

**TAURON POLSKA ENERGIA S.A.
CAPITAL GROUP
KATOWICE, UL. KS. PIOTRA
ŚCIEGIENNEGO 3**

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 2015 FINANCIAL YEAR**

**WITH
AUDITOR'S OPINION
AND
AUDIT REPORT**

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CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP FOR THE 2015 FINANCIAL YEAR

REPORT ON THE ACTIVITIES OF THE CAPITAL GROUP FOR THE 2015 FINANCIAL YEAR

AUDITOR'S OPINION

To the Shareholders and the Supervisory Board of TAURON Polska Energia S.A.

We have audited the attached consolidated financial statements of the TAURON Polska Energia S.A. Capital Group (hereinafter: the "Capital Group"), for which TAURON Polska Energia S.A. (hereinafter: the "Parent Company"), with its registered office in Katowice, at ul. ks. Piotra Ściegiennego 3, is the Parent Company. Those financial statements include: consolidated statement of financial position prepared as at 31 December 2015, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement for the financial year from 1 January 2015 to 31 December 2015 and notes comprising a summary of significant accounting policies and other explanatory information.

Preparation of consolidated financial statements and a report on the activities of the capital group in line with the law is the responsibility of the Management Board of the Parent Company.

The Management Board of the Parent Company and members of its Supervisory Board are obliged to ensure that the consolidated financial statements and the report on the activities of the Capital Group meet the requirements of the Accounting Act of 29 September 1994 (*Journal of Laws* of 2013 item 330, as amended), hereinafter referred to as the "Accounting Act".

Our responsibility was to audit and express an opinion on compliance of the consolidated financial statements with the accounting principles (policy) adopted by the Capital Group and whether the financial statements give a true and fair view of the financial and economic position as well as the financial performance of the Capital Group.

Our audit of the financial statements has been planned and performed in accordance with:

- section 7 of the Accounting Act;
- national auditing standards, issued by the National Council of Statutory Auditors in Poland.

We have planned and performed our audit of the consolidated financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) applied by the Parent Company and the subsidiaries, verification - largely on a test basis - of the basis for the amounts and disclosures in the consolidated financial statements, as well as overall evaluation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the audited consolidated financial statements in all material respects:

- give a true and fair view of the information material to evaluation of the economic and financial position of the Capital Group as at 31 December 2015 as well as its financial performance in the financial year from 1 January 2015 to 31 December 2015;
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and its executory provisions;
- comply with the provisions of law applicable to the Parent Company and Capital Group entities which affect the contents of the consolidated financial statements.

The report on the activities of the Capital Group for the 2015 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (*Journal of Laws* of 2014 item 133) and consistent with underlying information disclosed in the audited consolidated financial statements.

.....
Artur Maziarka
Key certified auditor
conducting the audit
No. 90108

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

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Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o.
— General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 8 March 2016

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

**REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL
STATEMENTS OF THE TAURON POLSKA ENERGIA S.A. CAPITAL GROUP
FOR THE 2015 FINANCIAL YEAR**

I. GENERAL INFORMATION

1. Details of the audited Parent Company

The Parent Company of the Capital Group operates under the business name TAURON Polska Energia S.A. (hereinafter: the "Parent Company"). The Parent Company's registered office is in Katowice, ul. ks. Piotra Ściegiennego 3.

The Parent Company operates as a joint stock company. At present the Parent Company is recorded in the Register of Entrepreneurs kept by the District Court for Katowice-Wschód, VIII Business Division of the National Court Register in Lublin, under number 0000271562.

The Parent Company operates based on the provisions of the Code of Commercial Companies.

As at 31 December 2015, the share capital of the Parent Company equalled PLN 8,762,747 thousand and was divided into 1,752,549,394 shares with a face value of PLN 5 each.

Composition of the Management Board of the Parent Company as at the date of the opinion:

- Remigiusz Nowakowski – Chairman of the Management Board;
- Jarosław Broda – Vice Chairman of the Management Board;
- Kamil Kamiński – Vice Chairman of the Management Board;
- Marek Wadowski – Vice Chairman of the Management Board;
- Piotr Zawistowski – Vice Chairman of the Management Board.

Changes in the composition of the Management Board of the Parent Company during the audited period and until the date of the opinion:

- on 1 October 2015, Mr. Dariusz Lubera was dismissed from the position of Chairman of the Management Board, and Mr. Aleksander Grad and Ms. Katarzyna Rozenfeld were dismissed from the positions of Deputies and their office was revoked on the same day;
- on 1 October 2015, the Supervisory Board appointed Mr. Jerzy Kurella for the position of Chairman of the Management Board, and appointed Mr. Michał Gramatyka and Mr. Henryk Borczyk for the positions of Deputy Chairmen of the Management Board;
- on 1 October 2015, Mr. Stanisław Tokarski and Mr. Krzysztof Zawadzki filed their resignation from the positions of Deputy Chairmen of the Management Board;
- on 10 October 2015, the Supervisory Board appointed Ms. Anna Strzyżek and Mr. Piotr Kołodziej for the positions of Deputies;
- on 8 December 2015, Mr. Jerzy Kurella was dismissed from the position of Chairman of the Management Board, and Ms. Anna Strzyżek and Mr. Piotr Kołodziej were dismissed from the positions of Deputies;
- on 8 December 2015, the Supervisory Board appointed Mr. Remigiusz Nowakowski for the position of Chairman of the Management Board, and appointed Mr. Jarosław Broda, Mr. Piotr Zawistowski and Mr. Kamil Kamiński for the positions of Deputy Chairmen of the Management Board;
- on 8 January 2016, Ms. Anna Strzyżek was dismissed from the position of Deputy Chairperson of the Management Board;
- on 29 January 2016, the Supervisory Board appointed Mr. Marek Wadowski for the position of Deputy Chairman of the Management Board.

2. Structure of the Capital Group

The consolidated financial statements as at 31 December 2015 cover the following entities:

- a) The Parent – TAURON Polska Energia S.A.

We have audited the financial statements of the Parent Company for the period from 1 January to 31 December 2015. As a result of our audit, we issued an unqualified opinion on 8 March 2016.

- b) Companies subject to full consolidation:

Company	Interest in the share capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity
TAURON Wytwarzanie S.A	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Ekoenergia Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Dystrybucja S.A.	99.72%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Sprzedaż Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Czech Energy s.r.o.	100%	An opinion on the audit of the Entity had not been issued by the date of this report.	31 December 2015
TAURON Sprzedaż GZE Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Ciepło Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Obsługa Klienta Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., in liquidation	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – qualified opinion	31 December 2015
TAURON Wydobywanie S.A.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Sweden Energy AB (publ)	100%	An opinion on the audit of the Entity had not been issued by the date of this report.	31 December 2015
TAURON Dystrybucja Pomiary Sp. z o.o.	99,72%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – opinion with an emphasis of matter	31 December 2015
TAURON Dystrybucja Serwis S.A.	99,72%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015

Kopalnia Wapienia Czatkowice Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
Biomasa Grupa TAURON Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – opinion with an emphasis of matter	31 December 2015

c) Companies subject to consolidation using the equity method:

Company	Interest in the share capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity
Elektrociepłownia Stalowa Wola S.A.	50%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – opinion with an emphasis of matter	31 December 2015
Elektrownia Blachownia Nowa Sp. z o.o.	50%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – opinion with an emphasis of matter	31 December 2015
TAMEH HOLDING Sp. z o.o.	50%	Not issued	31 March 2016
TAMEH POLSKA Sp. z o.o.	50%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAMEH Czech s.r.o	50%	An opinion on the audit of the Entity had not been issued by the date of this report.	31 December 2015

In the audited financial year, the Parent Company included Biomasa Grupa TAURON Sp. z o.o. in the consolidation.

3. Information about the consolidated financial statements for the prior financial year

In 2014, the activities of the Capital Group resulted in a net profit of PLN 1,185,560 thousand. The consolidated financial statements of the Capital Group for 2014 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. The certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting which approved the consolidated financial statements for the 2014 financial year was held on 23 April 2015.

The consolidated financial statements for the 2014 financial year were submitted to the National Court Register (KRS) on 29 April 2015.

4. Details of the authorized entity and the key certified auditor acting on its behalf

The entity authorized to audit the financial statements was appointed by the Supervisory Board. The audit of the consolidated financial statements was performed based on the agreement of 7 May 2013 concluded between the Parent Company and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., with its registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the financial statements was conducted under the supervision of Artur Maziarka, key certified auditor, (No. 90108), in the registered office of the Parent Company from 15 to 19 February 2016 and outside its premises until the date of this opinion.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor conducting audit confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight (Journal of Laws of 2009 No. 77, item 649, as amended) to express an unbiased and independent opinion on the consolidated financial statements of the Capital Group.

5. Availability of data and management's representations

The scope of our audit was not limited. During the audit, necessary documents and data as well as detailed information and explanations were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Parent Company's Management Board of 8 March 2016.

II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP

Presented below are the main items from the consolidated statement of comprehensive income, consolidated statement of financial position as well as financial ratios describing the financial performance of the Capital Group and its economic and financial position compared to the prior year.

Main financial data from the consolidated statement of comprehensive income (PLN '000)

	<u>2015</u>	<u>2014</u>
Sales revenue	18,375,224	18,557,479
Operating expenses	(20,248,603)	(16,862,130)
Operating profit (loss)	(1,901,141)	1,830,113
Net profit (loss)	(1,804,215)	1,185,560

Main financial data from consolidated statement of financial position (PLN '000)

Inventory	433,279	527,596
Receivables from clients	1,830,033	1,917,060
Current assets	3,947,248*	6,396,444*
Total assets	32,071,433	34,559,193
Equity	16,048,157	17,996,564
Short-term liabilities (including short-term provisions and accruals)	7,439,326	4,818,537*
Liabilities to suppliers	790,706	916,744
Total liabilities and provisions for liabilities	16,023,276	16,562,629

Profitability and efficiency ratios

	<u>2015</u>	<u>2014</u>
– return on sales	-10%	10%
– net return on equity	-10%	7%
– assets turnover ratio	0.57	0.53
– receivables turnover in days	37	38
– liabilities turnover in days	15	21
– inventory turnover in days	9	11

Liquidity/Net working capital

– debt ratio	50%	48%
– equity to fixed assets ratio	50%	52%
– net working capital (PLN '000)	(3,492,078)	325,172
– current ratio	0.53	1.07
– quick ratio	0.47	0.96

* Current assets include non-current assets classified as held for sale

* Current liabilities include liabilities classified and liabilities held for sale

An analysis of the above figures and ratios indicated the following trends in 2015:

- A decrease in the net return on equity ratios;
- an increase in the assets turnover ratio;
- a decrease in the receivables, liabilities and inventory turnover ratios;
- an increase in the debt ratio and a decrease in the equity to fixed assets ratio;
- a decrease in the net working capital;
- a decrease in the liquidity ratios.

III. DETAILED INFORMATION

1. Information about the audited consolidated financial statements

The audited consolidated financial statements were prepared as at 31 December 2015 and include:

- the consolidated statement of financial position prepared as at 31 December 2015, showing total assets, equity and liabilities of PLN 32,071,433 thousand;
- the consolidated statement of comprehensive income for the period from 1 January 2015 to 31 December 2015, disclosing a net loss of PLN 1,804,215 thousand and a negative total comprehensive income of PLN 1,682,139 thousand;
- the consolidated statement of changes in equity for the period from 1 January 2015 to 31 December 2015, disclosing a decrease in equity of PLN 1,948,407 thousand;
- the consolidated cash flow statement for the period from 1 January 2015 to 31 December 2015, showing a cash outflow of PLN 1,080,356 thousand;
- notes, comprising a summary of significant accounting policies and other explanatory information.

The audit covered the period from 1 January 2015 to 31 December 2015 and focused mainly on:

- verification of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent Company;
- verification of the consolidation documentation;
- evaluation of the correctness of the consolidation methods and procedures applied during consolidation.

2. Consolidation documentation

The Parent Company presented the consolidation documentation including:

- 1) financial statements of controlled entities, adjusted to the accounting principles (policy) applied during consolidation;
- 2) financial statements of controlled entities translated into the Polish currency;
- 3) consolidation adjustments and eliminations necessary for preparation of the consolidated financial statements;
- 4) calculation of non-controlling interest;
- 5) calculation of exchange differences arising from translation of the financial statements of controlled entities denominated in foreign currencies.

The financial statements of the subsidiaries were consolidated using the full method, i.e. full amounts of all relevant items of the financial statements of the Parent Company and the subsidiaries included in consolidation were summed up.

The equity method was applied with respect to associated entities. The value of the Parent Company's interest in the associated companies was adjusted by increases or decreases in the equity of the associated companies attributable to the Parent Company, which occurred in the period covered by consolidation.

The Parent Company preparing the consolidated financial statements has not applied any material simplifications and exceptions to the consolidation principles with respect to the controlled entities.

3. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Capital Group

The Parent Company confirmed the validity of the going concern basis in preparation of the consolidated financial statements. The notes and explanations to the consolidated financial statements give a description of measurement principles regarding assets, equity and liabilities, financial performance and principles of preparation of the consolidated financial statements.

The Parent Company prepared notes in the form of tables to individual items of the consolidated statement of financial position and consolidated statement of profit or loss and consolidated statement of comprehensive income as well as narrative descriptions in line with the requirement of IFRS.

The financial statements have been supplemented with the Parent Company's Management Board report on the activities of the Capital Group in the 2015 financial year. The report contains information required under Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (*Journal of Laws* of 2014 item 133). We have audited the report with respect to the disclosed information derived directly from the audited consolidated financial statements.

IV. FINAL NOTES

Management Board's Representations

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a representation letter from the Parent Company's Management Board, in which the Board stated that the Capital Group complied with the laws in force.

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Artur Maziarka
Key certified auditor
conducting the audit
No. 90108

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

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Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o.
— General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 8 March 2016