

**TAURON POLSKA ENERGIA S.A.
KATOWICE,
ULICA KS. PIOTRA ŚCIEGIENNEGO 3**

**FINANCIAL STATEMENTS
FOR THE 2015 FINANCIAL YEAR**

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

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**FINANCIAL STATEMENTS OF THE COMPANY FOR THE 2015 FINANCIAL
YEAR**

**MANAGEMENT BOARD REPORT ON THE ACTIVITIES OF THE COMPANY
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 financial statements of TAURON Polska Energia S.A. with its registered office in Katowice, at ul. ks. Piotra Ściegiennego 3, including a statement of financial position prepared as at 31 December 2015, statement of comprehensive income, statement of changes in equity, statement of cash flows 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, as required by the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and additional explanations, including regulatory statement required under Article 44 of the Energy Law of 10 April 1997 (Journal of Laws of 2012 item 1059 as amended, hereinafter the "Energy Law") presented in the form of note 51.

Preparation of financial statements and a report on the activities in line with the law and drawing up a regulatory statement compliant with Article 44 of the Energy Law is the responsibility of the Management Board of the Company.

The Management Board of the Company and members of its Supervisory Board are obliged to ensure that the financial statements and the report on the activities of the Company 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 financial statements with the accounting principles (policy) adopted by the Company and whether the financial statements give, in all material respects, a true and fair view of the financial and economic position as well as the financial performance of the Company and on the correctness of the underlying accounting records. As for the regulatory statement, our role was to audit and express our opinion on its compliance with Article 44 of the Energy Law.

Our audit of the financial statements and the regulatory statement 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 financial statements and the regulatory statement in such a way as to obtain reasonable assurance to express an opinion on the statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) and material estimates applied by the Company, verification - largely on a test basis - of the accounting evidence and records supporting the amounts and disclosures in the financial statements, as well as overall evaluation of the financial statements. We believe that the procedures applied have provided a reasonable basis to express an opinion on the financial statements and the regulatory statement's compliance with Article 44 of the Energy Law.

In our opinion the audited 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 Company 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 and based on properly kept accounting records,
- comply with the provisions of law and the by-laws of the Company, which affect the contents of the financial statements.

In our opinion, the regulatory statement of the Company prepared as at 31 December 2015 and for the period ended as at that date presented in note 51 in all material respects complies with Article 44 of the Energy Law.

The report on the activities of the Company 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 financial statements.

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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.
– which is the 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 FINANCIAL STATEMENTS
OF TAURON POLSKA ENERGIA S.A. FOR THE 2015 FINANCIAL YEAR**

I. GENERAL INFORMATION

1. Details of the audited Company

The Company operates under the business name TAURON Polska Energia S.A. Its registered office is located in Katowice, at ul. ks. Piotra Ściegiennego 3.

The Company operates as a joint stock company. It has been entered in the Register of Entrepreneurs of the National Court Register kept by the District Court for Katowice-Wschód in Katowice, VIII Business Division of the National Court Register, Entry No. KRS 0000271562.

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

As at 31 December 2015, the Company's issued capital equaled PLN 8,762,747 thousand and was divided into 1,752,549,394 shares with a face value of PLN 5 each. In the audited period, the Company conducted activities mainly in the area of head office and holding operations, sales of electricity, coal and gaseous fuels in a network system.

Composition of the Management Board as of the date of the opinion:

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

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

- on 1 October 2015, Dariusza Lubera was dismissed from the position of the President of the Management Board of the Company and Aleksander Grad and Katarzyna Rozenfeld were dismissed from the positions of the Vice-Presidents of the Management Board. Their term of office expired on the same day;
- on 1 October 2015, the Supervisory Board appointed Jerzy Kurella President of the Management Board and Michał Gramatyka and Henryk Borczyk - Vice-Presidents of the Management Board;
- on 1 October 2015 Stanisław Tokarski and Krzysztof Zawadzki resigned from their positions of the Vice-Presidents of the Management Board;
- on 10 October 2015, the Supervisory Board appointed Anna Striżyk and Piotr Kołodziej Vice-Presidents of the Management Board,
- on 8 December 2015 Jerzy Kurella was dismissed from the position of the President of the Management Board and Henryk Borczyk, Michał Gramatyka and Piotr Kołodziej were dismissed from the positions of the Vice-Presidents of the Management Board of the Company,
- on 8 December 2015 the Supervisory Board appointed Remigiusz Nowakowski President of the Management Board and Jarosław Broda, Piotr Zawistowski and Kamil Kamiński - Vice-Presidents of the Management Board,
- on 8 January 2016 Anna Striżyk was dismissed from the position of the Vice-President of the Management Board,
- on 29 January 2016 the Supervisory Board appointed Marek Wadowski to the position of the Vice-President of the Management Board.

2. Information on the financial statements for the previous financial year

The activities of the Company in 2014 resulted in a net profit of PLN 1,146,443 thousand. The financial statements of the Company 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 financial statements for the 2014 financial year was held on 23 April 2015. The General Shareholders' Meeting decided to distribute the net profit for 2014 in the following manner:

- dividends for shareholders – PLN 262,882 thousand ,
- reserve capital – PLN 883,561 thousand.

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

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

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

The entity authorized to audit the consolidated financial statements was appointed by the Supervisory Board. The financial statements were audited based on the agreement of 7 May 2013 concluded between TAURON Polska Energia S.A. and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with the 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 Company from 16 November to 20 November 2015, from 1 February to 5 February 2016 and outside the Company's premises until the opinion date.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor conducting the 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 financial statements of the Company.

4. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, all 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 Management Board of 8 March 2016.

II. ECONOMIC AND FINANCIAL POSITION OF THE COMPANY

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

<u>Main financial data from the statement of comprehensive income (PLN '000)</u>	<u>2015</u>	<u>2014</u>
Sales revenue	9,173,030	8,689,799
Operating expenses	(9,302,291)	(8,632,506)
Operating profit (loss)	(124,292)	58,652
Net profit (loss)	(3,453,908)	1,146,443
<u>Main financial data from statement of financial position (PLN '000)</u>		
Inventories	249,492	177,272
Trade receivables	579,446	941,842
Current assets	1,607,786	3,723,519
Total assets	26,474,156	30,340,530
Equity	16,592,497	20,239,567
Short-term liabilities (including short-term provisions and accruals)	4,812,541	2,589,867
Trade payables	493,936	594,007
Total liabilities and provisions	9,881,659	10,100,963
<u>Profitability and efficiency ratios</u>	<u>2015</u>	<u>2014</u>
– return on sales	-1%	1%
– net return on equity	-17%	6%
– assets turnover ratio	0.35	0.29
– receivables turnover in days	30	42
– payables turnover in days	21	28
– inventory turnover in days	8	7
<u>Liquidity/Net working capital</u>		
– debt ratio	37%	33%
– equity to fixed assets ratio	63%	67%
– net working capital (PLN '000)	(3,204,755)	1,133,652
– current ratio	0.33	1.44
– quick ratio	0.28	1.37

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

- a decrease in the net return on equity;
- an increase in the assets turnover ratio;
- a decrease in the receivables and liabilities 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 current and the quick ratio.

III. DETAILED INFORMATION

1. Evaluation of the accounting system

The Company has valid documentation describing the adopted accounting principles, complying in all material respects with Article 10 of the Accounting Act. The principles have been applied consistently and did not change compared to the principles applied in the prior year. The opening balance resulting from the approved financial statements for the prior financial year has been properly introduced into the accounting records of the audited period.

Based on tests performed during the audit procedures, we have verified the adopted accounting system and found no misstatements that would affect the financial statements. Our audit did not include, though, the entire accounting system used by the Company. Our audit procedures, however, did not cover the analysis of the entire accounting system used by the Company.

The Company performed a physical count of assets, equity and liabilities within the scope necessary to confirm the existence of the presented assets, equity and liabilities.

2. Information identifying the audited financial statements

The audited financial statements were prepared as of 31 December 2015 and comprise:

- statement of financial position prepared as at 31 December 2015, with total assets, equity and liabilities of PLN 26,474,156 thousand,
- statement of comprehensive income for the period from 1 January 2015 to 31 December 2015, with a net loss of PLN 3,453,908 thousand and the total negative comprehensive income of PLN 3,384,188 thousand,
- statement of changes in equity for the period from 1 January 2015 to 31 December 2015, disclosing an decrease in equity of PLN 3,647,070 thousand,
- statement of cash flows for the period from 1 January 2015 to 31 December 2015, showing an outflow of cash and cash equivalents of PLN 748,110 thousand,
- notes comprising a summary of significant accounting policies and other explanatory information.

3. Information about selected material items of the financial statements

The structure of assets, equity and liabilities as well as items affecting the financial result has been presented in the financial statements.

Long-term investments

Long-term investments of the Company include:

- shares in controlled entities of PLN 15,993,194 thousand,
- debt securities issued by subsidiaries of PLN 7,451,601 thousand,
- loans granted of PLN 1,417,165 thousand,
- investment property of PLN 28,935 thousand,
- other financial assets of PLN 5,279 thousand.

Explanatory notes correctly present changes in investments during the financial year.

Inventories

The structure of inventories and related impairment losses has been correctly presented in the relevant explanatory note to the statement of financial position.

Receivables

The ageing structure of trade receivables has been correctly presented in the relevant explanatory note to the statement of financial position. The audited sample did not include past-due or cancelled receivables.

Liabilities

The nature of contracted loans, security and maturity has been presented in the explanatory notes to the financial statements.

The liabilities' structure by type and maturity has been correctly presented in the relevant explanatory note to the statement of financial position.

Prepayments, accruals and provisions for liabilities

The structure of prepayments, accruals and provisions for liabilities has been presented in the notes.

4. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Company

The Company confirmed the validity of the going concern principle in the preparation of the financial statements. The notes and explanations give a correct and complete description of measurement principles regarding assets, equity, liabilities, financial profit or loss and principles of preparation of the financial statements.

The notes to the financial statements give a correct and complete description of the reporting items and clearly present other information required under IFRS.

The Management Board of Company prepared and supplemented the financial statements with a report on the activities of the Company in the 2015 financial year. The report contains information required under Article 49 of the Accounting Act and the Ordinance of the Minister of Finance Ordinance 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 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 Company's Management Board, in which the Board stated that the Company 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.
– which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 8 March 2016