

***Report of the Supervisory Board on the evaluation of
the Financial statements of TAURON Polska Energia S.A.,
Report of the Management Board on activities of TAURON
Polska Energia S.A. for the financial year ended
on 31 December 2017
and the motion of the Management Board concerning the
method of distributing net profit for the financial year 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 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 2017 and the motion of the Management Board concerning the method of distributing net profit for the financial year 2017*, containing the results of evaluation of the following documents:

- 1) *Financial statements of TAURON Polska Energia S.A. 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) *the motion of the Management Board concerning the method of distributing net profit for the financial year 2017.*

At the same time, pursuant to § 20(1)(6) of the Company Articles of Association, the Supervisory Board issues its opinion on the economic appropriateness of the Company capital involvement in other commercial law entities in the financial year 2017.

The audit of the aforementioned reports of TAURON Polska Energia S.A. 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 statutory 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 statutory auditor was to examine the compliance of the consolidated financial statements for the financial year 2017 with the accounting principles (policy) adopted by TAURON Polska Energia S.A. 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. 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 *Financial statements of TAURON Polska Energia S.A. 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 *Financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2017 compliant with the International Financial Reporting Standards approved by the European Union*, comprising:

- 1) Statement of comprehensive income for the year ended on 31 December 2017 showing positive comprehensive income in the amount of PLN 847,638 thousand and net profit for the financial year 2017 in the amount of PLN 854,351 thousand,
- 2) Statement of financial standing as at 31 December 2017, which indicates the total balance of assets and liabilities in the amount of PLN 30,273,092,
- 3) Statement of changes in equity for the year ended on 31 December 2017 showing equity increase by the amount of PLN 847,638 thousand,
- 4) Statement of cash flows for the year ended on 31 December 2017 showing net cash flow decrease of PLN 513,791 thousand,
- 5) Accounting principles (policy) and additional explanatory notes.

Statement of comprehensive income for the year ended on 31 December 2017

The table below presents the statement of comprehensive income.

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

Statement of comprehensive income	Year ended 31 December 2017	Year ended 31 December 2016
Revenue on sales	7,792,025	7,995,328
Gross profit (loss) on sales	377,318	157,761
Operating profit (loss)	262,788	(34,603)
Gross profit (loss)	919,565	(149,134)
Net profit (loss)	854,351	(166,253)

Charges to the financial result have been determined correctly.

Statement of financial standing as at 31 December 2017

The table below presents the statement of financial standing.

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

Statement of financial standing	Status as at 31 December 2017	Status as at 31 December 2016
ASSETS		
Fixed assets	27,371,425	25,855,329
Current assets	2,901,667	1,817,047
TOTAL ASSETS	30,273,092	27,672,376
LIABILITIES		
Total equity	17,377,906	16,530,268
Long-term liabilities	9,530,528	8,969,976
Short-term liabilities	3,364,658	2,172,132
TOTAL LIABILITIES	30,273,092	27,672,376

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

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

The table below presents the 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 2017	Year ended 31 December 2016
Opening balance of equity	16,530,268	16,592,497
Closing balance of equity	17,377,906	16,530,268

The data presented in the statement of changes in equity for the year ended on 31 December 2017 are complete and reflect the actual state of affairs.

Statement of cash flows for the year ended on 31 December 2017

The table below presents the statement of cash flows.

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

Statement of Cash Flows	Year ended 31 December 2017	Year ended 31 December 2016
Net cash from operating activities	246,027	(232,887)
Net cash from investment activities	(1,353,288)	(619,543)
Net cash from financial activities	593,470	486,164
Increase/(decrease) in net cash and cash equivalents	(513,791)	(366,266)
Cash opening balance	(1,045,441)	(679,175)
Cash closing balance	(1,559,232)	(1,045,441)

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

Following the review of the *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 auditor and the report on audit of the aforementioned financial statements, 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 financial statements of the Company for the financial year 2017.

According to information contained in the auditor's report on the audit of the aforementioned financial statements, the financial statements of TAURON Polska Energia S.A. 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 *Financial statements of TAURON Polska Energia S.A. for the year ended on 31 December 2017 compliant with International Financial Reporting Standards approved by the European*

Union.

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

Following the examination of the *Report of the Management Board on operations of TAURON Polska Energia S.A. 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. and its completeness and compliance in the scope of information disclosed therein has been confirmed by the statutory 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 *Management Board report on operations of TAURON Polska Energia S.A. for the financial year 2017*.

4. Evaluation of the motion of the Management Board to the General Meeting concerning the method of distributing net profit for the financial year 2017.

The Supervisory Board examined the motion of the Management Board to the General Meeting concerning the method of distributing net profit gained by TAURON Polska Energia S.A. for the financial year 2017, covering the period from 1 January 2017 to 31 December 2017 in the amount of PLN 854,350,522.56 (in words: eight hundred fifty four million three hundred fifty thousand five hundred twenty two zlotys 56/100), through its full allocation for supplying the supplementary capital of the Company.

Considering the justification of the Company Management Board concerning the method of distributing net profit for the financial year 2017, 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 appropriateness of the Company capital involvement in other commercial law entities in the financial year 2017

Acting pursuant to § 20(1)(6) of the Company Articles of Association, the Supervisory Board positively evaluates the capital involvement of TAURON Polska Energia S.A. in other commercial law entities in the financial year 2017.

The table below presents capital investment performed by the Company in 2017:

Table no 5. Capital investment in the financial year 2017

No.	Investment	Description
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No.	Investment	Description
		<p>In 2017, TAURON acquired the shares of Nowe Jaworzno Grupa TAURON sp. z o.o. Company three times, including as a result of the performed demerger of TAURON Wytwarzanie and increase of the share capital, i.e.:</p> <p>1) On 31 January 2017, the Extraordinary General Meeting of TAURON Wytwarzanie S.A. adopted the resolution concerning the demerger of TAURON Wytwarzanie S.A. company through separation, pursuant to Article 529 §1(4) of the Commercial Companies Code, i.e. through the transfer of a part of TAURON Wytwarzanie assets in the form of an organised part of the enterprise comprising the investment process of construction of the new 910 MW unit at Elektrownia Jaworzno III, carried out in TAURON Wytwarzanie - Oddział Jaworzno 910 MW in Jaworzno, to the newly established company, Nowe Jaworzno Grupa TAURON sp. z o.o., in exchange for 37,000 shares of the company Nowe Jaworzno Grupa TAURON sp. z o.o., with the nominal value of PLN 50 per share and the total nominal value of PLN 1,850,000, which were taken up by the sole shareholder of the divided company, i.e. TAURON.</p> <p>The establishment of the Company was associated with the demerger process demonstrating the implementation of the <i>TAURON Group's 2016 – 2025 Strategy</i>, pursuant to which the project on the construction of a 910 MW unit at Elektrownia Jaworzno III will be implemented under a new financing formula, assuming the separation of an organised part of the enterprise from TAURON Wytwarzanie S.A. company and sale of a part of shares to external partners.</p> <p>2) On 16 May 2017, the Extraordinary Meeting of Shareholders of Nowe Jaworzno Grupa TAURON sp. z o.o. company adopted the resolution on increasing the share capital of the company from the amount of PLN 1,850,000.00 to the amount of PLN 31,850,000.00, i.e. by the amount of PLN 30,000,000.00 through creating 600,000 new shares with the nominal value of PLN 50.00 per share and the total nominal value of PLN 30,000,000.00. All new shares in the increased capital of the company were acquired by the existing sole shareholder of the company, i.e. TAURON. The shares were acquired at a price of PLN 50,000.00 per share, i.e. for the total amount of PLN 3,000,000,000.00, whereas the surplus in the amount of PLN 2,970,000,000.00 was transferred to the supplementary capital of the Company.</p> <p>The capital injection was aimed at providing the Company with funds for the implementation of the investment comprising the construction of the 910 MW unit at Elektrownia Jaworzno III.</p> <p>3) On 29 June 2017, the Extraordinary Meeting of Shareholders of Nowe Jaworzno Grupa TAURON sp. z o.o. company adopted the resolution on increasing the share capital of the company by the amount of PLN 4,000,000.00 through creating 80,000 new shares with the nominal value of PLN 50.00 per share. All new shares were acquired by TAURON at a price of PLN 5,000.00 per share, i.e. For the total amount of PLN 400,000,000.00. 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 4,950.00 per share, i.e. in the total amount of PLN 396,000,000.00 was transferred to the supplementary capital of the company.</p> <p>The capital injection was aimed at providing the Company with funds for the implementation of the investment comprising the construction of the 910 MW unit at Elektrownia Jaworzno III.</p>
1.	Purchase of shares in Nowe Jaworzno Grupa TAURON sp. z o.o.	

No.	Investment	Description
2.	Purchase of TAURON Wydobycie S.A. shares	<p>On 21 March 2017 the Extraordinary General Meeting of the TAURON Wydobycie S.A. company adopted the resolution concerning the increase of the company share capital from the amount of PLN 355,510,780.00 to the amount of PLN 357,110,780.00, i.e. by the amount of PLN 1,600,000.00, through the issuance of 160,000 new registered shares of "K" series, of the nominal value of PLN 10.00 per share, i.e. of the total nominal value of PLN 1,600,000.00. All shares of "K" series were taken up, by way of closed subscription, by the sole shareholder of the company - TAURON Polska Energia S.A. The shares were acquired at a price of PLN 1,000.00 per share, i.e. for the total amount of PLN 160,000,000.00, whereas the surplus in the amount of PLN 158,400,000.00 was transferred to the share capital of the Company.</p> <p>The capital injection was aimed at co-financing of investment projects carried out in the Company and the repayment of a part of debt towards TAURON Polska Energia S.A. and limitation of the Company indebtedness in the consecutive periods.</p>
3.	Purchase of TAURON Ciepło sp. z o.o.	<p>On 11 May 2017, the Extraordinary Meeting of Shareholders of TAURON Ciepło sp. z o.o. company adopted the resolution on increasing the share capital of the Company from the amount of PLN 1,098,348,500.00 to the amount of PLN 1,104,348,500.00, i.e. by the amount of PLN 6,000,000.00 through creating 120,000 new shares with the nominal value of PLN 50.00 per share and the total nominal value of PLN 6,000,000.00. All new shares were acquired by TAURON at a price of PLN 5,000.00 per share, i.e. for the total amount of PLN 600,000,000.00. 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 4,950.00 per share, i.e. in the total amount of PLN 594,000,000.00 was transferred to the supplementary capital of the company.</p> <p>The capital injection was aimed at enabling partial repayment of debt against TAURON Polska Energia S.A. due to issuance of bonds.</p>
4.	Purchase of Marselwind sp. z o.o. shares	<p>On 28 June 2017, the Extraordinary Meeting of Shareholders of Marselwind sp. z o.o. company adopted the resolution on increasing the share capital of the Company from the amount of PLN 105,000.00 to the amount of PLN 110,000.00, i.e. by the amount of PLN 5,000.00 through creating 100 new shares with the nominal value of PLN 50.00 per share and the total nominal value of PLN 5,000.00. All new shares were acquired by TAURON at a price of PLN 2,000.00 per share, i.e. for the total amount of PLN 200,000.00. 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 1,950.00 per share, i.e. in the total amount of PLN 195,000.00 was transferred to the supplementary capital of the company.</p> <p>The capital injection was aimed at enabling loss coverage of the company exceeding the total amount of the supplementary capital and reserve capitals and a half of the share capital of the company.</p>

No.	Investment	Description
		<p>In 2017, TAURON acquired shares of those companies twice, including at their establishing and in the increased share capital, i.e.:</p> <p>1) On 1 August 2017, TAURON established four limited liability companies with registered offices in Katowice.</p> <p>In each of those companies, TAURON took up all 100 shares with the nominal value of PLN 50 per share and the total nominal value of PLN 5,000. The aforementioned companies were established in connection with implemented and expected re-organisation projects in TAURON Group.</p> <p>2) On 15 December 2017, the Extraordinary Meeting of Shareholders of each of these companies adopted the resolution on increasing the share capital from the amount of PLN 5,000.00 to the amount of PLN 5,800.00, i.e. by the amount of PLN 800.00 through creating 16 new shares with the nominal value of PLN 50.00 per share and the total nominal value of PLN 800.00. All new shares in each of the companies were acquired by TAURON at a price of PLN 5,000.00 per share, i.e. for the total amount of PLN 80,000.00. The surplus of the price of acquisition of each share in the increased share capital of each of the companies over its nominal value, at a level of PLN 4,950.00 per share, i.e. in the total amount of PLN 79,200.00 was transferred to the supplementary capital of each of the companies.</p> <p>The capital injection was aimed at enabling each of the companies to continue their business in the future (the lack of economic activity carried out by companies and the consequent lack of generated revenue).</p>
5.	Purchase of shares at establishing the companies: En-Energia I sp. z o.o., En-Energia II sp. z o.o., En-Energia III sp. z o.o., En-Energia IV sp. z o.o.	
6.	Purchase of TAURON Dystrybcja Serwis S.A. shares	<p>In connection with the agreement concluded on 9 August 2017 between TAURON and TAURON Dystrybcja S.A. concerning the transfer of shares of the company TAURON Dystrybcja Serwis S.A. in order to discharge TAURON Dystrybcja S.A. from its liability in the form of disbursement of the dividend to TAURON in the amount of PLN 201,046,000 (datio in solutum), TAURON has become the owner of 5,101,003 shares of TAURON Dystrybcja S.A. used from TAURON Dystrybcja Serwis S.A., constituting 100% of shares in the Company share capital.</p>
7.	Purchase of Magenta Grupa TAURON sp. z o.o. shares	<p>On 24 October 2017, the Extraordinary Meeting of Shareholders of Magenta Grupa TAURON sp. z o.o. adopted the resolution on increasing the share capital of the Company from the amount of PLN 500,000.00 to the amount of PLN 1,500,000.00, i.e. by the amount of PLN 1,000,000.00 through creating 20,000 new shares with the nominal value of PLN 50.00 per share and the total nominal value of PLN 1,000,000.00. All new shares were acquired by TAURON at a price of PLN 450.00 per share, i.e. for the total amount of PLN 9,000,000.00. 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 400.00 per share, i.e. in the total amount of PLN 8,000,000.00 was transferred to the supplementary capital of the company.</p> <p>The capital injection was aimed at enabling loss coverage of the company exceeding the total amount of the supplementary capital and reserve capitals and a half of the share capital of the company as well as at enabling the Company to continue its business.</p>

No.	Investment	Description
8.	Purchase of TAURON Ekoenergia sp. z o.o. shares	<p>On 24 October 2017 the Extraordinary Meeting of Shareholders of TAURON EKOENERGIA sp. z o.o. adopted the resolution concerning the increase of the Company share capital by the amount of PLN 10,100,000.00 through creating 10,000 new shares with the nominal value of PLN 1,000.00 per share and the total nominal value of PLN 10,000,000.00.</p> <p>All new shares were acquired by TAURON at a price of PLN 100,000.00 per share, i.e. for the total amount of PLN 1,000,000,000.00. 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 99,000.00 per share, i.e. in the total amount of PLN 990,000,000.00 was transferred to the supplementary capital of the Company.</p> <p>The capital injection was aimed at enabling the company to re-finance the major part of its debt resulting for incurring costs for the construction and purchase of wind farms in earlier periods.</p>
9.	Purchase of TAURON Dystrybcja S.A. shares	<p>On 26 October 2017 the Extraordinary General Meeting of the TAURON Wydobycie S.A. company adopted the resolution concerning the increase of the Company share capital from the amount of PLN 511,925,759.22 to the amount of PLN 560,611,250.96, i.e. by the amount of PLN 48,685,491.74, through the issuance of 2,434,274,587 new registered shares of "J" series, numbered from 1 do 2,434,274,587 of the nominal value of PLN 0.02 per share, i.e. of the total nominal value of PLN 48,685,491.74.</p> <p>All shares of "J" series were acquired by TAURON at a price of PLN 0.4108 per share, i.e. for the total amount of PLN 1,000,000,000.34.</p> <p>The surplus of the issue of each share of "J" series over its nominal value, at a level of PLN 0.3908 per share, i.e. in the total amount of PLN 951,314,508.60 was transferred to the supplementary capital of the Company.</p> <p>The capital injection was aimed at co-financing of investment projects carried out in the Company and limitation of the growth of Company indebtedness towards TAURON Polska Energia S.A. in the consecutive periods.</p>

6. Summary

Following the evaluation performed, the Supervisory Board recognises that the financial statements of TAURON Polska Energia S.A. for the financial year 2017 in all relevant aspects:

- 1) present in a clear and reliable manner all information necessary to evaluate the economic situation and financial standing of TAURON Polska Energia S.A. and 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 financial statements of the Company for the financial year 2017, the Supervisory Board recommends to the Ordinary General Meeting the approval of the *Financial Statements of TAURON Polska Energia S.A. for the financial year ended on 31 December 2017, 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 2017.*

At the same time, taking into account the positive opinion issued, the Supervisory Board recommends to the Ordinary General Meeting to distribute the profit for the financial year 2017 in the manner set forth in the motion of the Management Board of the Company, i.e. to allocate its full amount for supplying the supplementary capital of the Company.

Warsaw, 12 March 2018

Signatures of the Supervisory Board members present 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