

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

**FINANCIAL STATEMENTS
FOR THE 2016 FINANCIAL YEAR**

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

TABLE OF CONTENTS

AUDITOR'S OPINION	3
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF TAURON POLSKA ENERGIA S.A. FOR THE 2016 FINANCIAL YEAR	6
I. GENERAL INFORMATION	6
1. Details of the audited Company	6
2. Information on the financial statements for the previous financial year.....	6
3. Details of the authorized entity and the key certified auditor acting on its behalf.....	7
4. Availability of data and management's representations.....	7
II. ECONOMIC AND FINANCIAL POSITION OF THE COMPANY	8
III. DETAILED INFORMATION	9
1. Evaluation of the accounting system.....	9
2. Information identifying the audited financial statements	9
3. Information about selected material items of the financial statements.....	9
4. Completeness and correctness of notes and explanations and the report on the activities of the Company.....	10
IV. FINAL NOTES	11
 FINANCIAL STATEMENTS FOR THE 2016 FINANCIAL YEAR	
1. Statement of Financial Position	
2. Statement of Comprehensive Income	
3. Statement of Changes in Equity	
4. Statement of Cash Flows	
5. Notes comprising a summary of significant accounting policies and other explanatory information	
 REPORT ON THE ACTIVITIES OF THE COMPANY FOR THE 2016 FINANCIAL YEAR	

AUDITOR'S OPINION

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

Auditor's report

We have audited the attached financial statements of TAURON Polska Energia S.A. with its registered office in Katowice, ul. ks. Piotra Ściegiennego 3 (hereinafter: the "Company"), including statement of financial position prepared as at 31 December 2016, statement of comprehensive income, statement of changes in equity, statement of cash flows for the financial year from 1 January 2016 to 31 December 2016 and notes comprising a summary of significant accounting policies and other explanatory information.

Responsibility of the Company's manager and those charged with governance for the financial statements

The Management Board of the Company is responsible for the preparation of the financial statements, based on properly kept accounting records, and their fair presentation in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and applicable laws. It is also obliged to ensure internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act of 29 September 1994 (Journal of Laws of 2016 item 1047 as amended), hereinafter referred to as the "Accounting Act" the Management Board of the Company and members of its Supervisory Board are obliged to ensure that the financial statements meet the requirements of the Accounting Act.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit works.

We conducted our audit in accordance with Section 7 of the Accounting Act and the National Auditing Standards in line with the wording of the International Standards on Auditing adopted by Resolution No. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 as amended. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness

of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board of the Company, evaluating if accounting books based on which financial statements are prepared, are properly kept, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the attached financial statements:

- give a true and fair view of the economic and financial position of the Company as at 31 December 2016 and its financial performance for the financial year from 1 January 2016 to 31 December 2016 in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and the adopted accounting principles (policies),
- have been prepared based on properly kept accounting books,
- comply, with respect to their form and content, with the applicable provisions of law and the articles of association of the Company.

Report on other legal and regulatory requirements

Opinion on the report on the activities

We do not express an opinion on the report on the activities.

It is the responsibility of the Management Board of the Company to prepare the report on the activities in accordance with the Accounting Act and other applicable laws. Moreover, the Management Board of the Company and members of the Supervisory Board are obliged to ensure that the financial statements and the report on the activities meet the requirements of the Accounting Act.

When auditing the financial statements we were obliged to examine the report on the activities and indicate whether the information contained therein complies with Article 49 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 as amended) and is consistent with underlying information disclosed in the attached financial statements. Additionally, it was our responsibility to indicate whether we have detected any material misstatement in the report on the activities based on our knowledge of the Company and its business environment obtained in the course of the audit.

In our opinion, the information contained in the report on the activities complies with Article 49 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 as amended) and is consistent with underlying information disclosed in the attached financial statements. Moreover, based on our knowledge of the Company and its business environment obtained in the course of the audit, we have not detected any material misstatements in the report on the activities.

Statement of compliance with corporate governance principles

In relation to our audit of the financial statements, it was our responsibility to examine the Company's statement of compliance with corporate governance principles, which constitutes a separate part of the report on the activities. In our opinion, the Company's statement provides all information required by the secondary legislation issued under Article 60.2 of the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 29 July 2005 (Journal of Laws of 2016 item 1639 as amended) and regulations issued under Article 61 thereof. The information is compliant with the applicable laws and information presented in the financial statements.

Energy law requirements – regulatory financial information

The regulatory financial information contained in Note 52 and presenting items of the statement of financial position and of the statement of comprehensive income prepared separately for each type of business activity related to trading in gaseous fuels, as well as the basis of its preparation, including the principles of allocation of assets, liabilities, revenue and expenses to each such activity, was prepared by the Management Board to comply with the requirements of Article 44 of the Energy Law of 10 April 1997 (Journal of Laws of 2012 item 1059 as amended – hereinafter: the "Energy Law") (hereinafter: the "law"), including with respect to ensuring the equal treatment of customers and eliminating cross subsidization across the said activities.

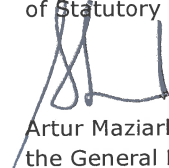
The scope of the regulatory financial information has been defined by the law. The scope of our audit did not include examination of the sufficiency of the information required under the law considering the purpose of its preparation, in particular with respect to ensuring the equal treatment of customers and eliminating cross subsidization across the said activities.

In our opinion, the regulatory financial information was prepared, in all material respects, in line with the basis of preparation, as presented in Note 52, and it satisfies the requirements of Article 44.2 of the law.



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:



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, 13 March 2017

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 FINANCIAL STATEMENTS
OF TAURON POLSKA ENERGIA S.A.
FOR THE 2016 FINANCIAL YEAR**

I. GENERAL INFORMATION

1. Details of the audited Company

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

The Company operates as a joint stock company. The Company is recorded in the Register of Entrepreneurs kept by the District Court in Katowice-Wschód, VIII Commercial Division of National Court Register under KRS number 0000271562.

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

As of 31 December 2016, the Company's share 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:

- | | |
|----------------------|-------------------------------------------|
| - Filip Grzegorzczuk | - President of the Management Board, |
| - Jarosław Broda | - Vice-President of the Management Board, |
| - Kamil Kamiński | - Vice-President of the Management Board, |
| - Marek Wadowski | - Vice-President of the Management Board, |
| - 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 8 January 2016 the Supervisory Board dismissed Mrs Anna Strzyk from the position of Vice-President of the Management Board,
- on 29 January 2016 the Supervisory Board appointed Mr. Marek Wadowski to hold the position of the Vice-President of the Management Board,
- on 14 November 2016 the Supervisory Board dismissed Mr. Remigiusz Nowakowski from the position of President of the Management Board and appointed Mr Filip Grzegorzczuk to hold this position.

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

The activities of the Company in 2015 resulted in a net loss of PLN 3.453.908 thousand. The financial statements of the Company for the 2016 financial year 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 2015 financial year was held on 8 June 2016. The General Shareholders' Meeting decided to cover the net loss for 2016 entirely from reserve capital.

The standalone financial statements for the 2015 financial year were submitted to the National Court Register (KRS) on 13 June 2016.

The consolidated financial statements for the 2015 financial year were submitted to the National Court Register (KRS) on 13 June 2016.

3. 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 financial statements was performed based on the agreement of 15 June 2016 concluded between the Company and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw, al. Jana Pawła II 22, 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 31 October to 10 November 2016, from 6 to 17 February 2017 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 certified auditors and their self-government, entities authorized to audit financial statements and public supervision (Journal of Laws of 2016 item 1000 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, 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 13 March 2017.

II. ECONOMIC AND FINANCIAL POSITION OF THE COMPANY

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

Main items from the statement of comprehensive income (PLN '000)

	<u>2016</u>	<u>2015</u>
Sales revenue	7.995 328	9.062.246
Operating expenses	(7.938 261)	(9.191.582)
Operating profit (loss)	(34.603)	(124.367)
Net profit (loss)	(166.253)	(3.453.908)

Main items from the statement of financial position (PLN '000)

Inventory	284.799	249.492
Receivables from clients	840.656	579.446
Current assets	1.817.047	1.607.786
Total assets	27.672.376	26.474.156
Equity	16.530.268	16.592.497
Short-term liabilities (including short-term provisions and accruals)	2.172.132	4.812.541
Liabilities to suppliers	473.637	493.936
Total liabilities and provisions	11.142.108	9.881.659

Profitability and efficiency ratios

	<u>2016</u>	<u>2015</u>
- return on sales	-0,4%	-1,4%
- net return on equity	-1,0%	-17,2%
- assets turnover ratio	0,29	0,34
- receivables turnover in days	32	30
- liabilities turnover in days	22	21
- inventory turnover in days	12	8

Liquidity/Net working capital

- debt ratio	40,3%	37,3%
- equity to fixed assets ratio	59,7%	62,7%
- net working capital (PLN '000)	(355.085)	(3.204.755)
- current ratio	0,84	0,33
- quick ratio	0,71	0,28

An analysis of the above figures and ratios indicated the following trends in 2016:

- increase of return on sales and net return on equity;
- decrease of assets turnover ratio;
- increase of receivables, liabilities and inventory turnover ratios;
- increase of debt ratio and decrease of equity to fixed assets ratio;
- decrease of net working capital deficit;
- increase of liquidity ratios.

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.

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 2016 and include:

- statement of financial position prepared as of 31 December 2016, with total assets and liabilities plus equity of PLN 27.672.376 thousand,
- statement of comprehensive income for the period from 1 January 2016 to 31 December 2016, with a net loss of PLN 166.253 thousand and total negative comprehensive income of PLN 62.229 thousand,
- statement of changes in equity for the period from 1 January 2016 to 31 December 2016, disclosing a decrease in equity of PLN 62.229 thousand,
- statement of cash flows for the period from 1 January 2016 to 31 December 2016, showing a cash outflow of PLN 366.266 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 have been presented in the financial statements.

Long-term investments

The structure of shares, bonds and loans granted as well as related impairment losses has been correctly presented in the relevant explanatory note to the statement of financial position.

Inventory

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

Receivables

Ageing of trade receivables has been correctly presented in the respective explanatory note to the statement of financial position, together with related impairment losses.

Liabilities

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

Ageing of trade liabilities has been disclosed 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 is presented in relevant explanatory notes.

4. Completeness and correctness of 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 result 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 financial statements have been supplemented with the Management Board's report on the activities of the Company in the 2016 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 as amended). 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.



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:



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, 13 March 2017