing the IPO prospectus, talks with investors). He held the position of the President of the Management Board at Towarzystwo Finansowe Silesia where he was involved in the bond issue program for Kompania Węglowa and was dealing with the acquisition of debt financing from the consortium of banks.

He has been holding the position of the Vice-President of the Management Board of TAURON Polska Energia S.A. since January 29, 2016. He is currently overseeing the following areas of the operations: finance and insurance policy, controlling and planning, analyses, accounting and tax policy. Additionally, until the Vice-President of the Management Board for Commercial Affairs is appointed, he also oversees the following areas: electricity and property rights trading, fuel trading, portfolio management and electricity trading, finance, controlling, business analyses, accounting and taxes, risk and IT.

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

### **Description of the operations**

Management Board of the company shall act on the basis of the Code of Commercial Companies and other legal regulations, provisions of the company's Articles of Association and provisions of the *Bylaws of the Management Board of TAURON Polska Energia Spółka Akcyjna with its seat in Katowice* which are available on the company's website <http://www.tauron.pl/>. When performing their duties members of the Management Board shall be acting in accordance with the principles included in Best Practice 2016.

2 members of the Management Board or one member of the Management Board together with a proxy shall be entitled to make valid statements on behalf of the Company. In case the Management Board includes one person, one member of the Management Board or a proxy shall be entitled to make valid statements on behalf of the Company.

Meetings of the Management Board shall be convened by the President of the Management Board or a Vice President of the Management Board designated thereby. Meetings of the Management Board shall also be convened on the motion of the majority of Vice Presidents of the Management Board as well as on the motion of the Chairperson of the Supervisory Board. The meetings shall be held at the company's seat on the date set by the person that convened the meeting. In justified cases the Management Board's meetings may be held outside the company's seat. The President of the Management Board or a Vice President of the Management Board designated thereby shall chair the meetings of the Management Board.

Management Board shall vote in an open ballot. The result of the ballot shall be recorded in the minutes of the meeting. President of the Management Board shall order a secret ballot at the request of any Vice President of the Management Board.

Resolutions of the Management Board shall be passed by an absolute majority of votes in the presence of 3/5 of the members of the Management Board. In case of an equal number of votes the President of the Management Board shall have a casting vote. Management Board may pass resolutions by voting in writing or using means of direct remote communications. Voting in accordance with the above procedures shall be ordered by the President of the Management Board or a Vice President of the Management Board designated thereby, including setting the deadline for casting votes by members of the Management Board. Submission of a dissenting opinion shall be allowed. Such dissenting opinion shall be recorded in the minutes of the meeting, including the justification thereof. Decisions of the Management Board related to ongoing issues that do not require passing of a resolution shall be recorded solely in the minutes of the meeting.

In case there are fewer members of the Management Board than the foreseen number of divisions (areas of responsibility), members of the Management Board may combine performing duties related to managing two divisions or introduce a different split of competences that would not be in conflict with the assignment of competences made by the Supervisory Board.

The internal division, among members of the Management Board, of the tasks and responsibilities for the individual areas of the Company's operations (Divisions) defined in the *Organizational Regulations of TAURON Polska Energia S.A.* and including the independent work positions (jobs) as well as organizational units reporting to the individual Members of the Management Board and supervised thereby, shall be defined by the above Organizational Regulations, while the diagram



showing the above mentioned division is published on the Company's website.

The structure of the divisions reporting to the individual Members of the Management Board is defined on the diagram (flowchart) of the Company's organizational structure, described in section 8.1.2. of this report.

### **11.2. Supervisory Board**

The current, fifth term of office of the Supervisory Board, began on May 29, 2017, i.e. on the day of holding the Ordinary GM of the Company approving the financial statements for the last full financial year of the tenure of the members of the Supervisory Board of the fourth term, i.e. for the financial year 2016. In accordance with the Company's Articles of Association it shall be a common term of office and it shall last for 3 years.

#### **The composition of the Supervisory Board as of December 31, 2017 and as of the date of drawing up this report**

- |    |                                |  |
|----|--------------------------------|--|
| 1. | Beata Chłodzińska              | - Chair of the Supervisory Board,        |
| 2. | Teresa Famulska                | - Deputy Chair of the Supervisory Board, |
| 3. | Jacek Szyke                    | - Secretary of the Supervisory Board,    |
| 4. | Radosław Domagalski - Łabędzki | - Member of the Supervisory Board,       |
| 5. | Katarzyna Łasak- Jarszak       | - Member of the Supervisory Board,       |
| 6. | Paweł Pampuszko                | - Member of the Supervisory Board,       |
| 7. | Jan Płudowski                  | - Member of the Supervisory Board,       |
| 8. | Agnieszka Woźniak              | - Member of the Supervisory Board.       |

#### **Changes to the Supervisory Board's membership in 2017**

As of January 1, 2017 the Supervisory Board was composed of the following members: Beata Chłodzińska (Chair of the Supervisory Board), Anna Mańk (Vice-Chair of the Supervisory Board), Jacek Szyke (Secretary of the Supervisory Board), Stanisław Bortkiewicz (Member of the Supervisory Board), Leszek Koziorowski (Member of the Supervisory Board), Jan Płudowski (Member of the Supervisory Board), Jacek Rawecki (Member of the Supervisory Board), Stefan Świątkowski (Member of the Supervisory Board) and Agnieszka Woźniak (Member of the Supervisory Board).

On May 25, 2017 Jacek Rawecki submitted a statement on the resignation, as of May 26, 2017, from the function of a member of the Company's Supervisory Board.

On May 29, 2017 the State Treasury, acting within its personal powers defined in § 23, clause 1, sections 1) and 3) of the Company's Articles of Association, appointed the following persons to be the members of the Company's Supervisory Board of the 5th common term of office: Beata Chłodzińska, Teresa Famulska, Barbara Katarzynę Łasak-Jarszak, Jan Płudowski i Agnieszka Woźniak.

On May 29, 2017 the Ordinary GM of the Company appointed the following persons to be the members of the Company's Supervisory Board of the 5th common term of office: Radosław Domagalski – Łabędzki, Paweł Pampuszko and Jacek Szyke.

There were no other changes to the composition of the Supervisory Board by the day of publishing this report.

#### **Information on the independence of members of the Supervisory Board as of December 31, 2017**

The independence requirements defined in the Best Practice and Appendix II to the *European Commission's Recommendation of February 15, 2005 related to the role of non-executive directors or members of a supervisory board of publicly listed companies and a supervisory board's committee* (2005/162/EC) are met by the following members of the Supervisory Board:

- 1) Teresa Famulska,
- 2) Barbara Łasak-Jarszak,
- 3) Paweł Pampuszko,
- 4) Jan Płudowski,
- 5) Jacek Szyke.

The other members of the Supervisory Board do not meet the independence requirements defined in the Best Practice.

As of the day of drawing up this report a member of the Supervisory Board, Beata Chłodzińska, met the independence requirements defined in the Best Practice.

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

#### ***Beata Chłodzińska - Chair of the Supervisory Board***

A graduate of the Faculty of Law and Administration of the Warsaw University. She is a licensed legal counsel.

In 2001-2016 she was associated with the Ministry of State Treasury where she was providing legal services, most recently as the Deputy Director at the Legal and Litigation Department. She is currently working at PKN Orlen S.A. in the legal area.

She gained professional experience associated with supervising the operations of the State Treasury owned companies by, among others, holding seats on the supervisory boards of the following companies: Polska Agencja Prasowa S.A. with its seat in Warsaw, Centrum Techniki Okrętowej S.A. with its seat in Gdańsk, Chemia Polska sp. z o.o. with its seat in Warsaw, Międzynarodowa Korporacja Gwarancyjna sp. z o.o. with its seat in Warsaw.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since August 12, 2015. In the Supervisory Board of the 5th common term of office she is the Chair of the Supervisory Board, the Head of the Nominations and Compensation Committee of the Supervisory Board, as well as a member of the Audit Committee of the Supervisory Board and a member of the Strategy Committee of the Supervisory Board.

#### ***Teresa Famulska - Deputy Chair of the Supervisory Board***

A graduate of the University of Economics in Katowice, a Professor of economics appointed by the President of the Republic of Poland at the request of the Board of the Faculty of Finance and Insurance of the University of Economics in Katowice.

She has been associated with the University of Economics in Katowice since 1981. She is currently the Head of the Public Finance Department holding the full Professor's position. In 1998-2013 she was working at the School of Banking and Finance, recently as a dean, holding the full Professor's position.

An author of approximately 150 domestic and foreign publications in the field of finance, mainly public finance (including taxes and tax systems) and corporate finance. Apart from academic work she is continuously involved in business practice, participating, among others, in several dozen science and research projects. She conducts numerous lectures and training courses for the finance and management personnel of enterprises and for the tax authorities staff as part of the post-graduate studies and in cooperation with, among others, the Polish Economic Society (Polskie Towarzystwo Ekonomiczne) and the Accountants Association in Poland (Stowarzyszenie Księgowych w Polsce). Since 2007 she has been working at the State Examination Commission on Tax Advisory Services, where she has been the Head of the Commission since 2010. Since 2007 a member of the Financial Education Committee of the Polish Academy of Science, where she was a member of the Board of the Committee in 2011-2015. Furthermore, she is a member of the Main Board of the Polish Finance and Banking Association (Zarząd Główny Polskiego Stowarzyszenia Finansów i Bankowości), International Fiscal Association, Center for Information and Organization of Public Finance and Tax Law Research of Central and Eastern European Countries (Centrum Informacji i Organizacji Badań Finansów Publicznych i Prawa Podatkowego Krajów Europy Środkowej i Wschodniej) and Polish Economic Society (Polskie Towarzystwo Ekonomiczne).

She was awarded the following orders and accolades: Silver Cross of Merit (Srebrny Krzyż Zasługi), Silver Medal for Long-term Service (Srebrny Medal za Długoletnią Służbę), Medal of the Commission of National Education (Medal Komisji Edukacji Narodowej), awards of the Minister of National Education and of the President of the University of Economics in Katowice.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2015. In the Supervisory Board of the 5th common term of office she is the Vice-Chair of the Supervisory Board and the Head of the Audit Committee of the Supervisory Board

#### ***Jacek Szyke - Secretary of the Supervisory Board***

A graduate of Faculty of Economics of Łódź University and of the Faculty of Electric Engineering of the Technical University in Poznań where he also obtained a PhD in technical science.

He has yearslong professional experience associated with the utility scale power industry where he climbed up all levels of the career ladder, starting with an intern, through foreman, Head of the Safety and Instrumentation and & Control Department (Zakład Energetyczny Kalisz and Łódź), Engineer On Duty Responsible for the Operation (Elektrociepłownia Łódź), up to the position of the Chief Engineer (Zakład Energetyczny Łódź and Płock) and General Manager (Zakład Energetyczny Płock and Elektrociepłownia Siekierki). He also worked as the Contract Manager in Libya. The owner and President of the JES ENERGY consulting company.

State orders awarded: Golden Cross of Merit (Złoty Krzyż Zasługi), Knight's Order (Krzyż Kawalerski). Industry orders awarded: Distinguished for the following sectors: Power, Construction, Communications, Firefighting, Culture and Heat industry.

The author of more than 100 articles, publications and books, including: "Wspomnienia o tradycji i zwyczajach pracy w energetyce" (Memories of traditions and customs related to working in the power utilities sector), "O energetyce z sentymentem" (About electric utilities sector with a sentiment), "Historia Polskiej Elektroenergetyki" (History of Poland's Power Industry), "Złota Księga Elektroenergetyki" (Golden Book of Power Industry), "Grupa TAURON - monografia" (TAURON Group – monograph).

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since September 14, 2010. In the Supervisory Board of the 5th common term of office he is the Secretary of the Supervisory Board and the Head of the Strategy Committee of the Supervisory Board as well as a member of the Audit Committee of the Supervisory Board.

***Radosław Domagalski - Łabędzki - Member of the Supervisory Board***

A graduate of Łódź University (master's degree in law). Completed Executive MBA studies at Rutgers University in New Jersey. Visiting fellow at the German Munster and Mannheim Universities.

A manager with a broad practical experience in managing complex international business projects. He prepared and effectively implemented an expansion strategy in Asia for one of Poland's largest capital groups.

In 2006-2013 the President of the Management Board of Magellan Trading Shanghai Co. Ltd in China. Prior to that he worked as a lawyer at GSP Group Sp. z o.o. in Łódź, and also at American Enterprise Institute in Washington – one of the largest American think-thanks.

Between December 2015 and October 2016 the Undersecretary of State at the Ministry of Development, responsible, among others, for promoting the Polish economy, a member of the Financial Supervision Commission (Komisja Nadzoru Finansowego).

Since October 2016 until March 10, 2018 he was the President of the Management Board of KGHM Polska Miedź S.A.

Co-founder of the Polish-Chinese Chamber of Industry and Commerce in Shanghai. An author of many business publications.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2017. In the Supervisory Board of the 5th common term of office he is a member of the Audit Committee of the Supervisory Board.

***Barbara Katarzyna Łasak - Jarszak - Member of the Supervisory Board***

A graduate of the Faculty of Law and Administration of the Warsaw University.

Between January 1997 and February 2017 she was working at the Legal Department of the Ministry of State Treasury. Between April 1998 and February 2017 she headed an organizational unit of the Legal Department providing legal services for the Ministry. Since March 1 2017 the Head of the State Property and Finance Division of the State Treasury Department of the Chancellery of the Prime Minister where she is dealing with, among others, with the issues related to the new principles of managing the state owned property.

In 1999-2001 a member of the Disciplinary Commission of the Ministry of State Treasury. In 1999-2005 deputy public finance auditor for the Minister of State Treasury.

He has yearslong professional experience of holding seats on supervisory boards of State Treasury owned companies, including: ZPP "Lenora" sp. z o.o., Koneckie Zakłady Odlewnicze S.A., Uzdrowisko Busko-Zdrój S.A., ŚWWG Polmos S.A., Stocznia Gdynia S.A., Archimedes S.A., PSO "Maskpol" S.A., ZG "Dom Słowa Polskiego" S.A. in liquidation, Fundusz Rozwoju Spółek S.A., Zakłady Mięsne Nisko S.A.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2017. In the Supervisory Board of the 5th common term of office she is a member of the Nominations and Compensation Committee of the Supervisory Board.

***Paweł Pampuszko - Member of the Supervisory Board***

A graduate of the Faculty of Law and Administration of the University of Silesia in Katowice, a lawyer entered on the list of lawyers maintained by the Solicitors Regulation Authority (Izba Adwokacka) in Katowice.

During his yearslong professional career he gained significant experience with respect to negotiating contracts as part of major industrial and business undertakings, and also preparing and conducting significant court disputes where it was necessary to become familiar with non-legal specialist issues and close cooperation with specialists in other fields. He was also actively involved in identifying and eliminating deficiencies in the operations of the corporations' authorities.

He gained professional experience related to providing legal services for business entities by working in 2005-2009, among others, at Kancelaria Biura Prawne Babula i Wspólnicy sp. k., Kancelaria Adwokatów i Radców Prawnych Ślęzak, Zapiór & Partnerzy, SILEGE S.C. and Woszym Technologies sp.j. In 2009-2011 he was running his own legal practice. Since 2011 till now he has been a founding partner at law firm Kuś-Zielińska, Pampuszko i Wspólnicy – Adwokaci i Radcy Prawni sp.j.

He was a member of supervisory authorities in the non-government organizations and corporations: CHK S.A. and Medicina Pro Humana Foundation.

He is an author of publications on medical law.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2017. In the Supervisory Board of the 5th common term of office he is a member of the Strategy Committee of the Supervisory Board.

#### **Jan Piudowski - Member of the Supervisory Board**

A graduate of the Faculty of Electric Engineering of the Silesian University of Technology in Gliwice. He also completed post-graduate studies at the Faculty of Electric Engineering of the Gdańsk University of Technology, at the University of Economics (formerly K. Adamiecki Academy of Economics) in Katowice in the field of corporate finance management and at the Faculty of Management and Services Economics of the University of Szczecin in the field of marketing and corporate management.

Professionally associated with the power sector, he gained professional experience by climbing up all levels of the career ladder. He was working, among others, as the Regional Chief Power Engineer (PKP Śląska Dyrekcja Okręgowa Kolei Państwowych (Polish State Railways' Silesian Regional Board) in Katowice), Director of Zakład Energetyki Kolejowej (Railways' Power Unit) in Katowice and the Head of the Power Management Department (PKP Dyrekcja Energetyki Kolejowej (Polish State Railways' Power Unit Board) in Warsaw), Director of the Cash Flow Office ("PKP Energetyka" sp. z o.o. in Warsaw). He is currently holding the position of the Project Coordinator Director at "PKP Energetyka" S.A. in Warsaw.

In 2007-2008 he was a member of the Supervisory Board of Spółka Energetyczna Jastrzębie S.A.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since December 30, 2016. In the Supervisory Board of the 5th common term of office he is a member of the Audit Committee of the Supervisory Board and a member of the Strategy Committee of the Supervisory Board.

#### **Agnieszka Woźniak - Member of the Supervisory Board**

A graduate of the Faculty of Law and Administration of the UMCS University in Lublin. A lawyer by education.

In 2001-2015 she worked at the Ministry of Economy where she climbed up all levels of the career ladder, starting from a referendary, through the positions of a specialist, chief specialist, head of division, deputy director and director. Since 2005 an appointed civil servant. She has been associated with the Ministry of Energy since it was formed, i.e. since November 2015, where she is currently holding the position of the Director of the Minister's Office.

She has yearslong experience in personnel management. She was dealing with matters related to audits, organizational affairs of the office, public procurement, personnel issues. She was also holding the position of the Plenipotentiary of the General Director for the Integrated Management System.

She has experience related to supervising the operations of State Treasury owned companies. Between January 2009 and June 2014 a member of the Supervisory Board of Węglukoks S.A. with its seat in Katowice.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since December 16, 2016. In the Supervisory Board of the 5th common term of office she is a member of the Nominations and Compensation Committee of the Supervisory Board and a member of the Strategy Committee of the Supervisory Board.

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

#### **Description of the operations**

Detailed description of the Supervisory Board's operations is provided in the Code of Commercial Companies, the company's Articles of Association which are available on the company's website <http://www.tauron.pl/> and in the *Regulations of the Supervisory Board of TAURON Polska Energia S.A. with its seat in Katowice*.

The main form of the Supervisory Board overseeing the Company's operations shall be the meetings of the Supervisory Board. Supervisory Board shall perform its obligations collectively. Meetings of the Supervisory Board shall be convened by the Chairperson of the Supervisory Board or Vice Chairperson of the Supervisory Board by presenting a detailed agenda:

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

Meetings of the Supervisory Board shall be held at the Company's seat. In justified cases a meeting may be convened at a different venue.

In order to convene a meeting all members of the Supervisory Board must be invited in writing at least 7 days before the date of the Supervisory Board's meeting. For important reasons the Chairperson of the Supervisory Board may shorten this period to 2 days, defining the way the invitations should be distributed. Notifications of the Supervisory Board's meeting shall be sent by fax or electronic mail and confirmed by phone. In the notification of the Supervisory Board's meeting the Chairperson shall define the date of the meeting, venue of the meeting and the detailed draft agenda. Supervisory Board shall meet on as needed basis, however not less frequently than once every 2 months. Supervisory Board may hold meetings without convening a formal meeting if all members of the Supervisory Board are present and nobody objects against the fact of holding the meeting or against the agenda.

A change of the proposed agenda may occur when all members of the Supervisory Board are present at the meeting and no one raises an objection against the agenda. An issue not included in the agenda should be included in the agenda of the next meeting.

Participation in a meeting of the Supervisory Board shall be a Supervisory Board member's duty. A member of the Supervisory Board shall provide information on the reason for his/her absence in writing. Excusing an absence of a member of the Supervisory Board shall require a resolution of the Supervisory Board. Members of the company's Management Board may take part in the Supervisory Board's meetings unless the Supervisory Board raises an objection. Participation of the Management Board's members in the Supervisory Board meetings shall be mandatory if they have been invited by the Chairperson of the Supervisory Board. Other persons may also take part in the meetings if they have been invited in the above mentioned way.

Supervisory Board may seek opinions of legal counsels who provide 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 seek their opinion and make the right decision. In the above mentioned cases the Supervisory Board shall pass a resolution on commissioning the selected expert (auditing, consulting company) to carry out the work, obligating the Company's Management Board to conclude an applicable 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. For important reasons, with the consent of the majority of members of the Supervisory Board present at the meeting, the chairperson chairing the meeting shall be obligated to subject to a vote a motion to interrupt the meeting and set the date of resuming the meeting of the Supervisory Board. Supervisory Board shall make decisions in the form of resolutions. Supervisory Board's resolutions shall be passed mainly at its meetings. Supervisory Board shall pass resolutions if at least half of its members are present at the meeting and all its members have been invited in the appropriate way defined in the Regulations. Subject to the mandatory legal regulations in force, including the Code of Commercial Companies and the provisions of the company's Articles of Association, the Supervisory Board shall pass resolutions by an absolute majority of votes of the persons present at the meeting where the absolute majority of votes shall be understood as more votes cast "for" than "against" and "abstain". Resolutions shall not be passed on matters not included in the agenda unless all members of the Supervisory Board are present and nobody raises an objection. This shall not apply to resolutions on excusing a Supervisory Board's member's absence at the meeting. Resolutions shall be voted on in an open ballot. A secret ballot shall be ordered:

- 1) at the request of at least one member of the Supervisory Board,
- 2) in personnel related matters.

In accordance with the company's Articles of Association the Supervisory Board may pass resolutions in writing or using means of direct remote communications. Passing a resolution in such way shall require a prior notification of all members of the Supervisory Board of the content of the draft resolution. Passing resolutions this way shall not apply to appointing the Chairperson, the Vice Chairperson and the Secretary of the Supervisory Board, appointing or suspending from office a member of the Management Board and dismissing these persons, as well as other matters that require a secret ballot vote. When voting on a resolution in the aforementioned way a member of the Supervisory Board shall indicate his/her vote, i.e. "for", "against" or "abstain". In case a member of the Supervisory Board fails to indicate his/her vote by the time defined by the Chairperson the resolution shall not be passed. A resolution with a note that it has been passed in writing or by voting using means of direct remote communications shall be signed by the Chairperson of the Supervisory Board.

Resolutions passed this way shall be presented at the forthcoming meeting of the Supervisory Board along with the result of the voting.

Members of the Supervisory Board shall be allowed to take part in the meeting and vote on resolutions during such meeting using means of direct remote communications, i.e. a conference call or a video conference, subject to a proviso that at least half of its members are present at the meeting's venue indicated in the notification of the meeting and a secure communications link is technically possible.

Members of the Supervisory Board shall take part in meetings and exercise their rights and responsibilities in person, and while performing their duties they shall be obliged to act with due diligence. Members of the Supervisory Board shall be obliged to keep confidential information related to the company's activities that they have acquired in connection with holding their seat or on another occasion. Supervisory Board shall perform its activities collectively.

Supervisory Board may, for important reasons, delegate its individual members to perform certain supervision actions on their own for a defined period of time. Supervisory Board may delegate its members, for a period not longer than three months, to temporarily perform duties of members of the Management Board who have been dismissed, submitted their resignation or if for other reasons they cannot perform their functions. The above mentioned delegation shall require obtaining a consent of the member of the Supervisory Board who is to be delegated.

The detailed description of the activities of the Supervisory Board in the last financial year is provided in the Report on the Activities of the Supervisory Board, submitted on annual basis to the General Meeting of Shareholders and then published on the company's website <http://www.tauron.pl/>.

Supervisory Board may appoint from among its members permanent or temporary (ad-hoc) working groups, committees to perform specific actions. Supervisory Board's standing committees shall be:

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

Membership, tasks and rules of operation of the above mentioned committees shall be defined in the regulations thereof passed by the Supervisory Board.

### **11.3. Audit Committee**

Due to the changes to the membership of the Supervisory Board of the Company introduced in 2017, the Supervisory Board also made changes to the membership of the Audit Committee.

#### **Members of the Audit Committee as of December 31, 2017 and as of the day of drawing up this report**

- |                                 |                                  |
|---------------------------------|----------------------------------|
| 1. Teresa Famulska              | - Head of the Audit Committee,   |
| 2. Beata Chłodzińska            | - Member of the Audit Committee, |
| 3. Radosław Domagalski-Łabędzki | - Member of the Audit Committee, |
| 4. Jan Płudowski                | - Member of the Audit Committee, |
| 5. Jacek Szyke                  | - Member of the Audit Committee. |

#### **Changes to the Audit Committee's membership**

As of January 1, 2017 the Audit Committee was composed of the following members: Beata Chłodzińska (Head of the Audit Committee), Jacek Rawecki and Jacek Szyke.

On January 30, 2017 the Supervisory Board appointed the following members of the Audit Committee: Stanisław Borkiewicz and Jan Płudowski. On the same day the Audit Committee elected, from among its members, Stanisław Borkiewicz as the Head of the Audit Committee.

On May 25, 2017 Jacek Rawecki submitted a statement on the resignation, as of May 26, 2017, from the function of a member of the Company's Supervisory Board. Consequently, his membership in the Audit Committee also expired.

On May 29, 2017, due to the end of the 4th term of the Supervisory Board mandates of members of the Supervisory Board expired and consequently their membership in the Audit Committee expired.

On June 20, 2017, due to the appointment, as of May 29, 2017, of members of the Supervisory Board of the 5th term, the Supervisory Board appointed the Audit Committee with the following members: Beata Chłodzińska, Radosław Domagalski - Łabędzki, Teresa Famulska, Jan Płudowski and Jacek Szyke. On the same day the Audit Committee, during the first meeting of the 5th term, elected Teresa Famulska as the Head of the Audit Committee.

No other changes to the membership of the Audit Committee had been made as of the day of disclosing this report.

### Information on the independence of members of the Audit Committee as of December 31, 2017

The membership (composition) of the Audit Committee is in compliance with the requirements defined in the *law of May 11, 2017 on certified auditors, audit companies and public supervision*. The evaluation of independence and the statutory requirements with respect to the knowledge and skills of the individual members of the Audit Committee was made by the Supervisory Board Rada based on the relevant statements submitted by the members of the Audit Committee. Three members of the Audit Committee comply with the statutory requirements related to independence, including the Head of the Audit Committee who also has knowledge and skills in the field of accounting and auditing financial statements. Two members of the Audit Committee: Jacek Szyke and Jan Płudowski, knowledge and skills in the field of energy, i.e. the Company's industry.

The independence requirements defined for the members of the Audit Committee by the above law are met by the following members of the Audit Committee:

- 1) Teresa Famulska,
- 2) Jan Płudowski,
- 3) Jacek Szyke.

The other members of the Audit Committee do not meet the independence requirements defined by the above law.

As of the day of drawing up this report a member of the Supervisory Board, Beata Chłodzińska, met the independence requirements defined by the above law.

### Tasks and competence of the Audit Committee

The tasks and competence of the Audit Committee with the coming into force on June 21, 2017 of the law of May 11, 2017 on certified auditors, audit companies and public supervision, have been verified and aligned with the current legal regulations in force and adopted by the Supervisory Board at the motion of the Audit Committee in the form of the new Regulations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.

The tasks and competence of the Audit Committee as of the day of drawing up this report are presented in the below table.

#### Competence of the Audit Committee

##### Competence of the Audit Committee

##### as of December 31, 2017 and as of the day of drawing up this report

1. monitoring:
  - 1) the Company's financial reporting process,
  - 2) the effectiveness of internal control, risk management, compliance and internal audit systems, including with respect to the financial reporting,
  - 3) monitoring of performing of financial revisions, in particular performing of an audit by an audit company, taking into account any conclusions (motions) and arrangements of the Audit Supervision Committee stemming from an audit (inspection) performed at an audit company,
2. controlling and monitoring of independence and impartiality of the chartered accountant (certified auditor) and the entity entitled to examine financial statements, including rendering by them services other than financial audit, monitoring the independence of a certified auditor and audit company, in particular in case other services than an audit are provided for the benefit of the Company,
3. performing the evaluation of independence of the certified auditor and expressing consent for performing by him of permitted services not constituting the audit within the Company,
4. developing the policy for selecting the auditing company to perform the audit,
5. developing a policy of performing by the auditing company performing the audit, entities related with the auditing company and members of the auditing company's corporate network of permitted services not constituting the audit,
6. defining the procedure for selecting the auditing company by the Company,
7. presenting to the Supervisory Board of recommendation for selection of the auditing company responsible for performing the statutory audit or review of financial statements, as required under Art. 130 Paras 2 and 3 of the *Act of 11 May 2017 on certified auditors, auditing companies and public oversight* and in Art. 16.2 *Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC*, in line with policies referred to above in items 4 and 5,
8. informing the Supervisory Board of audit results and explaining as to who did the audit contribute to trustworthiness of financial reporting in the Company, and also what was the role of the Audit Committee in course of the audit,
9. presenting recommendations aimed at ensuring reliability of the financial reporting process within the Company,
10. performing other activities vested with audit committees pursuant to *Act of 11 May 2017 on certified auditors, auditing companies and public oversight, Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC and Act of 29 September 1994 - the Accounting Act*.

The detailed description of the activities of the Audit Committee in the last financial year is provided in the report on the activities of the Supervisory Board submitted on annual basis to the General Meeting of Shareholders and published on the Company's website <http://www.tauron.pl/>.

#### 11.4. Nominations and Compensation Committee

Due to the changes to the membership of the Supervisory Board of the Company introduced in 2017, the Supervisory Board also made changes to the membership of the Nominations and Compensation Committee

##### Members of the Nominations and Compensation Committee as of December 31, 2017 and as of the day of drawing up this report

1. Beata Chłodzińska - Head of the Nominations and Compensation Committee,
2. Barbara Łasak - Jarszak - Member of the Nominations and Compensation Committee,
3. Agnieszka Woźniak - Member of the Nominations and Compensation Committee.

##### Changes to the Nominations and Compensation Committee's membership

As of January 1, 2017 the Nominations and Compensation Committee was composed of the following members: Beata Chłodzińska (Head), Leszek Koziorowski i Agnieszka Woźniak.

On May 29, 2017, due to the end of the 4th term of the Supervisory Board mandates of members of the Supervisory Board expired and consequently their membership in the Nominations and Compensation Committee expired.

On June 20, 2017, due to the appointment, as of May 29, 2017, of members of the Supervisory Board of the 5th term, the Supervisory Board appointed the Nominations and Compensation Committee with the following members: Beata Chłodzińska, Barbara Łasak - Jarszak and Agnieszka Woźniak. On the same day the Nominations and Compensation Committee, during the first meeting of the 5th term, elected Beata Chłodzińska as the Head of Nominations and Compensation Committee.

No other changes to the membership of the Nominations and Compensation Committee had been made as of the day of disclosing this report.

##### Tasks and competence of the Nominations and Compensation Committee

The tasks and competence of the Nominations and Compensation Committee did not change in 2017.

The tasks and competence of the Nominations and Compensation Committee as of December 31, 2017 and as of the day of drawing up this report are presented in the below table.

##### Competence of the Nominations and Compensation Committee

Competence of the Nominations and Compensation Committee	
as of December 31, 2017 and as of the day of drawing up this report	
1.	recommending to the Supervisory Board a recruitment procedure for the positions of members of the company's Management Board,
2.	evaluating candidates for members of the Management Board and providing the Supervisory Board with opinions in this respect,
3.	recommending to the Supervisory Board a form and content of agreements to be concluded with members of the Management Board,
4.	recommending to the Supervisory Board a compensation and bonus system for members of the Management Board,
5.	recommending to the Supervisory Board the need to suspend a member of the Management Board for important reasons,
6.	recommending to the Supervisory Board 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, along with a compensation proposal.

The detailed description of the activities of the Nominations and Compensation Committee in the last financial year is provided in the Report on the activities of the Supervisory Board submitted on annual basis to the General Meeting of Shareholders and published on the Company's website <http://www.tauron.pl/>.

#### 11.5. Strategy Committee

Due to the changes to the membership of the Supervisory Board of the Company introduced in 2017, the Supervisory Board also made changes to the membership of the Strategy Committee

##### Members of the Strategy Committee as of December 31, 2017 and as of the day of drawing up this report

1. Jacek Szyke - Head of the Strategy Committee,



2. Beata Chłodzińska - Member of the Strategy Committee,
3. Paweł Pampuszko - Member of the Strategy Committee,
4. Jan Płudowski - Member of the Strategy Committee,
5. Agnieszka Woźniak - Member of the Strategy Committee.

### Changes to the Strategy Committee's membership

As of January 1, 2017 the Strategy Committee was composed of the following members: Jacek Szyke (Head), Beata Chłodzińska, Anna Mańk i Stefan Świątkowski.

On March 15, 2017 the Supervisory Board passed a resolution on appointing as members of the Strategy Committee: Stanisław Bortkiewicz and Jan Płudowski.

On May 29, 2017, due to the end of the 4th term of the Supervisory Board mandates of members of the Supervisory Board expired and consequently their membership in the Strategy Committee expired.

On June 20, 2017, due to the appointment, as of May 29, 2017, of members of the Supervisory Board of the 5th term, the Supervisory Board appointed the Strategy Committee with the following members: Jacek Szyke, Beata Chłodzińska, Paweł Pampuszko, Jan Płudowski i Agnieszka Woźniak. On the same day the Strategy Committee, during the first meeting of the 5th term, elected Jacek Szyke as the head of the Strategy Committee.

No other changes to the membership of the Strategy Committee had been made as of the day of disclosing this report.

### Tasks and competence of the Strategy Committee

The tasks and competence of the Strategy Committee did not change in 2017. The tasks and competence of the Strategy Committee as of December 31, 2017 and as of the day of drawing up this report are presented in the below table.

#### Competence of the Strategy Committee

Competence of the Strategy Committee
as of December 31, 2017 and as of the day of drawing up this report
<ol style="list-style-type: none"> <li>1. evaluating the Company's and TAURON Capital Group's Strategy and presenting the results of such evaluation to the Supervisory Board,</li> <li>2. recommending to the Supervisory Board the scope and deadlines for submitting the long term strategic plans by the Management Board,</li> <li>3. evaluating the impact of planned and currently undertaken strategic investment projects on the Company's assets,</li> <li>4. monitoring the implementation of strategic investment tasks,</li> <li>5. evaluating activities related to the use of material Company's assets,</li> <li>6. providing opinions on strategic documents submitted to the Supervisory Board by the Management Board</li> </ol>

The detailed description of the activities of the Strategy Committee in the last financial year is provided in the report on the activities of the Supervisory Board submitted on annual basis to the General Meeting of Shareholders and published on the Company's website <http://www.tauron.pl/>.

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

The detailed description of the operations of the Committees of the Supervisory Board is provided 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 tasks.

The Audit Committee and the Nominations and Compensation Committee of the Supervisory Board are composed of three to five members, while the Strategy Committee is composed of three to seven members. The activities of the individual Committees are managed by their Chairpersons (Heads).

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 on as needed basis.

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's Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the given Committee of the Supervisory Board. Every year, the Committees of the Supervisory Board provide public record information, through the Company, on their memberships, the number of meetings held and participation in the meetings during the year as well as on their main activities. In addition, the Audit Committee performs an assessment of the independence of the certified auditor and expresses its consent for the provision thereby of the permitted services that are not an audit of the Company.

The Company's Management Board provides the possibility to use the services of external advisers by the Committees to the extent required for performing the obligations of the Committees.

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

Diversity and openness are an integral part of both, TAURON Capital Group's business operations, as well its management policy. All of TAURON Capital Group's subsidiaries apply the policy of equal treatment and strive to ensure diversity in terms of gender, educational background, age and professional experience in relation to all employees and key managers.

With respect to the members of the corporate bodies of TAURON, i.e. the Management Board and the Supervisory Board, persons acting as Members of the Management Board are selected by the Supervisory Board, while Members of the Supervisory Board are selected by the Minister of Energy. In 2017, acting within its statutory powers, the State Treasury appointed 5 Members of the Supervisory Board and the Ordinary GM of TAURON on May 29, 2017 elected 3 Members of the Management Board. Information concerning qualifications and professional experience of persons appointed to the Management Board and the Supervisory Board is published in the relevant regulatory filings (current reports) as well as on the Company's website.

Members of the Management Board are appointed by the Supervisory Board after conducting a qualification procedure designed for verifying and assessing their qualifications and selected the best candidates. Announcement of qualification process is published on the Company's web page and in the Public Information Bulletin of the Ministry of Energy. The competition is open for any person meeting requirements set forth in the Company's By-laws and formal requirements specified in the announcement. Candidates are required to possess university level education, at least five years of employment and minimum three years of experience as managers, and have to meet requirements set forth in other legislation. No special requirements are placed on features such as sex, type of education, age and professional expertise, to the Supervisory Board is capable of assessing candidates to the Management Board with consideration of their overall capabilities and diversity requirements.

The *Diversity Policy of the TAURON Group* was implemented in 2017, the purpose of which is to strengthen awareness and organizational culture open to diversity. Implementation of the Diversity Policy enables employees to full realize their individual potential in the job environment.

Also, actions have been undertaken to prevent any discrimination by structuring the appropriate atmosphere and culture at the workplace based on key PRO corporate values - Partnership, Development and Courage, confirmed through the *Policy of combating Mobbing and Discrimination at the TAURON Group*.

### **13. COMPENSATION POLICY WITH RESPECT TO THE MANAGEMENT AND SUPERVISORY STAFF**

#### **13.1. Compensation system for members of the Management Board and key managers**

##### **13.1.1. General information on the adopted compensation system for members of the Management Board**

In 2017 the principles of compensation of members of the Company's Management Board defined in the Resolution of the Extraordinary GM of TAURON of December 15, 2016 *on the principles for determining compensation of members of the Management Board* (Principles for determining compensation) were in force at the Company, as subsequently amended and detailed by the Supervisory Board of the Company pursuant to the resolution of December 19, 2016 *on the principles for determining compensation of members of the Management Board TAURON Polska Energia S.A.* as subsequently amended. The above principles for determining compensation are in line with the provisions of the *Act of June 9, 2016 on the principles for determining compensation of persons managing certain companies*.

The adopted principles for determining compensation define the compensation system for members of the Management Board in connection with outstanding tasks aimed at the implementation of the adopted Strategy, directions of expansion and financial plans. The overriding objective of the adopted compensation system is to ensure an incentive-based compensation of the senior management staff and to create basis for their development.

Overall objectives of the compensation policy are:

- 1) ensuring a consistent and motivational compensation system for members of the Management Board,
- 2) linking the compensation rules with monitoring of the implementation of adopted strategic plans and implementation of the financial plans,
- 3) setting the level of compensation for the Management Board members in connection with the implementation of the management tasks set,
- 4) increasing the Company's value through the development of the senior management staff,
- 5) improving the compensation systems leading to the implementation of the Company's strategy and expansion directions.

Model of compensation for members of the Management Board is based on a two-component system for determining compensation, composed of a fixed part constituting the monthly base wage and a variable part constituting the supplementary compensation for the Company's financial year, dependent on achieving specific management objectives.

System of compensation for members of the Management Board assumes linking the variable part of the compensation with the outstanding management goals stemming from the provisions of the *Act of June 9, 2016 on the principles for determining compensation of persons managing certain companies* and set, based upon these provisions, by the GM the Supervisory Board of the Company. The goal of adopting in the system of compensation, of the dependence of the compensation's variable part on achieving the management goals set is, in particular, to implement the adopted Strategy, the directions of the Company's expansion and financial plans, it also shapes a new organizational culture of the Company.

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

Members of the Management Board of the Company are neither covered by the bonus program based on the capital of the Company, nor do they receive any compensation or awards due to fulfilment of their functions in governing bodies of TAURON Capital Group's subsidiaries.

In 2017 the Supervisory Board updated the *Policy of compensation for Members of the supervision and management authorities (bodies) including the description of the principles for the determination thereof at TAURON Polska Energia S.A.*, in force since February 24, 2011.

##### **13.1.2. General information on the adopted compensation system for key managers**

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

In 2017 the *Principles of Compensation at TAURON Group* were developed representing the guidelines for TAURON Capital Group's subsidiaries with respect to the personnel compensation systems, particularly taking into account the bonus system for key managers based on the management by objectives system consistent throughout TAURON Capital Group, representing a combination of the planning process, efficiency measurement process and evaluation process.

The compensation and bonus system for key managers stipulates that the level of compensation should be tied to the financial situation of TAURON Capital Group in an annual perspective, in connection with the implementation of strategic goals.

The overriding assumption of the compensation system in force is to ensure the optimum and motivating compensation 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 compensation consists of the following elements:

- 1) fixed part - constituting the base 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 the internal regulations of the Company

The MBO bonusing system based on market principles of awarding bonuses ensures focusing activities of key management staff on attaining objectives defined within the Strategy, as well as individual strategic objectives and development directions of individual companies within the TAURON Capital Group. This system also ensures cascading of objectives defined by the Company's Management Board at the TAURON Capital Group level and at the Company level, down to concrete, parametric tasks vested with employees of lower structural levels. The MBO bonusing system has been tied with the management by process style of operations at the TAURON Capital Group, *inter alia* by aligning the objectives with Megaprocesses defined within the TAURON Capital Group. Therefore, the introduced culture of Management by Objectives reflects the specific features of each function implemented in the Company and allows use of dialogue mechanisms between the superior and subordinate during the process of setting and assessing objectives, leading to attaining overall efficiency throughout the entire organization.

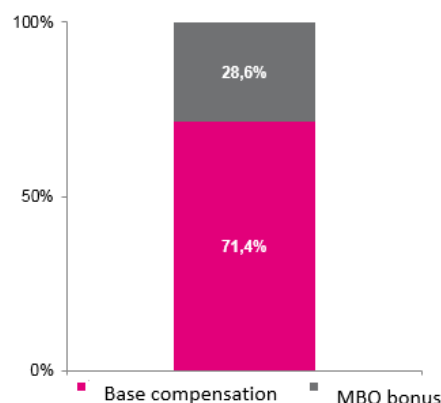
At the same time, this tool enables precise correlating of KPIs defined for members of the Management Board with objectives defined for the given year for key managers of the Company. Initial assessment of accomplished objectives takes place after end of the first 6 months and after end of the year, members of the Management Board conduct final assessment of KPI performance by key managers.

Moreover, in March 2017 the bonus system for the trading area aimed at motivating to generate higher revenue for TAURON Capital Group. The trading bonus covered key managers in the trading area, however the bonus system sets an additional bonus for them only once they have topped annual trade plans.

Employees of the Company do not receive any compensation or awards on account of functions fulfilled in governing bodies of TAURON Capital Group's subsidiaries.

The below figure presents the structure of compensation for key manager positions.

**Structure of compensation for key manager positions**



### 13.1.3. Rules, terms and conditions as well level of compensation of members of the Management Board

The total amount of compensation 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 2017 reached the gross amount of PLN 4 534 thousand.

The compensation of members of the Company's Management Board in 2017, broken down into components, is presented in the below table.

**Compensation of members of the Company's Management Board in 2017 broken down into components**

#	Name	Period of holding the position in 2017	Compensation <sup>1</sup> (PLN '000)	Bonus <sup>1</sup> (PLN '000)	Other benefits <sup>1</sup> (PLN '000)	Total (PLN '000)
1.	Filip Grzegorzczak <sup>2</sup>	01.01.2017 - 31.12.2017	793	-	24	817
2.	Jarosław Broda <sup>3</sup>	01.01.2017 - 31.12.2017	803	226	79	1 108
3.	Kamil Kamiński <sup>3</sup>	01.01.2017 - 31.12.2017	792	181	77	1 050
4.	Marek Wadowski <sup>3</sup>	01.01.2017 - 31.12.2017	863	181	36	1 080
5.	Piotr Zawistowski	01.01.2017 - 15.03.2017	186	226	69	481
<b>Total</b>			<b>3 437</b>	<b>812</b>	<b>285</b>	<b>4 534</b>

<sup>1</sup>excluding markups (surcharges)

<sup>2</sup>compensation in accordance with the agreement on the provision of management services in force

<sup>3</sup>from January 1, 2017 till March 15, 2017 the compensation in accordance with the labor agreement, while from March 16, 2017 till December 31, 2017 the compensation in accordance with the agreement on the provision of management services

Members of the Management Board did not receive compensation or bonuses for performing functions in the corporate bodies of TAURON Capital Group's subsidiaries in 2017.

From January 1, 2017 till March 15, 2017 members of the Management Board received the compensation in accordance with the labor agreement (except for the President of the Management Board who received the compensation in accordance with the agreement on the provision of management services). From March 16, 2017 all members of the Management Board appointed for the 5<sup>th</sup> term received the compensation in accordance with the agreement on the provision of management services, prepared in accordance with the law of June 9, 2016 on the principles of determining the compensation of persons managing certain companies.

Model of compensation for members of the Management Board, defined in the agreements on the provision of management services is based on a two-component system for determining compensation, composed of a fixed part (monthly base wage) and a variable part (supplementary compensation for the Company's financial year), dependent on fulfilling specific result-based criteria, i.e. achieving management objectives.

System of compensation for members of the Management Board assumes linking the variable part of the compensation with the outstanding management goals stemming from the provisions of the Act of June 9, 2016 on the principles for determining compensation of persons managing certain companies and set, based upon these provisions, by the GM the Supervisory Board of the Company. The goal of adopting in the system of compensation, of the dependence of the compensation's variable part on achieving the management goals set is, in particular, to implement the adopted Strategy, the directions of the Company's expansion and financial plans, it also shapes a new organizational culture of the Company.

The variable part of the compensation represents up to 60% of the fixed part of the compensation for the financial year, assuming the management goals set by the Supervisory Board for the given financial year have been achieved.

The Supervisory Board determines the percentage level of the variable part of the compensation for each of the following management goals:

- 1) achieving EBITDA at the level approved in the material and financial plan for a given financial year,
- 2) achieving the Net debt/EBITDA ratio at the level approved in the material and financial plan for a given financial year,
- 3) implementation of the "2016 – 2018 Efficiency Improvement Program" and achieving the total effect at the level approved in the material and financial plan for a given financial year,
- 4) implementation of the non-financial management goals objectives.

The variable part of the compensation for achieving the financial management goals is allocated based on the data derived from the audited consolidated financial statements of the Company for the given financial year.

The variable part of the compensation for achieving the non-financial management goals is allocated based on the achievement of specific objectives in the given financial year, based on the assessment of their performance by the Supervisory Board.

#### **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 agreements on the provision of management services concluded with the members of the Management Board on March 15, 2017 envisage, in case of termination or dissolution of the agreement by the Company for reasons other than defined therein, a payout of the severance payment at a level of three-fold fixed part of the compensation, under the condition of fulfilment of the function by them over a period of at least 12 months prior to the termination of the agreement.

Furthermore, due to the access of members of the Management Board to confidential information the disclosure of which could expose the Company and TAURON Capital Group's subsidiaries to losses, the aforementioned agreements on the provision of management services include non-competition provisions applicable after the expiry of the term of office. Under the aforementioned agreements members of the Management Board undertook to refrain from conducting competitive activities in the specified period in return for compensation.

Members of the Company's Management Board did not hold positions of members of Management Boards of subsidiaries (companies included) in TAURON Capital Group prior to being appointed as members of the Company's Management Board.

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

##### **Non-financial components of the compensation of members of the Management Board**

Members of the Management Board, in accordance with the agreements on provision of management services, are entitled to:

- 1) refinancing by the Company of the cost of training up to the net amount of PLN 15 000 in a calendar year,
- 2) use a company car,
- 3) use the technical devices required to perform the obligations under the concluded agreement.

##### **Non-financial components of the compensation of key managers**

Staff members employed at key positions by the Company are entitled to use the following benefits and non-financial components of the compensation offered by the Company:

- 1) participate in the Employee Pension Scheme operated by the employer (under the condition of being employed in the Company or one of the subsidiaries 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.

#### **13.1.6. Information on changes to the compensation policy over the last financial year**

On May 29, 2017 the Ordinary GM amended resolution no. 5 of the Extraordinary GM of TAURON of December 15, 2016 *on the principles for determining compensation of members of the Management Board*, by adding an extra management goal to be achieved by members of the Management Board by December 31, 2017, making the payment of the variable part of the compensation contingent, covering the performance of the obligations mentioned in art. 17-20, art. 22 and art. 23 of the law of December 16, 2016 *on the state assets management principles*.

With a view to implement the principles to determine compensation passed by the GM in December 2016 r., on March 15, 2017 agreements on the provision of management services were concluded with the members of the Management Board appointed for the common 5<sup>th</sup> term in office. The agreement on the provision of management services with the President of the Management Board had been concluded earlier, meanwhile labor contracts had been concluded earlier with the other members of the Management Board.

### **13.1.7. Assessment of functioning of the compensation 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 compensation system for members of the Management Board is compliant with the *Act of June 9, 2016 on the principles for determining compensation of persons managing certain companies*. The incentive-based and consistent system is provided, linked with the monitoring of annual financial plans and the adopted Strategy and development (expansion) directions

The form, structure and level of compensation 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's 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 they are able to express their opinions using the applicable procedures.

Information policy on the form, structure and level of compensation of members of the Management Board and the Supervisory Board is conducted by the Company in communication with the Supervisory Board in a manner that is in compliance with the regulations in force and best market practice.

The disbursement of variable components of compensation is linked with the pre-defined, measurable management goals. The set management goals should foster long-term stability of the Company.

The indicators (criteria) determining obtaining and level of variable components of the compensation are defined in accordance with the SMART principle, thus, they also display such features as: precision, measurability, achievability, materiality and defining in time.

The compensation and bonus system for both Members of the Management Board of the Company as well as the key managers in force at TAURON supports the implementation of strategic goals and determines the compensation depending on the financial situation of the Company and TAURON Capital Group in an annual perspective.

### **13.2. Compensation system for members of the Supervisory Board**

In 2017 the system of compensation for members of the Supervisory Board of the Company defined in the Resolution of the Extraordinary GM of TAURON of December 15, 2016 *on the principles for determining compensation for members of the Supervisory Board of TAURON Polska Energia S.A.* was in force, adopted as the implementation of the provisions of the *Act of 9 June 2016 concerning principles for determining compensation of persons managing certain companies* (Journal of Laws of 2016, item 1202).

In accordance with the aforementioned Resolution of the Extraordinary GM a monthly compensation of Supervisory Board members is determined as a product of the average monthly compensation 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 Statistics 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 compensation irrespective of the frequency of formally convened meetings.

The compensation 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 compensation 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.

## Compensation of supervising personnel

The compensation of members of the Company's Supervisory Board in 2017 is presented in the below table.

### Compensation of members of the company's Supervisory Board in 2017

#	Name	Period of holding the position in 2017	Compensation (PLN '000)
1.	Beata Chłodzińska	01.01.2017 - 31.12.2017	89
2.	Teresa Famulska	29.05.2017 - 31.12.2017	47
3.	Jacek Szyke	01.01.2017 - 31.12.2017	79
4.	Radosław Domagalski - Łabędzki	29.05.2017 - 31.12.2017	47
5.	Barbara Łasak - Jarszak	29.05.2017 - 31.12.2017	47
6.	Paweł Pampuszko	29.05.2017 - 31.12.2017	47
7.	Jan Płudowski	01.01.2017 - 31.12.2017	79
8.	Agnieszka Woźniak	01.01.2017 - 31.12.2017	79
9.	Jacek Rawecki	01.01.2017 - 26.05.2017	32
10.	Leszek Koziorowski	01.01.2017 - 29.05.2017	33
11.	Stefan Świątkowski	01.01.2017 - 29.05.2017	33
12.	Anna Mańk	01.01.2017 - 29.05.2017	33
13.	Stanisław Bortkiewicz	01.01.2017 - 29.05.2017	33
<b>TOTAL</b>			<b>677</b>

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

The Company does not have any liabilities towards former the Members of the Management Board and the Supervisory Board arising from pensions and similar benefits.

At the same time, it is indicated that due to the Company's liabilities towards former members of TAURON Management Board, in 2017 the total amount of PLN 2 258 thousand was paid due to bonuses for the accomplishment of KPIs in 2016 and compensations for compliance with the non-competition clause.