



# INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

of the annual consolidated financial statements  
of TAURON Polska Energia S.A. Capital Group  
for the year 2018



The Polish original should be referred to in matters of interpretation.  
Translation of auditor's report originally issued in Polish.

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## INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

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

Audit report on the annual consolidated financial statements

### Opinion

We have audited the annual consolidated financial statements of TAURON Polska Energia S.A. Group (the 'Group'), for which the holding company is TAURON Polska Energia S.A. (the 'Company') located in Katowice at Ks. Piotra Skargi 3 street, containing: the consolidated statement of comprehensive income for the period from 1 January 2018 to 31 December 2018, the consolidated statement of financial position as at 31 December 2018, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January 2018 to 31 December 2018 and additional information to the consolidated financial statements, including a summary of significant accounting policies (the 'consolidated financial statements').

In our opinion, the consolidated financial statements:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the period from 1 January 2018 to 31 December 2018 in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Group and the Company's Statute.

The opinion is consistent with the additional report to the Audit Committee issued on 2 April 2019.

## Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing in the version adopted as the National Auditing Standards by the National Council of Statutory Auditors (“NAS”) and pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (the ‘Act on Statutory Auditors’) and the Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the ‘Regulation 537/2014’). Our responsibilities under those standards are further described in the ‘Auditor’s responsibilities for the audit of the financial statements’ section of our report.

We are independent of the Group in accordance with the Code of ethics for professional accountants, published by the International Federation of Accountants (the ‘Code of ethics’), adopted by the National Council of Statutory Auditors and other ethical responsibilities in accordance with required applicable rules of the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of ethics. While conducting the audit, the key certified auditor and the audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Statutory Auditors and the Regulation 537/2014.

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

## Emphasis of matter

Without qualifying our opinion we draw attention to Note 36 to the consolidated financial statements, in which the Management Board of the Parent Company described the effects of the entry into force on 28 December 2018 the Act amending the act on excise duty and certain other acts and its impact on the accompanying consolidated financial statements.

Our opinion does not include a qualification with respect to this matter.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we have summarized our reaction to these risks and in cases where we deemed it necessary, we presented the most important observations related to these types of risks. We do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
<p data-bbox="204 472 619 506">Impairment of assets analysis</p> <p data-bbox="204 577 671 611">Why the issue is a key audit matter</p> <p data-bbox="204 689 847 1093">As at December 31, 2018, the Group presented fixed assets including property, plant and equipment and intangible assets (with a carrying amount of approximately PLN 30 552 million), loans receivable from joint ventures (with a carrying amount of approximately PLN 217 million), as well as investments in joint ventures (with a balance value of approximately PLN 544 million) constituting in total approximately 84% of the Group's consolidated balance sheet total.</p> <p data-bbox="204 1149 847 1529">According to International Reporting Standards Management of the Parent entity is obliged to estimate expected credit loss, which may occur in the period of 12 months or remaining period of existence of loans receivable from joint venture depending on classification of assets to the brackets and for fixed assets, goodwill, other intangible assets and investments in joint ventures as a result of the identified assets impairment premise for performing the impairment test.</p> <p data-bbox="204 1585 847 2033">The issue was identified as key audit matter in the audit of the consolidated financial statements due to the value of the assets listed above, which is significant for the consolidated financial statements, as well as due to the element of professional judgment of the Group management regarding the valuation of loans receivable from joint ventures and a complex element of the professional judgment of the Management Board regarding the estimation of the recoverable amount of fixed assets, goodwill, other intangible assets and investments in joint ventures.</p>	<p data-bbox="869 577 1077 611">Audit approach</p> <p data-bbox="869 689 1453 757">Our procedures, in relation to the key audit matter described, included, among others:</p> <ul data-bbox="922 786 1513 2033" style="list-style-type: none"> <li data-bbox="922 786 1513 1126">• Overview of the process and identification of control mechanisms operating in the Group related to impairment tests of assets, as well as an understanding of the applied accounting policies and procedures, including internal control environment related to the process of assessing impairment indicators and performing of impairment tests,</li> <li data-bbox="922 1137 1513 1238">• Assessment of the assumptions made with regard to the grouping of assets into cash-generating units (CGU),</li> <li data-bbox="922 1249 1513 1821">• Assessment (with the assistance of valuation specialists) of estimates and assumptions made by the Group in order to determine the assets recoverable amount, including: <ul data-bbox="970 1417 1513 1821" style="list-style-type: none"> <li data-bbox="970 1417 1513 1641">- the key macroeconomic assumptions adopted by the Company for future years (including: discount rates, projected growth rate) by comparing them to market data and available external data;</li> <li data-bbox="970 1653 1513 1709">- arithmetical correctness of the discounted cash flows model, and</li> <li data-bbox="970 1720 1513 1821">- assumptions made to determine cash flows and residual values after the period covered by a detailed strategy;</li> </ul> </li> <li data-bbox="922 1832 1513 2033">• Inquiries to employees of the financial department and the Management Board of the parent entity referring to the status of implementation of the adopted assumptions, including the validity of key estimates,</li> </ul>

Valuation of loans receivable from joint ventures requires the application of appropriate valuation model, depending on the classification of assets, in accordance with International Financial Reporting Standard 9 Financial Instruments.

Estimation of the recoverable amount of fixed assets, goodwill, other intangible assets and investments in joint ventures require the Management Board of Parent Company to adopt a number of assumptions regarding future market and economic conditions, such , future changes in the prices of raw materials, electricity, property rights arising from certificates of origin of energy, CO2 emission rights and future revenues, costs and cash flows, weighted average cost of capital ("WACC"), as well as the impact of potential and already approved Polish and European regulatory changes, including environmental protection and the anticipated macroeconomic situation.

A reference to disclosure in the consolidated financial statements

The Group disclosed information regarding impairment indicators, estimates of the impairment test, as well as impairment losses on intangible assets in note 10 of the notes to the financial statements for the year ended December 31, 2018. The disclosure regarding the valuation of loans receivables from joint ventures was included by the Group in note 22 of explanatory notes to the consolidated financial statements for the year ended 31 December 2018.

- Analysis of external sources of information such as industry press and evaluation of potential risk related to the implementation of the assumptions with the support of valuation specialists;
- Analysis of impairments indicators and reconciliation of source data used in impairment test models and assessment of impairment triggers for financial forecasts approved by the Management Board of the parent company;
- Assessment of the classification of the loans receivable from joint ventures and bought bonds;
- Assessment of the Management Board's judgment regarding the existence of objective events having an impact on the impairment of loans receivable from joint ventures;
- Assessment of the credit loss valuation model adopted by the Company, including reconciliation of source data being the basis for the valuation of credit losses to loan agreements;
- Assessment of completeness of disclosures in the financial statements of the Company in terms of impairment in accordance with the International Accounting Standard 36 Impairment of assets and International Financial Reporting Standard 9 Financial Instruments.

Claims, lawsuits and contingent liabilities

Why the issue is a key audit matter

The Group is a party to many significant claims and court cases which, depending on the Group's assessment, are recognized as provisions or contingent liabilities. Significant in terms of value are potential and submitted claims identified by the Group related to the termination of long-term contracts for the purchase of electricity and property rights arising from certificates of origin of energy generated in renewable energy sources.

Parent Company Management's judgments regarding the recognition and measurement of provisions for court cases are inherently risky and may change over time, as the results of ongoing lawsuits depend on future decisions. The case was identified as key audit matter of the Group's financial statements due to the element of the professional judgment of the Parent Company's management regarding the obligation to create adequate provision and estimate its amount.

A reference to disclosure in the consolidated financial statements

The Group disclosed information regarding claims and court cases in note 47 of the notes to the consolidated financial statements for the year ended December 31, 2018.

Our procedures, in relation to the key audit matter described, included, among others:

- Monitoring of external sources of information to identify breaches or potential violations of law and regulations by Group companies;
- Review of the documentation regarding court cases presented for the audit purposes and discussion of significant court cases with the Legal Department of the Parent Company;
- Analysis of the costs of legal services incurred during the year in order to confirm the completeness of entities providing legal services to the Group;
- Obtaining written explanations from lawyers representing companies from the Group with regard to the court and disputable cases conducted by them, and analysis of the provided explanations;
- Discussion of the selected court cases with internal specialists in the field of law;
- Analysis and assessment of contingent liabilities and changes in the value of provisions for claims and court cases;
- Review of minutes of meetings of the legal bodies of the parent company and its subsidiaries as well as control reports of supervisory authorities and correspondence with these authorities.
- Assessment of the completeness of disclosures regarding pending major court and out-of-court proceedings and related contingent liabilities in the consolidated financial statements.

## Responsibilities of the Company's Management and members of the Supervisory Board for the financial statements

The Company's Management is responsible for the preparation, based on properly maintained accounting records, the consolidated financial statements that give a true and fair view of the consolidated financial position and the consolidated financial performance in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union, the adopted accounting policies, other applicable laws, as well as the Company's Statute, and is also responsible for such internal control as determined is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, The Company's Management is responsible for assessing the Group's (the holding company and significant components') ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless The Company's Management either intends to liquidate the Group (the holding company or significant components) or to cease operations, or has no realistic alternative but to do so.

The Company's Management and the members of the Company's Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act dated 29 September 1994 (the 'Accounting Act'). The members of the Company's Supervisory Board are responsible for overseeing the Company's financial reporting process.

## Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with NAS will always detect material misstatement when it exists. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in the aggregate, they could influence the economic decisions of the users taken on the basis of these consolidated financial statements.

In accordance with International Auditing Standard 320, section 5, the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgment.

The scope of the audit does not include assurance on the future profitability of the Group nor effectiveness of conducting business matters now and in the future by the Company's Management.

Throughout the audit in accordance with NAS, we exercise professional judgment and maintain professional skepticism and we also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control,
- obtain an understanding of internal control relevant to the audit 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 Group's internal control,
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management,
- conclude on the appropriateness of the Company's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report, however, future events or conditions may cause the Group to cease to continue as a going concern,
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation,
- we obtain sufficient appropriate audit evidence regarding the financial information of entities and business activities within the Group for the purpose of expressing an opinion on the consolidated financial statements. We are solely responsible for the direction, supervision and performance of the audit of the Group and we remain solely responsible for our audit opinion.



We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Directors' Report

The other information comprises the Directors' Report for the period from 1 January 2018 to 31 December 2018, the representation on the corporate governance and the representation on preparation of the statement on non-financial information, mentioned in article 55, section 2b of the Accounting Act as a separate element of the Directors' Report (jointly 'Other Information').

Responsibilities of the Company's Management and members of the Supervisory Board

The Company's Management is responsible for the preparation the Other Information in accordance with the law.

The Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report (with separate elements) meets the requirements of the Accounting Act.

Auditor's responsibility

Our opinion on the consolidated financial statements does not include the Other Information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other information, we are required to report that fact in our independent auditor's report. Our responsibility in accordance with the Act on Statutory Auditors is also to issue an opinion on whether the

Directors' Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the consolidated financial statements.

In addition, we are required to inform whether the Company has prepared the representation on non-financial information and to issue an opinion on whether the Company has included the required information in the representation on application of corporate governance.

#### Opinion on the Directors' Report

Based on the work performed during our audit, in our opinion, the Directors' Report:

- has been prepared in accordance with the article 49 of the Accounting Act and paragraph 71 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the 'Decree on current and periodic information'),
- is consistent with the information contained in the consolidated financial statements.

Moreover, based on our knowledge of the Group and its environment obtained during our audit, we have not identified material misstatements in the Directors' Report.

#### Opinion on the corporate governance application representation

In our opinion, in the representation on application of corporate governance, the Group has included information stipulated in paragraph 70, section 6, point 5 of the Decree on current and periodic information.

Moreover, in our opinion, the information stipulated in paragraph 70, section 6, point 5 letter c-f, h and i of the Decree included in the representation on application of corporate governance is in accordance with applicable laws and information included in the consolidated financial statements.

#### Information on non-financial information

In accordance with the Act on Statutory Auditors, we confirm, that the Company has prepared a statement on non-financial information mentioned in article 55, section 2b of the Accounting Act as a separate element of the Directors' Report.

We have not performed any attestation procedures in respect to the statement on non-financial information and do not express any assurance in its respect.

#### Representation on the provision of non-audit services

To the best of our knowledge and belief, we represent that services other than audits of the financial statements, which have been provided to the Group, are compliant with the laws and regulations applicable in Poland, and that we have not provided non-audit services, which are prohibited based on article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors. The non-audit services, which we have provided to the Group in the audited period, have been disclosed in the Directors' Report.

#### Appointment of the audit firm

We were appointed for the audit of the Group's consolidated financial statements initially based on the resolution of Supervisory Board from 15 March 2017 and reappointed based on the resolution from 26 February 2018. The consolidated financial statements of the Group have been audited by us uninterruptedly starting from the financial year ended on 31 December 2018, i.e. for the past two consecutive years.

Warsaw, 2 April 2019

Key Certified Auditor

(signed electronically with qualified signature)

Leszek Lerch  
Certified auditor  
no in the register: 9886

on behalf of:  
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