

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

Acting pursuant to § 91 item 5 p. 4) of the *Regulation of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state* (Journal of Laws no.33 item 259 as amended), the Company Management Board submits the Statement on Application of Corporate Governance in 2014.

### **1. Indicating the applied set of corporate governance rules**

In 2014 the Company was subject to the corporate governance rules, described in the document *Good Practices of Companies Listed at GPW* (Good Practices), constituting the Appendix to the Resolution of the GPW Council no 12/1170/2007 of 4 July 2007, amended by the following resolutions of GPW Council: No 17/1249/2010 of 19 May 2010, No 15/1282/2011 of 31 August 2011, No 20/1287/2011 of 19 October 2011 and No 19/1307/2012 of 21 November 2012, which entered into force on 1 January 2013. The document also contains the rules of corporate governance which the Company adopted on voluntary basis.

The Good Practices were adopted for application by the Company Management Board. In 2014 the Company did not apply only the rule contained in Chapter IV item 10 of Good Practices. Other rules specified in the aforementioned document in Chapters II, III and IV were applied by the Company.

The text of the aforementioned set of Good Practices the Company is subject to, and the application of which could have been decided by the Company on voluntary basis is published at the GPW website at (<http://www.corp-gov.gpw.pl>).

### **2. Indicating the abandoned rules of corporate governance**

In 2014 the Company did not apply only the rule contained in Chapter IV item 10 of Good Practices (in its wording applicable as of 1 January 2013), concerning the provision of a possibility for shareholders to participate in the General Meeting by means of electronic communication means, consisting in:

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

On 2 January 2013 the Company submitted current report no. 1/2013, by means of EIB system (Electronic Information Base), containing information on abandoning the application of the aforementioned corporate governance rule, due to the fact that the provisions of the Company Articles of Association did not include the provisions enabling the participation in the GM by means of electronic communication means, pursuant to the provisions of the Code of Commercial Companies (Ksh). In order to enable the application of the aforementioned rule, the Management Board of the Company applied to the Ordinary GM of the Company for adopting of the resolution concerning the amendment to TAURON Articles of Association, suggesting the provisions enabling participation of shareholders in the GM by means of electronic communication means, including, in particular: transmission of the GM session in real time, bilateral communication in real time, where shareholders may speak during the GM while being at a different location than the venue of the GM, exercising the voting right personally or through a proxy, before or during the GM. The Ordinary General Meeting of the Company convened on 16 May 2013 did not adopt the aforementioned resolution.

Accordingly, also in 2014, the Company did not apply the rule contained in Chapter IV item 10 of Good Practices and the recommendation contained in Chapter I item 12 of Good Practices. Other rules specified in Chapters II, III and IV of Good Practices were applied by the Company. In the period since the day of commencement of public listing of the Company shares until 31 December 2014, there have been no occurrences of infringement of the corporate governance regulations adopted.

The Company shall also endeavour to implement the recommendations contained in Part I of Good Practices. The issues described below are particularly important.

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

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

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

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

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

In accordance with recommendation I.9 of Good Practices, GPW recommends that the public companies and their shareholders should provide for the balanced participation of women and men in performing the management and supervisory functions in enterprises. In the Company, members of Supervisory Board are appointed in accordance with the provisions of the Articles of Association, by the GM and the State Treasury, under its personal powers, whereas the members of the Management Board are appointed by the Supervisory Board. The rules applicable in the Company in this scope do not restrict a possibility of participation in the Company governance bodies due to gender. Simultaneously, in fulfilment of the requirements specified in Section II p. 1 subsection 2a) of Good Practices, in the 4th quarter of 2014 the Company published information on participation of men and women in the Supervisory Board and the Management Board of TAURON in the period of the last two years, on its website.

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

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

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

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

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

In the Company, procedures of authorisation of financial statements have been implemented. Quarterly, semi-annual and annual financial statements of the Company as well as consolidated financial statements of TAURON Capital Group are approved by the Company Management Board before publication. The annual financial statements of the Company as well as consolidated financial statements of TAURON Capital Group are additionally presented for review by the Company Supervisory Board before publication. The Vice President of the Board, Chief Financial Officer supervises the

preparation of financial statements, whereas management boards of companies covered by consolidation are responsible for compiling of the reporting packages for the TAURON Capital Group consolidated financial statement.

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

#### **IT systems and financial and accounting processes**

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

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

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

#### **Internal audit**

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

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

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

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

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

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

The table below presents shareholders holding, as at 31 December 2014 and as at the day of the present report, directly or indirectly large blocks of shares of the Company

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

No.	Shareholders	Number of shares held	Percentage share in share capital	Number of votes held	Percentage share in general number of votes
1.	State Treasury*	526,848,384	30.06%	526,848,384	30.06%
2.	KGHM Polska Miedź S.A.**	182,110,566	10.39%	182,110,566	10.39%
3.	ING Otworthy Fundusz Emerytalny***	88,742,929	5.06%	88,742,929	5.06%

\*in accordance with the shareholder's notification of 28.02.2013

\*\*in accordance with the shareholder's notification of 23.03.2011

\*\*\*in accordance with the shareholder's notification of 28.12.2011

Since the day of submission of the previous periodical report, i.e. 13 November 2014, until the date of publication of this report, the Company has not received any notifications from shareholders concerning changes in proprietary structure of significant blocks of shares of TAURON.

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

In the financial year 2014, the Company did not issue securities which would provide special control rights towards to the Company.

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

Limitations on performing the voting right have been included in § 10 of the Company Articles of Association which is available at the Company website <http://www.tauron-pe.pl/>.

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

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

who are members of Association of Shareholders is subject to being decreased by a number of votes equal to surplus of over 10% total votes in the Company that all shareholders in total are entitled to and who are members of the Association of Shareholders,

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

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

As at 31 December 2014 and as at the day of this report, there are no limitations in the Company on the transfer of proprietary rights of Company securities.

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

### **8.1. Management Board**

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

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

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

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

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

The Extraordinary GM of TAURON held on 7 January 2014 adopted the resolution on amendments to the Articles of Association, aimed at updating the scope of activities and distribution of competence between the statutory corporate bodies of the Company, i.e. the Supervisory Board and the Management Board as well as the streamlining of the text of the Articles of Association and its adjustment to the current needs of the Company.

Pursuant to its decision of 15 January 2014, the District Court Katowice - Wschód in Katowice, 8th Commercial Department of the National Court Register entered the aforementioned amendments to the Company Articles of Association to the register of entrepreneurs of the National Court Register.

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

**Table no. 2. Competence of the Management Board**

Issues requiring the Resolution of the Management Board	
as at 31 December 2014 and as at the day of this report	
	<ol style="list-style-type: none"> <li>1. Management Board bylaws,</li> <li>2. organizational regulations of the Company enterprise,</li> <li>3. establishment and liquidation of branches,</li> <li>4. appointment of a proxy,</li> <li>5. raising credits and loans,</li> <li>6. adopting the annual material and financial plans of the Company and the Capital Group, and the Corporate Strategy of the Capital Group,</li> <li>7. incurring contingent liabilities within the meaning of the <i>Accounting Act of 29 September 1994</i>, including granting guarantees and sureties by the Company as well as issuing bills of exchange, subject to § 20 item 2 p. 4 and 5 of the Company Articles of Association,</li> <li>8. making donations, redemption of interest or discharge from debt, subject to § 43 item 3 p.1 and 2 of the Company Articles of Association,</li> <li>9. purchase of real property, perpetual usufruct or shares in property or in perpetual usufruct, subject to § 20 item 2 p. 1 of the Company Articles of Association,</li> <li>10. purchase of the components of fixed assets excluding real property, perpetual usufruct or share in real property or perpetual usufruct, with the value equal to or exceeding the equivalent of EUR 10 thousand in PLN, subject to the provisions of § 20 item 2 p. 2 of the Company Articles of Association,</li> <li>11. disposal of the components of fixed assets including real property, perpetual usufruct or share in real property or perpetual usufruct, with the value equal to or exceeding the equivalent of EUR 10 thousand in PLN, subject to the provisions of § 20 item 2 p. 3 of the Company Articles of Association,</li> <li>12. defining the right to exercise a vote at the GM or at Shareholders' Meetings of companies in which the Company holds stocks or shares, on issues covered by the competence of the General Meetings or Shareholders' Meetings of such companies, subject to § 20 item 3 p. 9 of the Company Articles of Association,</li> <li>13. rules of conducting sponsoring activity,</li> <li>14. adoption of the annual plan of sponsoring activity,</li> <li>15. issues, whose examination the Management Board refers to the Supervisory Board or the General Meeting.</li> </ol>

## 8.2. Supervisory Board

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

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

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

- 2) in the period of time in which the State Treasury, together with entities dependent on the State Treasury within the meaning of § 10 item 5 of the Articles of Association, has a number of the Company's shares entitling to perform under 25% of total voting rights in the Company, the State Treasury, represented by a minister competent for the issues of the State Treasury shall be entitled to appoint and dismiss one member of the Supervisory Board.
- 3) appointing and dismissing of members of the Supervisory Board by the State Treasury pursuant to the aforementioned item 1) or item 2) takes place by means of a statement submitted to the Company.

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

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

### Competence of the Supervisory Board

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

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

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

Issues requiring the Resolution of the Supervisory Board
<b>as at 31 December 2014 and as at the day of this report:</b>
<b>Opinion-making competence</b>
<ol style="list-style-type: none"> <li>1. assessment of the Management Board report on the Company operations as well of the financial statement for the previous financial year in the scope of their compliance with the books, documents as well as with the actual status. It also applies to the consolidated financial statement of the Capital Group, provided that it is generated,</li> <li>2. assessment of the Management Board conclusions on profit distribution or loss coverage,</li> <li>3. submitting of a written report to the General Meeting on the results of operations covered by items 1 and 2,</li> <li>4. preparing, together with the report on results of the annual financial statement of the Company, an opinion of the Supervisory Board on the issue of economic legitimacy of involving the Company capital committed in a given financial year in other entities of commercial law,</li> <li>5. giving opinions on the Corporate Strategy of the Capital Group,</li> <li>6. giving opinions and approval of the rules of conducting sponsoring activity,</li> <li>7. giving opinions on the annual plan of conducting of the sponsoring activity as well as annual reports on its implementation,</li> </ol>
<b>Decision-making competence</b>
<ol style="list-style-type: none"> <li>1. selecting of the chartered accountant to carry out the examination of the Company financial statement and consolidated financial statement of the Capital Group,</li> <li>2. determining the scope and deadlines of submitting of annual material and financial plans as well as long-term strategic plans of the Company and the Capital Group, by the Management Board,</li> <li>3. adopting of consolidated text of the Company Articles of Association, prepared by the Company Management Board,</li> <li>4. approving of the bylaws of the Company Management Board,</li> <li>5. approving of the organisational regulations of the Company enterprise.</li> <li>6. purchase of real property, perpetual usufruct or shares in property or in perpetual usufruct with the value exceeding the equivalent of EUR 5,000 thousand in PLN, excluding the real property or perpetual usufruct, or share in real property or in perpetual usufruct purchased from Companies of the Capital Group,</li> <li>7. purchase of the components of fixed assets excluding real property, perpetual usufruct or share</li> <li>8. in real property or perpetual usufruct, bonds issued by the companies of the Capital Group and other components of fixed assets purchased from companies of the Capital Group, of the value equal to or exceeding the equivalent of EUR 5,000 thousand in PLN,</li> <li>9. disposal of the components of fixed assets, including real property, perpetual usufruct or share in real property or perpetual</li> </ol>



usufruct, of the value equal to or exceeding the equivalent of 5,000 EUR in PLN, excluding the real property or perpetual usufruct, or share in real property or in perpetual usufruct, as well as other components of fixed assets which, as a result of the disposal, shall be sold or encumbered to the benefit of Companies of the Capital Group,

10. incur contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of EUR 5,000 in PLN,
11. issuing bills of exchange with the value exceeding the equivalent of 5,000 EUR in PLN,
12. advance payment on account of the expected dividend,
13. taking over or purchase of shares or stocks in companies other than Companies of the Capital Group, with the value exceeding the equivalent of 5,000 EUR in PLN, excluding the situations when the takeover of stocks or shares of such companies occurs in exchange for Company liabilities under the composition or bankruptcy proceedings,
14. disposal of stocks or shares with the value exceeding the equivalent of 5,000 EUR in PLN, including the defining of the conditions and procedure for their disposal, excluding:
  - a) disposal of shares which are traded on the regulated market,
  - b) disposal of stocks or shares that the Company holds in the amount not exceeding 10% share in the initial capital of particular companies.
  - c) disposal of shares or stocks to the benefit of Companies of the Capital Group,
15. granting permission to establish Company branches abroad,
16. defining the way of performing the right of vote at the General Meeting or at the Shareholders' Meeting of companies in which the Company holds over 50% of stocks or shares, in matters concerning:
  - a) disposal and leasing of the company's enterprise or its organized part as well as establishing a limited proprietary right if their value exceeds the equivalent of the amount of 5,000 EUR in PLN,
  - b) winding up and liquidation of a company.

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

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

#### **Other competences of the Company Supervisory Board**

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

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

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

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

### **10. Operation of the General Meeting, its fundamental authorities and description of shareholders' rights and mode of their performance**



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

### Operation of the General Meeting

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

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

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

### Competence of the General Meeting

In accordance with the Company Articles of Association, the following issues require Resolutions of the General Meeting:

**Table no. 4. Competence of the General Meeting**

Issues which require the resolution of the General Meeting
as at 31 December 2014 and as at the day of this report:
<ol style="list-style-type: none"><li>1. examination and approval of financial statement for the previous financial year as well as the Management Board's report on the Company operations,</li><li>2. granting the acknowledgement of the fulfilment of duties to the members of the governing bodies of the Company,</li><li>3. profit distribution and coverage of loss,</li><li>4. appointing and dismissing of members of the Supervisory Board,</li><li>5. suspending members of the Management Board in performance of their duties,</li><li>6. establishing the rules of remuneration for the members of the Supervisory Board, subject to § 29 item e of the Company Articles of Association,</li><li>7. disposal and lease of the Company enterprise or its organized part as well as establishing a limited proprietary right on them,</li><li>8. concluding of a credit, loan, surety agreement or any other similar agreement by the Company with a member of the Management Board, Supervisory Board, proxy and liquidator or for any of these persons. Concluding of a loan, surety or any other similar agreement with a member of the Management Board, Supervisory Board, proxy, liquidator or for any by a subsidiary company,</li><li>9. increasing and lowering the share capital of the Company,</li><li>10. issuing convertible bonds or priority bonds as well as registered securities or bearer securities entitling its owner to subscribe or acquire the shares,</li><li>11. purchasing of treasury shares in cases required by the regulations of the Code of Commercial Companies,</li><li>12. compulsory redemption of shares in accordance with the stipulations of art. 418 of the Code of Commercial Companies,</li><li>13. creating, using and liquidation of reserve capitals,</li><li>14. using of supplementary capital,</li><li>15. provisions concerning claims to repair damage caused at establishing of the company or serving in the board or performing supervision,</li><li>16. merger, transformation and division of the Company,</li><li>17. redemption of shares,</li><li>18. amendment to the Articles of Association and change of the scope of the Company operations,</li><li>19. dissolving and liquidation of the Company.</li></ol>

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

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

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

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

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

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

### **11.1. Management Board**

The current, 4th term of office of the Management Board began to run on 17 March 2014, i.e. on the day of dismissal of all members of the Management Board of the 3rd term by the Supervisory Board, and the appointment of the Management Board of the Company for the 4th common term of office. In accordance with the Company Articles of Association the common term of office lasts three years.

### Personal composition of the Management Board as at 31 December 2014 and as at the day of this report

1. Dariusz Lubera - President of the Management Board, responsible for the Division of the President of the Management Board
2. Aleksander Grad - Vice President of the Board responsible for the Division of the Vice-President of the Board for Corporate Affairs,
3. Katarzyna Rozenfeld - Vice President of the Board responsible for the Division of the Vice-President of the Board, Chief Commercial Officer,
4. Stanisław Tokarski - Vice President of the Board responsible for the Division of the Vice-President of the Board for Strategy and Development,
5. Krzysztof Zawadzki - Vice President of the Board responsible for the Division of the Vice-President of the Board for Economics and Finance.

### Changes in the personal composition of the Management Board in 2014

As at 1 January 2014 the Management Board consisted of the following members: Dariusz Lubera (President of the Management Board), Joanna Schmid (Vice President of the Management Board), Dariusz Stolarczyk (Vice President of the Management Board) and Krzysztof Zawadzki (Vice President of the Management Board).

On 10 February 2014 the Supervisory Board of the Company adopted the resolution on delegating the Member of the Supervisory Board, Aleksander Grad to the temporary performance of the duties of Vice President of TAURON Management Board in the period from 11 February 2014 until 11 May 2014.

On 17 March 2014, the Member of the Supervisory Board, delegated to the temporary performance of the duties of Vice President of the Management Board, Aleksander Grad, resigned from his function of the Member of the Supervisory Board, with the effect as of 17 March 2014.

On 17 March 2014, the Supervisory Board of the Company dismissed, upon adoption of the appropriate resolutions, all members of the Management Board of the Company, i.e.: Dariusz Lubera (President of the Management Board), Joanna Schmid (Vice President of the Management Board), Dariusz Stolarczyk (Vice President of the Management Board), Krzysztof Zawadzki (Vice President of the Management Board).

On 17 March 2014 the Company Supervisory Board, upon adoption of the appropriate resolutions, appointed the Management Board of the Company for the 4th common term, with the following composition : Dariusz Lubera (President of the Management Board), Aleksander Grad (Vice President of the Management Board), Katarzyna Rozenfeld (Vice President of the Management Board), Stanisław Tokarski (Vice President of the Management Board) and Krzysztof Zawadzki (Vice President of the Management Board).

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

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

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#### ***Dariusz Lubera***

Background: Electrician, MSc Eng. Graduate of AGH Academy of Science and Technology in Kraków and University of Economics in Kraków.

Acting as the President of the Management Board of TAURON Polska Energia S.A. since 8 March 2008. Currently supervises performance of the following business units: corporate bodies, legal department, HR, management of information resources, internal audit, market communication and PR, risk management, Health&Safety Issues and Protection of Classified Information.



**Aleksander Grad**

Graduate of Industrial Surveying Faculty at AGH Academy of Science and Technology in Kraków. Acted as the Undersecretary of State at the Ministry of Health and the Minister of Treasury. Member of Parliament of the 4th, 5th, 6th and 7th tenure. Among others, acted in the capacity of the Vice Chairman of the European Union Commission, Vice Chairman and Chairman of the Commission on State Treasury.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 17 March 2014. Currently supervises the performance of the following business units: procurement department, corporate governance and reorganisation.



**Katarzyna Rozenfeld - Vice President of the Management Board**

Graduate of economics at the Foreign Trade Department of Łódź University and the Catholic University of Nijmegen in the Netherlands. She also completed a training course for investment advisers.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 17 March 2014. Currently supervises the performance of the following business units: trade, market operator and trade service, portfolio management, fuels and analyses.



**Stanisław Tokarski - Vice President of the Management Board**

Graduate of the Faculty of Electrical Engineering, Automatics and Electronics of the AGH University of Science and Technology in Kraków. Completed also a number of post-graduate studies, including, among others, in nuclear power engineering in modern power engineering industry at the AGH University of Science and Technology in Kraków, in the European Union legislation at Jagiellonian University and in management in Warsaw School of Economics. In 2014 he obtained the title of doctor of technical sciences.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 17 March 2014. Currently supervises performance of the following business units: development strategies, strategic projects, regulations and external funds as well as investment effectiveness.



**Krzysztof Zawadzki - Vice President of the Board.**

Background: economist. Graduate of University of Economics in Katowice and PhD Studies at the University of Economics in Kraków. Postgraduate studies, i.a. in international financial reporting standards, European standards in accountancy and finance and taxes. He is a certified auditor.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 21 August 2009. Currently supervises performance of the following business units: accounting and taxes, financial management and controlling.

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

**Description of operation**

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

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

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

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

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

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

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

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

The structure of the divisions reporting to individual members of the Management Board is specified in the organisational chart of the Company, presented in item 1.4.2 of this report.

## **11.2. Supervisory Board**

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

### **Personal composition of the Supervisory Board as at 31 December 2014 and as at the date of this report**

- |                       |  |
|-----------------------|--|
| 1. Antoni Tajduś      | - Chairman of the Supervisory Board,         |
| 2. Agnieszka Woś      | - Vice Chairperson of the Supervisory Board, |
| 3. Jacek Szyke        | - Secretary of the Supervisory Board,        |
| 4. Andrzej Gorgol     | - Member of the Supervisory Board,           |
| 5. Maciej Koński      | - Member of the Supervisory Board,           |
| 6. Leszek Koziorowski | - Member of the Supervisory Board,           |
| 7. Michał Michalewski | - Member of the Supervisory Board,           |
| 8. Marek Ściążko      | - Member of the Supervisory Board,           |
| 9. Maciej Tybura      | - Member of the Supervisory Board.           |

## **Changes in the personal composition of the Supervisory Board in 2014**

As at 1 January 2014 the Supervisory Board consisted of the following members: Antoni Tajduś (Chairman of the Supervisory Board), Rafał Wardziński (Vice Chairman of the Supervisory Board), Leszek Koziorowski (Secretary of the Supervisory Board), Jacek Kuciński (Member of the Supervisory Board), Marcin Majeranowski (Member of the Supervisory Board), Jacek Szyke (Member of the Supervisory Board), Marek Ściążko (Member of the Supervisory Board) and Agnieszka Trzaskalska (Member of the Supervisory Board).

On 7 January 2014 the Extraordinary General Meeting of the Company appointed Aleksander Grad as a member of the Supervisory Board of the Company of the 3rd term as of 1 February 2014.

On 22 January 2014 the State Treasury, acting pursuant to its personal authority specified in § 23 item 1 p. 3 of the Company Articles of Association, dismissed Mr. Rafał Wardziński who acted as the Deputy Chairman of the Supervisory Board, from the Supervisory Board of TAURON.

On 22 January 2014 the State Treasury, acting pursuant to its personal authority specified in § 23 item 1 p. 3 of the Company Articles of Association, appointed Ms Agnieszka Woś as a member of the Supervisory Board of TAURON.

On 10 February 2014 the Supervisory Board of TAURON adopted the resolution on assigning the member of the Supervisory Board, Aleksander Grad to the temporary performance of the duties of Vice President of the Management Board of TAURON from 11 February 2014 until 11 May 2014.

On 17 March 2014, Member of the Supervisory Board, Aleksander Grad, resigned from his function of the Member of the Supervisory Board, with the effect as of 17 March 2014.

On 15 May 2014 the State Treasury, acting pursuant to its personal authority specified in § 23 item 1 p. 1) and 3) of the Company Articles of Association, appointed the following persons as members of the Supervisory Board of the 4th common term: Andrzej Gorgol, Agnieszka Woś, Antoni Tajduś, Michał Michalewski and Marek Ściążko.

The Ordinary GM of the Company convened on 15 May 2014 appointed Jacek Szyke as a member of the Supervisory Board of the 4th common term.

On 1 September 2014 the Extraordinary General Meeting of the Company, acting pursuant to § 22 item 1 of the Company Articles of Association, adopted the resolution on appointment of the following persons to the Company Supervisory Board for the fourth common term of office as of 1 September 2014: Maciej Koński, Leszek Koziorowski, Maciej Tybura.

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

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

### ***Antoni Tajduś - Chairman of the Supervisory Board***

Academic and scientific worker of the AGH Academy of Science and Technology in Kraków. During his employment at the AGH, he obtained the following scientific degrees: PhD in technical sciences (1977), DSc in technical sciences (1990) and professor of technical sciences (1998). In the years 2005-2012 acted in the capacity of the Rector of the AGH Academy of Science and Technology in Kraków.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 31 January 2008. Currently acting in the capacity of the Chairman of the Supervisory Board and the Chairman of the Committee on Nominations and Remunerations of the Supervisory Board.

### ***Agnieszka Woś - Vice Chairperson of the Supervisory Board***

Graduate of the College of Information Technology and Management in Rzeszów, specialisation: accounting and finance and the University of Economics in Kraków, specialisation: performance and development of enterprises. Obtained a title of doctor of economic sciences in 2010 in the scope of management sciences, at the University of Economics in Kraków.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 22 January 2014. Currently acting in the capacity of the Vice Chairperson of the Supervisory Board and the Chairperson of the Audit Committee of the Supervisory Board.

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

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

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

***Andrzej Gorgol - Member of the Supervisory Board***

Graduate of the Faculty of Law and Administration at the Maria Curie-Skłodowska University. Obtained the scientific title of Doctor of Sciences in law. He is also a certified solicitor.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 15 May 2014. Currently acting as a member of the Committee on Nominations and Remunerations of the Supervisory Board.

***Maciej Koński - Member of the Supervisory Board***

Graduate of the Warsaw School of Economics, faculty of Finance and Banking. In 2014 he obtained the title of doctor of technical sciences at Wrocław University of Technology.

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

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

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

Appointed as the member of the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010, he acted as the member of the Supervisory Board in the period until 15 May 2014, i.e. the day of termination of the 3rd common term of the Supervisory Board. In the aforementioned period he acted as the secretary of the Supervisory Board and member of the Audit Committee of the Supervisory Board. Re-elected to the Supervisory Board as of 1 September 2014. Currently acting as a member of the Committee on Nominations and Remunerations of the Supervisory Board.

***Michał Michalewski - Member of the Supervisory Board***

Graduate of the University of Economics in Katowice where he majored in finance and banking. The MBA degree at Nottingham Trent University in Great Britain. A graduate of numerous post-graduate courses in the field of management.

In the years 2008-2012 he acted as the Member of Supervisory Board of TAURON Polska Energia S.A.

Appointed as a member of the Supervisory Board of TAURON Polska Energia S.A. as of 15 May 2014. Currently acting as the member of the Strategy Committee of the Supervisory Board and Audit Committee of the Supervisory Board.

***Marek Ściążko - Member of the Supervisory Board***

Graduate of Faculty of Technology and Chemical Engineering, Technical University in Gliwice - speciality: chemical engineering, he obtained the PhD title at the same university.

Moreover, Marek Ściążko holds the title of Doctor of Sciences and a University Professor.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 31 January 2008. Currently acting as the member of the Strategy Committee of the Supervisory Board and Committee on Nominations of the Supervisory Board.

***Maciej Tybura - Member of the Supervisory Board***

A graduate of the University of Economic in Poznań, faculty of Enterprise Finance and Accounting.

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

The detailed description of experience and competences of the Supervisory Members is published on the Company website <http://www.auron-pe.pl/>.

**Description of operation**

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

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



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

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

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

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

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

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

Meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in the case of his/her absence by the Vice-Chairperson. Due to material reasons, with the consent of the majority of the members of the Supervisory Board present at the meeting, the person chairing the meeting is obliged to submit to voting a motion to stop the meeting and establish a new date of resuming the Supervisory Board meeting. The Supervisory Board makes decisions in the form of resolutions. The Supervisory Board resolutions are passed mainly at the meetings. The Supervisory Board passes resolutions if at least half of its members are present at the meeting and all its members were invited in the way defined in the Regulations. Subject to absolutely binding regulations of law, including the Ksh as well as provisions of the Company's Articles of Association, the Supervisory Board passes resolutions by an absolute majority of votes of the persons present at the meeting, where the absolute majority of votes is understood as more votes submitted "for" than "against" and "abstain". Resolutions cannot be passed in issues not included

in the agenda unless all members of the Supervisory Board are present and nobody voices an objection. It shall not apply to resolutions on justifying the Supervisory Board's member absence at the meeting. Voting of the resolutions is open. A secret ballot is ordered:

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

The Supervisory Board, in accordance with the Articles of Association, may pass resolutions in writing or by using means of direct remote communication. Passing a resolution in such a mode requires a justification and a prior submitting of the draft of the resolution to all members of the Board. Passing resolutions in this mode does not apply to the appointing the Chairperson,

the Deputy Chairperson and the Secretary of the Board, appointing or suspending in the activities of a member of the Supervisory Board and dismissing these persons as well as other issues the settlement of which requires a secret voting. Voting on a resolution passed in the aforementioned mode, a member of the Supervisory Board indicates the mode of his/her voting, "for", "against" or "abstain". In case of failure to express the vote by a Member of the Supervisory Board in the time period defined by the Chairperson the resolution shall not be passed. Resolution with a note that it was passed in a written mode or by mode of voting using means of direct distance communication shall be signed by the Chairperson

of the Supervisory Board. Resolutions passed in this mode shall be submitted at the first coming meeting of the Supervisory Board with announcing the result of the voting.

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

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

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

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

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

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

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

### **11.3. Audit Committee**

In connection with the commencement, as of 15 May 2014, of the 4th common term of the Supervisory Board of the Company and the appointment of its members by the State Treasury and the General Meeting, on 2 June 2014 the Supervisory Board established the Audit Committee among its members.

#### **Composition of the Audit Committee as at 31 December 2014 and as at the day of this report**

1. Agnieszka Woś - Chairperson of the Audit Committee,
2. Michał Michalewski - Member of the Audit Committee,
3. Jacek Szyke - Member of the Audit Committee,
4. Maciej Tybura - Member of the Audit Committee.

#### **Changes in the personal composition of the Audit Committee**

As at 1 January 2014 the Audit Committee consisted of the following members: Marcin Majeranowski (Chairman), Leszek Koziorowski, Jacek Kuciński and Jacek Szyke.

On 2 June 2014, the Supervisory Board appointed the following members of the Audit Committee: Michał Michalewski, Jacek Szyke and Agnieszka Woś. On the same day, the Audit Committee elected Agnieszka Woś as the Chairperson of the Audit Committee among its members.

In connection with the appointment of new members of the Supervisory Board by the GM on 1 September 2014, on 28 October 2014 the Supervisory Board appointed Maciej Tybura as a member of the Audit Committee.

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

#### **Tasks and competences of the Audit Committee**

The table below presents the tasks and competences of the Audit Committee as at 31 December 2014 and as at the day of this report.

**Table no. 6. Competence of the Audit Committee**

**Issues requiring the resolution of the Audit Committee**

**as at 31 December 2014 and as at the day of this report:**

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

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

#### **11.4. Nominations and Remuneration Committee**

In connection with the commencement, as of 15 May 2014, of the 4th common term of the Supervisory Board of the Company and the appointment of its members by the State Treasury and the General Meeting, on 2 June 2014 the Supervisory Board established the Nominations and Remuneration Committee among its members.

**Personal composition of the Nominations and Remuneration Committee as at 31 December 2014 and as at the day of this report**

1. Antoni Tajduś – Chairman of the Nominations and Remuneration Committee,
2. Andrzej Gorgol – Member of the Nominations and Remuneration Committee,
3. Leszek Kozirowski – Member of the Nominations and Remuneration Committee,
4. Marek Ściążko – Member of the Nominations and Remuneration Committee.

#### **Changes in the personal composition of the Nominations and Remuneration Committee**

As at 1 January 2014 the Nominations and Remuneration Committee consisted of the following members: Antoni Tajduś (Chairman), Jacek Kuciński, Marek Ściążko and Agnieszka Trzaskalska.

On 2 June 2014, the Supervisory Board appointed the following members of the Nominations and Remuneration Committee: Andrzej Gorgol, Michał Michalewski, Marek Ściążko and Antoni Tajduś. On the same day the Nominations and Remuneration Committee elected Antoni Tajduś as the Chairman of the Nominations and Remuneration Committee among its members.

In connection with the appointment of new members of the Supervisory Board by the GM on 1 September 2014, on 28 October 2014 the Supervisory Board appointed Leszek Kozirowski as a member of the Nominations and Remuneration Committee.

On 28 October 2014, Michał Michalewski resigned from his function of the member of the Nominations and Remuneration Committee.

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

#### **Tasks and competence of the Nominations and Remuneration Committee**

The table below presents the tasks and competences of the Nominations and Remunerations Committee as at 31 December 2014 and as at the day of this report.

**Table no. 7. Competence of the Nominations and Remuneration Committee**

**Issues requiring the resolution of the Nominations and Remunerations Committee**

**as at 31 December 2014 and as at the day of this report:**

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

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

### **11.5. Strategy Committee**

In connection with the commencement, as of 15 May 2014, of the 4th common term of the Supervisory Board of the Company and the appointment of its members by the State Treasury and the General Meeting, on 2 June 2014 the Supervisory Board established the Strategy Committee among its members.

**Composition of the Strategy Committee as at 31 December 2014 and as at the day of this report**

1. Jacek Szyke - Chairman of the Strategy Committee,
2. Maciej Koński - Member of the Strategy Committee,
3. Michał Michalewski - Member of the Strategy Committee,
4. Marek Ściążko - Member of the Strategy Committee.

**Changes in the Strategy Committee personal composition**

As at 1 January 2014 the Strategy Committee consisted of the following members: Jacek Szyke (Chairman), Jacek Kuciński, Marek Ściążko, Agnieszka Trzaskalska, Rafał Wardziński.

Due to the dismissal of Rafał Wardziński from the Supervisory Board by the State Treasury on 22 January 2014, the composition of the Strategy Committee was reduced to four persons.

On 2 June 2014, the Supervisory Board appointed the following members of the Strategy Committee: Michał Michalewski, Jacek Szyke and Marek Ściążko. On the same day, the Strategy Committee elected Jacek Szyke as the Chairman of the Strategy Committee among its members.

In connection with the appointment of new members of the Supervisory Board by the GM on 1 September 2014, on 28 October 2014 the Supervisory Board appointed Maciej Koński as a member of the Strategy Committee.

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

**Tasks and competences of the Strategy Committee**

The table below presents the tasks and competences of the Strategy Committee as at 31 December 2014 and as at the day of this report.

**Table no. 8. Competence of the Audit Committee**

**Issues requiring the resolution of the Strategy Committee**

**as at 31 December 2014 and as at the day of this report**

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

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

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

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

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

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

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

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

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

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

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

## 12. Remuneration of key management and supervisory personnel

### Remuneration of key management personnel

The total amount of remuneration understood as the value of salaries, awards and benefits received in cash, in kind or in any other form, due or paid by the Company to the Management Board Members in 2014 amounted to PLN 7,440 thousand gross.

The model of remuneration of Board Members consists of two components for determining the remuneration, the fixed part (monthly basic salary) and the floating part, depending on fulfilment of specific target criteria (implementation of the task commissioned).

The members of the Management Board of the Company are not covered by the incentive or bonus programme based on the capital of the Company, neither do they receive any remuneration or awards due to performance in governing bodies of subsidiaries of TAURON Capital Group.

The table below presents the remuneration of members of the Company Management Board for 2014, divided into components

**Table no. 9. Remuneration of members of the Company Management Board for 2014, divided into components (in PLN thousand)**

No.	Surname and name	Period of holding the function in 2014	Remuneration*	Bonus*	Other benefits*	Total
1.	Dariusz Lubera	1 January 2014 - 31 December 2014	1,044	657	211	1,912
2.	Aleksander Grad	11 February 2014 - 16 March 2014** 17 March 2014 - 31 December 2014	801	175	87	1,063
3.	Katarzyna Rozenfeld	17 March 2014 - 31 December 2014	714	132	72	918
4.	Stanisław Tokarski	17 March 2014 - 31 December 2014	714	132	99	945
5.	Krzysztof Zawadzki	1 January 2014 - 31 December 2014	924	507	140	1,571
6.	Joanna Schmid	1 January 2014 - 17 March 2014	189	203	64	456
7.	Dariusz Stolarczyk	1 January 2014 - 17 March 2014	227	270	78	575
<b>Total</b>			<b>4,613</b>	<b>2,076</b>	<b>751</b>	<b>7,440</b>

\* Excluding overheads

\*\*A period of delegating Aleksander Grad, Member of the Supervisory Board to the temporary performance of activities of the Vice-President of the Company Management Board.

### Remuneration of key supervising personnel

The model of remuneration of the Supervisory Board members consists in single component, fixed part.

The table below presents the remuneration of members of the Company Supervisory Board Members for 2014

**Table no. 10. Remuneration of members of the Supervisory Board of the Company for 2014 (in thousand PLN)**

No.	Surname and name	Period of holding the function in 2014	Payroll and awards
1.	Antoni Tajduś	1 January 2014 - 31 December 2014	143
2.	Agnieszka Woś	22 January 2014 - 31 December 2014	122
3.	Jacek Szyke	1 January 2014 - 31 December 2014	115
4.	Andrzej Gorgol	15 May 2014 - 31 December 2014	68
5.	Maciej Koński	1 September 2014 - 31 December 2014	36
6.	Leszek Koziorowski	1 January 2014 - 15 May 2014 1 September 2014 - 31 December 2014	81
7.	Michał Michalewski	15 May 2014 - 31 December 2014	68
8.	Marek Ściążko	1 January 2014 - 31 December 2014	108
9.	Maciej Tybura	1 September 2014 - 31 December 2014	36
10.	Aleksander Grad*	1 February 2014 - 16 March 2014	3

No.	Surname and name	Period of holding the function in 2014	Payroll and awards
11.	Jacek Kuciński	1 January 2014 - 15 May 2014	40
12.	Marcin Majeranowski	1 January 2014 - 15 May 2014	40
13.	Agnieszka Trzaskalska	1 January 2014 - 15 May 2014	40
14.	Rafał Wardziński	1 January 2014 - 22 January 2014	8
<b>Total</b>			<b>908</b>

*\*Member of the Supervisory Board delegated to temporary performance of the activities of the Vice President of the Management Board of the Company in the period from 11 February 2014 to 16 March 2014.*

**13. 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 is caused by merger of the Company through takeover**

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