

***Report of the Supervisory Board on the
evaluation of the Consolidated financial statements of
TAURON Polska Energia S.A. Capital Group,
Report of the Management Board on activities of
TAURON Polska Energia S.A. Capital Group
and the Consolidated Report of TAURON Polska Energia
S.A. Capital Group on payments to governments
for the financial year ended on 31 December 2017***

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1. Introduction

Acting pursuant to Article 382 § 3 of Commercial Companies Code and § 20(1)(3) of the Company Articles of Association, the Supervisory Board of TAURON Polska Energia S.A. (hereinafter referred to as: the Supervisory Board) hereby submits to the Ordinary General Meeting the *Supervisory Board Report on evaluation of the Consolidated Financial Statements of TAURON Polska Energia S.A. Capital Group, Report of the Management Board on operations of TAURON Polska Energia S.A. Capital Group and the Consolidated Report of TAURON Polska Energia S.A. Capital Group on payments to governments for the financial year ended on 31 December 2017*, containing the results of evaluation of the following documents:

- 1) *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended on 31 December 2017 compliant with the International Financial Reporting Standards approved by the European Union,*
- 2) *Report of the Management Board on operations of TAURON Polska Energia S.A. for the financial year 2017,*
- 3) *Consolidated Report of TAURON Polska Energia S.A. Capital Group on payments to governments for the year ended 31 December 2017.*

The audit of the aforementioned reports of TAURON Polska Energia S.A. Capital Group was carried out by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw (hereinafter referred to as: the auditor), selected by the Supervisory Board for the purpose of performing the audit of the separate and consolidated financial statements of TAURON Polska Energia S.A. and TAURON Polska Energia S.A. Capital Group for the financial year 2017.

The assignment of the auditor was to examine and issue the opinion on the compliance of the consolidated financial statements for the financial year 2017 with the accounting principles (policy) adopted by TAURON Polska Energia S.A. Capital Group, as well as to state whether the financial statements present the financial standing and the economic situation as well as the financial result of TAURON Polska Energia S.A. Capital Group in a reliable and clear manner in all material aspects.

The Supervisory Board presents the results of the evaluation in this report.

2. **Evaluation of the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended on 31 December 2017 compliant with the International Financial Reporting Standards approved by the European Union***

The Supervisory Board has read and analysed the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended on 31 December 2017 compliant with the International Financial Reporting Standards approved by the European Union* comprising:

- 1) Consolidated statement of comprehensive income for the year ended on 31 December 2017 showing the total income in the amount of PLN 1,389,312 thousand and net profit for the financial year 2017 in the amount of PLN 1,382,946 thousand,
- 2) Consolidated statement of financial standing as at 31 December 2017, which indicates the total balance of assets and liabilities in the amount of PLN 35,792,021,
- 3) Consolidated statement of changes in equity for the year ended on 31 December 2017 showing equity increase by the amount of PLN 1,388,495 thousand,

- 4) Consolidated statement of cash flows for the year ended on 31 December 2017 showing cash flow increase by the amount of PLN 446,620 thousand,
- 5) Accounting principles (policy) and additional explanatory notes.

Consolidated statement of comprehensive income for the year ended 31 December 2017

The table below presents the consolidated statement of comprehensive income.

Table no. 1 Consolidated statement of comprehensive income (data in PLN thousand)

Consolidated statement of comprehensive income	Year ended 31 December 2017	Year ended 31 December 2016
Revenue on sales	17,416,029	17,646,489
Gross profit (loss) on sales	2,912,344	1,929,027
Operating profit (loss)	1,806,271	801,522
Gross profit (loss)	1,757,652	508,861
Net profit (loss)	1,382,946	370,137

Charges to the financial result have been determined correctly.

Consolidated statement of financial standing as at 31 December 2017

The table below presents the consolidated statement of financial standing.

Table no. 2. Consolidated statement of financial standing (in PLN thousand)

Consolidated statement of financial standing	Status as at 31 December 2017	Status as at 31 December 2016
ASSETS		
Fixed assets	31,049,127	29,148,253
Current assets	4,742,894	4,308,641
TOTAL ASSETS	35.792.021	33.456.894
LIABILITIES		
Total equity	18,067,813	16,679,318
Long-term liabilities	12,738,005	11,968,719
Short-term liabilities	4,986,203	4,808,857
TOTAL LIABILITIES	35,792,021	33,456,894

The level of liabilities and their settlement cycle do not raise any concerns.

Consolidated statement of changes in equity for the year ended on 31 December 2017

The table below presents the consolidated statement of changes in equity.

Table no 3. Consolidated statement of changes in equity (in PLN thousand)

Consolidated statement of changes in equity	Year ended 31 December 2017	Year ended 31 December 2016
Opening balance of equity	16,679,318	16,048,157
Closing balance of equity	18,067,813	16,679,318

The data presented in the consolidated statement of changes in equity for the year ended on 31 December 2016 are complete and reflect the actual state of affairs.

Consolidated statement of cash flows for the year ended on 31 December 2017

The table below presents the consolidated statement of cash flows.

Table no 4. Consolidated statement of cash flows (data in PLN thousand)

Consolidated statement of cash flows	Year ended 31 December 2017	Year ended 31 December 2016
Net cash from operating activities	3,558,667	3,064,215
Net cash from investment activities	(3,871,676)	(3,627,458)
Net cash from financial activities	759,629	590,261
Increase/(decrease) in net cash and cash equivalents	446,620	27,018
Cash opening balance	354,733	327,715
Cash closing balance	801,353	354,733

The Supervisory Board does not raise any objections or reservations to the presented consolidated statement of cash flows.

Following the review of the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended on 31 December 2017 compliant with the International Financial Reporting Standards approved by the European Union* as well as having read the opinion of the statutory auditor and the audit report, the Supervisory Board positively evaluates the said financial statements in terms of their compliance with the ledgers, documents and the actual state of affairs.

At the same time, the Supervisory Board declares that the aforementioned financial statements were prepared within the time limit defined in relevant regulations and in compliance with the International Financial Reporting Standards which were approved by the European Union. The accuracy of drawing up the said financial statements in terms of their compliance with the ledgers, documents and the actual state of affairs does not raise any objections and is confirmed by information contained in the auditor's report on the audit of the aforementioned financial statements.

According to information contained in the auditor's report on the audit of the aforementioned financial statements, the consolidated financial statements of TAURON Polska Energia S.A. Capital Group in all material aspects reflect in a reliable and clear manner all information significant for the evaluation of the financial result of economic activity, as well the economic and financial standing of TAURON Group and have been prepared adequately and in compliance with the applicable legal regulations.

In connection with the foregoing, the Supervisory Board recommends to the Ordinary General Meeting the approval of the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended on 31 December 2017 compliant with the International Financial Reporting Standards approved by the European Union*.

3. Evaluation of the Report of the Management Board on operations of TAURON Polska Energia S.A. Capital Group for the financial year 2017

Following the examination of the *Report of the Management Board on operations of TAURON Polska Energia S.A. Capital Group for the financial year 2017*, the Supervisory Board positively evaluates the said report in terms of its compliance with the ledgers, documents and the actual state of affairs. The said report reliably and clearly presents the economic situation and the financial standing as well as the development outlook of TAURON Polska Energia S.A. Capital Group and its completeness and compliance in the scope of information disclosed therein has been confirmed by the auditor.

At the same time, the Supervisory Board declares that the aforementioned report was prepared in compliance with applicable provisions of the Accounting Act of 29 September 1994 and the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent.

Taking into account the foregoing, the Supervisory Board recommends to the Ordinary General Meeting the approval of the *Report of the Management Board on operations of TAURON Polska Energia S.A. Capital Group for the financial year 2017*.

4. Evaluation of the Consolidated Report of TAURON Polska Energia S.A. Capital Group on payments to governments for the year ended 31 December 2017

Following in-depth examination of the *Consolidated Report of TAURON Polska Energia S.A. Capital Group on payments to governments for the year ended 31 December 2017*, the Supervisory Board positively evaluates the said report in the scope of its compliance with the provisions of the Accounting Act of 29 September 1994.

Taking into account the foregoing, the Supervisory Board recommends to the Ordinary General Meeting the approval of the *Consolidated Report of TAURON Polska Energia S.A. Capital Group on payments to governments for the year ended 31 December 2017*.

5. Summary

As a result of the evaluation performed, the Supervisory Board recognises that the reports related to TAURON Polska Energia S.A. Capital Group for the financial year 2017 in all relevant aspects:

- 1) present reliably and clearly all information significant for the evaluation of the economic and financial standing of TAURON Polska Energia S.A. Capital Group as well as its financial result for the financial year 2017,
- 2) are compliant with the applicable legal regulations governing the preparation of those reports affecting their form and contents,
- 3) were prepared based on ledgers properly kept in compliance with applicable accounting principles.

Driven by the outcome of the evaluation contained herein and information included in the auditor's report on the audit of the consolidated financial statements, the Supervisory Board recommends to the Ordinary General Meeting the approval of: *the Consolidated Financial Statements of TAURON Polska Energia S.A. Capital Group compliant with the International Financial Reporting Standards approved by the European Union for the financial year ended on 31 December 2017, Report of the Management Board on operations of TAURON Polska Energia S.A. Capital Group for the financial year 2017 and*

the Consolidated Report of TAURON Polska Energia S.A. Capital Group on payments to governments for the financial year ended on 31 December 2017.

Warsaw, 12 March 2018

Signatures of the Supervisory Board members presented at the meeting:

Chairperson of the Supervisory Board - Beata Chłodzińska

Vice Chairperson of the Supervisory Board - Teresa Famulska

Secretary of the Supervisory Board - Jacek Szyke

Member of the Supervisory Board - Barbara Łasak - Jarszak

Member of the Supervisory Board - Paweł Pampuszko

Member of the Supervisory Board - Jan Płudowski

Member of the Supervisory Board - Agnieszka Woźniak