



***Supervisory Board Report on evaluation of the
Financial Statements of TAURON Polska Energia S.A.,
the Report of the Management Board on the operations of
TAURON Polska Energia S.A. for the financial year ended 31
December 2016 and the Management Board motion
concerning covering the loss
for the financial year 2016***

Katowice, March 2017

TABLE OF CONTENTS:

1. Introduction.....	3
2. Evaluation of the <i>Financial Statements of TAURON Polska Energia S.A. for the year ended 31 December 2016, compliant with International Financial Reporting Standards approved by the European Union</i>	3
3. Evaluation of the <i>Report of the Management Board on operations of TAURON Polska Energia S.A. for the financial year 2016</i>	6
4. Evaluation of the Management Board motion concerning covering the loss for the financial year 2016	6
5. The opinion of the Supervisory Board on the economic rationale behind the Company capital involvement in the financial year 2016 in other commercial law entities.....	6
6. Summary	9

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 Supervisory Board) presents to the Ordinary General Meeting of TAURON Polska Energia S.A. The *Supervisory Board Report on evaluation of the Financial Statements of TAURON Polska Energia S.A. and the Report of the Management Board on the operations of TAURON Polska Energia S.A. for the year ended 31 December 2016 and the motion of the Management Board concerning covering of the net loss for the financial year 2016*, containing the results of evaluation of the following documents:

- 1) *Financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2016, 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 2016,*
- 3) *Motion of the Management Board concerning covering of the net loss for the financial year 2016.*

At the same time, pursuant to § 20(1)(6) of the Company Articles of Association, the Supervisory Board issues its opinion on the economic rationale behind the Company capital involvement in other commercial law entities incurred in 2016.

The examination of the aforementioned statements of TAURON Polska Energia S.A. was carried out by Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw (hereinafter referred to as the certified auditor), appointed by the Supervisory Board to examine the separate and consolidated financial statements of TAURON Polska Energia S.A. and TAURON Polska Energia S.A. Capital Group for the financial year 2016.

The task of the certified auditor was to examine and present the opinion on the compliance of the financial statements for the financial year 2016 with the accounting principles (policy) adopted by TAURON Polska Energia S.A. as well as whether the financial standing, assets and financial results of TAURON Polska Energia S.A. are presented in an accurate and clear manner in all relevant aspects.

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

2. **Evaluation of *Financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2016, compliant with the International Financial Reporting Standards approved by the European Union***

The Supervisory Board has read and analysed the *Financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards approved by the European Union*, comprising:

- 1) Statement of comprehensive income for the year ended on 31 December 2016 showing comprehensive negative income in the amount of PLN 62,229 thousand and net loss for the financial year 2016 in the amount of PLN 166,253 thousand,
- 2) Statement of financial standing as at 31 December 2016, which indicates the total balance of assets and liabilities in the amount of PLN 27.672.376,
- 3) Statement of changes in equity for the year ended on 31 December 2016 showing equity decrease of PLN 62,229 thousand,
- 4) Statement of cash flows for the year ended on 31 December 2016 showing net cash flow decrease of PLN 366,266 thousand,
- 5) Accounting principles (policy) and additional explanatory notes.

Statement of comprehensive income for the year ended 31 December 2016

The table below presents the consolidated statement of comprehensive income.

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

Statement of comprehensive income	Status as at 31 December 2016	Status as at 31 December 2015
Revenue on sales	7,995,328	9,062,246
Gross profit (loss) on sales	157,761	(11,623)
Operating profit (loss)	(34,603)	(124,367)
Gross profit (loss)	(149,134)	(3,450,794)
Net profit (loss)	(166,253)	(3,453,908)

Charges on the financial result have been determined correctly.

Statement of financial standing as at 31 December 2016

The table below presents the consolidated statement of financial standing.

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

Statement of financial standing	Status as at 31 December 2016	Status as at 31 December 2015
ASSETS		
Fixed assets	25,855,329	24,866,370
Current assets	1,817,047	1,607,786
TOTAL ASSETS	27,672,376	26,474,156
LIABILITIES		
Total equity	16,530,268	16,592,497
Long-term liabilities	8,969,976	5,069,118
Short-term liabilities	2,172,132	4,812,541
TOTAL LIABILITIES	27,672,376	26,474,156

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

Statement of changes in equity for the year ended 31 December 2016

The table below presents consolidated statement of changes in equity.

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

Statement of changes in equity	Year ended 31 December 2016	Year ended 31 December 2015
Opening balance of equity	16,592,497	20,239,567
Closing balance of equity	16,530,268	16,592,497

The data presented in the statement of changes in equity for the year ended 31

December 2016 are complete and reflect the actual state of affairs.

Statement of cash flows for the year ended 31 December 2016

The table below presents the statement of cash flows.

Table no 4. Statement of Cash Flow (data in thousand PLN)

Statement of Cash Flows	Year ended 31 December 2016	Year ended 31 December 2015
Net cash flows from operating activities	(232,887)	157,609
Net cash flows from investment activities	(619,543)	(318,640)
Net cash flows from financial activities	486,164	(587,079)
Increase/(decrease) in net cash and cash equivalents	(366,266)	(748,110)
Cash opening balance	(679,175)	68,935
Cash closing balance	(1.045.441)	(679,175)

The Supervisory Board has no objections or reservations to the presented statement of cash flows.

Following the in-depth analysis of the *Financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards approved by the European Union*, and having read the opinion and the report of the certified auditor, 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 specified in relevant regulations and in compliance with the International Financial Reporting Standards which were approved by the European Union. The compliance of preparation of the said financial statements with the ledgers, documents and the actual state of affairs does not raise any objections and is confirmed by the positive opinion of the certified auditor.

According to the opinion of the certified auditor, the financial statements of TAURON Polska Energia S.A. in all material aspects reflect in a clear and adequate manner all information necessary to evaluate the financial result on the operations, as well the economic and financial standing of TAURON Group and have been prepared correctly and in accordance with applicable laws.

Taking into account the foregoing, the Supervisory Board recommends that the Ordinary General Meeting approve the *Financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2016, 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. for the financial year 2016

Following the in-depth analysis of the *Management Board report on operations of TAURON Polska Energia S.A. for the financial year 2016*, 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 presents in a clear and accurate manner the economic and the financial standing as well as development outlook of TAURON Polska Energia S.A. and its compliance in the scope of information disclosed therein has been confirmed by the certified 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 that the Ordinary General Meeting approve the *Management Board report on operations of TAURON Polska Energia S.A. for the financial year 2016.*

4. Evaluation of the Management Board motion concerning the covering the loss for the financial year 2016

The Supervisory Board has read the motion of the Company Management Board requesting to cover the net loss of the Company for the financial year 2016 covering the period from 1 January 2016 to 31 December 2016 in the amount of PLN 166,252,898.52 (say one hundred sixty six million two hundred fifty two thousand eight hundred ninety eight and 52/100) from the Company reserve capital.

Considering the justification of the Company Management Board concerning covering the loss for the financial year 2016, the Supervisory Board positively evaluates and does not raise any reservations to the aforementioned motion.

5. The opinion of the Supervisory Board on the economic rationale behind the Company capital involvement in the financial year 2016 in other commercial law entities

Acting pursuant to § 20(1)(6) of the Company Articles of Association, the Supervisory Board positively assesses the capital involvement of TAURON Polska Energia S.A. in other commercial law entities

in the financial year 2016. The table below presents capital investment implemented by the Company in 2016:

Table no 5. Capital investment in the financial year 2016

No.	Investment	Description
		In 2016 TAURON took up new shares in the increased share capital of Nowe Brzeszcze GT company three times, in the total amount of PLN 182,900 thousand, including:
1.	Purchase of Nowe Brzeszcze Grupa TAURON sp. z o.o. shares	<p>1) On 29 January 2016 the District Court for Katowice – Wschód, 8th Commercial Department, registered the increase in the share capital of Nowe Brzeszcze GT company in the National Court Register, as adopted by the Extraordinary Shareholders' Meeting (SM) of Nowe Brzeszcze GT on 31 December 2015. The share capital of the company was increased from the amount of PLN 2,100,000 to the amount of PLN 5,000,000, i.e. by the amount of PLN 2,900,000, by way of issuance of 29,000 new shares with the nominal value of PLN 100 per share and with the total nominal value of PLN 2,900,000. The shares were taken up by TAURON as the existing sole shareholder of the company, in exchange for the cash contribution at a price of PLN 1,000 per share, i.e. for the total amount of PLN 29,000,000.</p> <p>The surplus of the price of taking up each new share in the increased share capital of the company over its nominal value, in the total amount of PLN 26,100,000 was transferred to the reserve capital of the company which had been established under the aforementioned resolution.</p> <p>2) On 6 May 2016 the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Department of the National Court Register, registered the increase in the share capital of the Nowe Brzeszcze GT company in the National Court Register, as adopted by the Extraordinary SM of Nowe Brzeszcze GT on 22 March 2016. The share capital of the company was increased from the amount of PLN 5,000,000 to the amount of PLN 55,000,000, i.e. by the amount of PLN 50,000,000 by way of issuance of 500,000 new shares with the nominal value of PLN 100 per share, with the total nominal value of PLN 50,000,000. The shares were taken up by TAURON as the existing sole shareholder of the company, in exchange for the cash contribution at a price of PLN 300 per share, i.e. for the total amount of PLN 150,000,000.</p> <p>The surplus of price for taking up each share in the increased share capital of the company over its nominal value, at a level of PLN 200 per share, i.e. in the total amount of PLN 100,000,000 was transferred to the reserve capital of the company.</p> <p>3) On 25 August 2016 the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Department of the National Court Register, registered the increase in the share capital of the Nowe Brzeszcze GT company in the National Court Register, as adopted by the Extraordinary SM of Nowe Brzeszcze GT on 11 August 2016. The share capital of the company was increased from the amount of PLN 55,000,000 to the amount of PLN 55,078,000, i.e. by the amount of PLN 78,000 by way of issuance of 780 new shares with the nominal value of PLN 100 per share, with the total nominal value of PLN 78,000. The shares were taken up by TAURON as the existing sole shareholder of the company, in exchange for the cash contribution at a price of PLN 5,000 per share, i.e. for the total amount of PLN 3,900,000.</p> <p>The surplus of price for taking up of each share in the increased share capital of the company over its nominal value, at a level of PLN 3,822,000 was transferred to the supplementary capital of the company.</p>

No.	Investment	Description
		<p>In 2016 TAURON took up new shares in the increased share capital of TAURON Wydobycie twice, in the total amount of PLN 347,000 thousand, including:</p> <ol style="list-style-type: none"> <li data-bbox="606 392 1418 705">1) On 28 June 2016 the District Court for Katowice – Wschód, 8th Commercial Department, registered the increase in the share capital of TAURON Wydobycie company in the National Court Register, as adopted by the Extraordinary Shareholders' Meeting (SM) of TAURON Wydobycie on 29 April 2016. The share capital of the company was increased from the amount of PLN 352,040,780 to the amount of PLN 780, i.e. by the amount of PLN 2,500,000, by way of issuance of 250,000 new shares with the nominal value of PLN 10 per share, with the total nominal value of PLN 2,500,000. The shares were taken up by TAURON as the existing sole shareholder of the company, in exchange for the cash contribution at a price of PLN 1,000 per share, i.e. for the total amount of PLN 250,000,000. <p>The surplus of the issue of each new share in the increased share capital of the company over its nominal value, at a level of PLN 990 per share, i.e. in the total amount of PLN 247,500,000 was transferred to the reserve capital of the company.</p> <ol style="list-style-type: none"> <li data-bbox="606 840 1418 1153">2) On 27 October 2016 the District Court for Katowice – Wschód, 8th Commercial Department, registered the increase in the share capital of TAURON Wydobycie company in the National Court Register, as adopted by the Extraordinary SM of TAURON Wydobycie on 28 September 2016. The share capital of the company was increased from the amount of PLN 354,540,780 to the amount of PLN 355,510,780, i.e. by the amount of PLN 970,000, by way of issuance of 97,000 new shares with the nominal value of PLN 10 per share, with the total nominal value of PLN 970,000. The shares were taken up by TAURON as the existing sole shareholder of the company, in exchange for the cash contribution at a price of PLN 1,000 per share, i.e. for the total amount of PLN 97,000,000. <p>The surplus of the issue price in the increased share capital of the company over its nominal value, at a level of PLN 96,030,000 was transferred to the reserve capital of the company.</p>
3.	Purchase of TAURON Wytwarzanie Serwis S.A. shares	<p>On 4 August 2016, TAURON purchased 63,910 shares of TAURON Wytwarzanie Serwis company, so far used by TAURON, from TAURON Wytwarzanie (TAURON Wytwarzanie), with the nominal value of PLN 50 per share and the total nominal value of PLN 3,195,500, constituting 95.54% interest in the share capital of TAURON Wytwarzanie Serwis company.</p> <p>The purchase of TAURON Wytwarzanie Serwis shares was one of the stages of implementation of the programme on <i>Reorganisation of service area in TAURON Group</i>. On 2 November 2016, the merger of the following companies took place: TAURON Serwis, as the acquiring company, with TAURON Wytwarzanie Serwis, as the acquired company.</p>
4	Purchase of ElectroMobility Poland S.A. shares	<p>On 19 October 2016, TAURON and PGE Polska Grupa Energetyczna S.A. (PGE), ENEA S.A. (ENEA) and ENERGA S.A. (ENERGA) established the company under the enterprise name of <i>ElectroMobility Poland S.A.</i> with its registered office in Warsaw, where TAURON took up 2,500 shares with the nominal value of PLN 1,000 per share and the total nominal value of PLN 2,500,000, constituting 25% share in the share capital of the company. ElectroMobility Poland was registered in the National Court Register on 7 December 2016.</p> <p>The core area of the company activity will include conducting of research and analyses in the scope of development, promotion and popularisation of electromobility and development of electromobility industry in Poland.</p>

No.	Investment	Description
5.	Subsidies to the capital of PEPKH in liquidation	On 8 November 2016, the Extraordinary SM of PEPKH in liquidation adopted the resolution on contribution of subsidies to the company capitals in the amount of PLN 6,000 thousand. The subsidies were contributed with the aim of ensuring funding opportunities for the company operations. Funds within subsidies were contributed by TAURON on 9 November 2016.
6.	Purchase of shares in Biomasa Grupa TAURON Sp. z o.o.	On 15 December 2016, a company under the enterprise name of Magenta Grupa TAURON sp. z o.o. (Magenta Grupa TAURON) with its registered office in Katowice was established, where all 10,000 shares with the nominal value of PLN 50 per share and the total nominal value of PLN 500,000 were taken up by TAURON. The company was registered in the National Court Register on 31 January 2017. Magenta Grupa TAURON was established in order to support the long-term development of TAURON Capital Group through investment in enterprises in the seed and start-up phase and conducting development projects responding to the needs of TAURON Capital Group.
7.	Purchase of shares in PGE EJ 1 sp. z o.o. company	On 21 December 2016, the Extraordinary SM of the PGE EJ 1 sp. z o.o. company (PGE EJ 1) adopted the resolution on the increase of the share capital from the amount of PLN 275,859,450 to the amount of PLN 310,858,470, i.e. by the amount of PLN 34,999,020 through creating 248,220 new shares with the nominal value of PLN 141 per share and the total nominal value of PLN 34,999,020. TAURON will take up 10% of new created shares, i.e. 24,822 shares with the total nominal value of PLN 3,499,902. The increase of the share capital was registered in the National Court Register on 15 February 2017.

The aforementioned processes were compliant with the current *Strategy of TAURON Group for 2016 - 2025* as well as with the *Corporate Strategy of TAURON Group for 2014 - 2017 with estimates until the year 2023*, effective until 1 September 2016.

6. Summary

Following the evaluation, the Supervisory Board recognises that the financial statements of TAURON Polska Energia S.A. for the financial year 2016 in all relevant aspects:

- 1) present in a clear and reliable manner all information necessary to evaluate the economic, financial standing and the financial result of TAURON Polska Energia S.A. for the financial year 2016,
- 2) comply with the applicable laws and regulations that define their preparation,
- 3) were prepared based on properly maintained ledgers in accordance with applicable accounting principles.

Following the results of evaluation presented herein and the positive opinion of the certified auditor, the Supervisory Board recommends to the Ordinary General Meeting to approve the *Financial Statements of TAURON Polska Energia S.A., compliant with the International Financial Reporting Standards approved by the European Union and the Report of the Management Board on the operations of TAURON Polska Energia S.A. for the financial year 2016*.

At the same time, taking into account the positive opinion issued, the Supervisory Board recommends to the Ordinary General Meeting to cover the loss for the financial year 2016 as proposed in the motion of the Company Management Board, i.e. from the reserve capital of the Company.

Katowice, 15 March 2017

Chairwoman of the Supervisory Board -	Beata Chłodzińska
Vice-Chairwoman of the Supervisory Board -	Anna Mańk
Secretary of the Supervisory Board -	Jacek Szyke
Member of the Supervisory Board -	Stanisław Bortkiewicz
Member of the Supervisory Board -	Leszek Kozirowski
Member of the Supervisory Board -	Jan Płudowski
Member of the Supervisory Board -	Jacek Rawecki
Member of the Supervisory Board -	Stefan Świątkowski
Member of the Supervisory Board -	Agnieszka Woźniak