

**THE TAURON POLSKA ENERGIA S.A. CAPITAL
GROUP**

**KATOWICE, ULICA KS. PIOTRA
ŚCIEGIENNEGO 3**

**CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR 2014**

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

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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. with its registered office in Katowice, at ul. ks. Piotra Ściegiennego 3 is the parent (hereinafter “the Parent Company”) . The financial statements include: a consolidated statement of financial position prepared as at 31 December 2014, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the financial year from 1 January 2014 to 31 December 2014 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 consolidated financial statements give a true and fair view of the financial and economic position as well as the financial performance of the Capital group and on the correctness of the underlying accounting records.

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 statements in question. Our audit included, in particular, verification of the correctness of the accounting principles (policy) and material estimates applied by the Capital Group and its subsidiaries, verification - largely on a test basis - of the accounting evidence and records supporting the amounts and disclosures in the consolidated financial statements, as well as overall evaluation of the consolidated financial statements. We believe that the audit has provided a reasonable basis to express an opinion on the consolidated financial statements.

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 2014 as well as its financial performance in the financial year from 1 January 2014 to 31 December 2014;
- 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 entities in the Capital Group, which affect the contents of the consolidated financial statements.

The report on the activities of the Capital Group for the 2014 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:

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, 10 March 2015

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 2014 FINANCIAL YEAR**

I. GENERAL INFORMATION

1. Details of the audited Parent Company

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

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

As at 31 December 2014, the Parent 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.

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

- | | |
|-----------------------|---|
| – Dariusz Lubera | – President of the Management Board; |
| – Aleksander Grad | – Vice-President of the Management Board; |
| – Katarzyna Rozenfeld | – Vice-President of the Management Board; |
| – Stanisław Tokarski | – Vice-President of the Management Board; |
| – Krzysztof Zawadzki | – Vice-President 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 17 March 2014, Joanna Schmid and Dariusz Stolarczyk were dismissed from the position of a Member of the Management Board of the Company and their term of office expired on the same day;
- on 17 March 2014, the Supervisory Board appointed Katarzyna Rozenfeld and Stanisław Tokarski to the position of Vice-Chairmen of the Management Board.

2. Capital Group structure

The following companies have been included in the consolidated financial statements as at 31 December 2014:

- a) the Parent Company – TAURON Polska Energia S.A.

We have audited the financial statements of the Parent Company for the period from 1 January 2014 to 31 December 2014. As a result of the audit, on 10 March 2015 we issued an unqualified opinion.

b) Companies consolidated using the full method:

Name of the company	Percentage interest in the issued capital	Entity auditing the financial statements and type of opinion issued	Reporting date of the consolidated entity
TAURON Wytwarzanie S.A	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2014
TAURON Ekoenergia Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2014
TAURON Dystrybucja S.A.	99.71%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2014
TAURON Sprzedaż Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2014
TAURON Czech Energy s.r.o.	100%	COTAX AUDIT s.r.o – audit opinion for the Entity had not been prepared until the date of issuing this report	31 December 2014
TAURON Sprzedaż GZE Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2014
TAURON Ciepło Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – emphasis of matter opinion	31 December 2014
TAURON Obsługa Klienta Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2014
Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – qualified opinion	31 December 2014
TAURON Wydobycie S.A.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2014
TAURON Sweden Energy AB (publ)	100%	Not subject to audit in 2014	31 December 2015
TAURON Dystrybucja Pomiary Sp. z o.o.	99.71%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2014
TAURON Dystrybucja Serwis S.A.	99.71%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2014
Kopalnia Wapienia Czatkowice Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2014

c) Companies consolidated using the equity method:

Name of the company	Percentage interest in the issued capital	Entity auditing the financial statements and type of opinion issued	Reporting date of the consolidated entity
Elektrociepłownia Stalowa Wola S.A.	50%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2014
Elektrownia Blachownia Nowa Sp. z o.o.	50%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – emphasis of matter opinion	31 December 2014
TAMEH HOLDING Sp. z o.o.	50%	Not issued	31 March 2015
TAMEH POLSKA Sp. z o.o.	50%	Not subject to audit in 2014	31 December 2015
TAMEH Czech s.r.o	50%	Audit opinion for the Entity had not been prepared until the date of issuing this report	31 December 2014

During the financial year the composition of the audited Capital Group and the consolidated entities, for which the Parent Company prepared the audited consolidated financial statements, did not change.

3. Information on the consolidated financial statements for the previous financial year

The activities of the Capital Group in 2013 resulted in a net profit of PLN 1,346,485 thousand. The consolidated financial statements of the Capital Group for 2013 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 2013 financial year was held on 15 May 2014.

The consolidated financial statements for the 2013 financial year were submitted to the National Court Register (KRS) on 22 May 2014.

4. 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 consolidated financial statements were audited out based on the agreement of 7 May 2013 concluded between the Parent Company 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 consolidated financial statements was conducted under the supervision of Artur Maziarka, key certified auditor (No. 90108) in the registered office of the Parent Company from 16 to 20 February 2015 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 consolidated financial statements of the Capital Group.

5. Availability of data and the Parent Company 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 the Parent Company of 10 March 2015.

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 Parent Company its economic and financial position compared to the prior year.

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

	<u>2014</u>	<u>2013</u>
Sales revenue	18,440,763	19 131 122
Operating expenses	(16,725,414)	(17,189,369)
Operating profit (loss)	1,830,113	1,934,066
Net profit (loss)	1,185,560	1,346,485

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

Inventories	527,596	509,224
Trade receivables	1,664,191	1,862,717
Current assets	6,396,444*	4,788,562*
Total assets	34,559,193	32,355,570
Equity	17,996,564	17,793,499
Short-term liabilities (including short-term provisions and accruals)	4,818,537*	5,257,730
Trade payables	916,744	1,037,304
Total liabilities and provisions	16,562,629	14,562,071

Profitability and efficiency ratios

	<u>2014</u>	<u>2013</u>
– return on sales	10%	10%
– net return on equity	7%	8%
– assets turnover ratio	0.53	0.59
– receivables turnover in days	34	38
– payables turnover in days	21	26
– inventory turnover in days	11	13

Liquidity/Net working capital

– debt ratio	48%	45%
– equity to fixed assets ratio	52%	55%
– net working capital (PLN '000)	325,172	(502,209)
– current ratio	1.07	0.91
– quick ratio	0.96	0.81

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

*the current liabilities include a disposal group of liabilities classified as held for sale

An analysis of the above figures and ratios indicated the following trends in 2014:

- the return on sales at the same level as in the prior year and a decrease in the net return on equity;
- a decrease in the assets turnover ratio;
- a decrease in the receivables, liabilities and inventories turnover ratios;
- an increase in the debt ratio and a decrease in the equity to fixed assets ratio;
- an increase in the net working capital;
- an increase in the current ratio.

III. DETAILED INFORMATION

1. Detailed information regarding the audited consolidated financial statements

The audited consolidated financial statements were prepared as of 31 December 2014 and include:

- consolidated statement of financial position prepared as at 31 December 2014, with total assets and liabilities plus equity of PLN 34,559,193 thousand;
- consolidated statement of comprehensive income for the period from 1 January 2014 to 31 December 2014, with a net profit of PLN 1,185,560 thousand and the total comprehensive income of PLN 895,176 thousand;
- consolidated statement of changes in equity for the period from 1 January 2014 to 31 December 2014, disclosing an increase in equity of PLN 203,065 thousand;
- consolidated statement of cash flows for the period from 1 January 2014 to 31 December 2014, showing an inflow of cash and cash equivalents of PLN 866,923 thousand;
- notes comprising a summary of significant accounting policies and other explanatory information.

The audit covered the period from 1 January 2014 to 31 December 2014 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) all 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 jointly-controlled entities. The value of the Parent Company's interest in jointly-controlled entities was adjusted by increases or decreases in the equity of the jointly-controlled entities 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 Capital Group confirmed the validity of the going concern principle in the preparation of the consolidated financial statements. The notes and explanations give a correct and complete description of measurement principles regarding assets, liabilities, financial result 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, consolidated statement of comprehensive income as well as narrative descriptions in line with the requirement of IFRS.

The Management Board of Parent Company prepared and supplemented the consolidated financial statements with a report on the activities of the Capital Group in the 2014 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 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.

Artur Maziarka
Key certified auditor
conducting the audit
No. 90108 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, 10 March 2015