

**TAURON POLSKA ENERGIA S.A.**

**LONG-FORM AUDITORS' REPORT  
ON THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

## **I. GENERAL NOTES**

### **1. Background**

TAURON Polska Energia S.A. (hereinafter 'the Company') was incorporated on the basis of a Notarial Deed dated 6 December 2006 under the name Energetyka Południe S.A. Change of the name into TAURON Polska Energia S.A. was registered by the District Court on 16 November 2007. The Company's registered office is located in Katowice at ks. Piotra Ściegiennego Street 3.

On 8 January 2007 the Company was entered in the Register of Entrepreneurs of the National Court Register No. KRS 0000271562.

The Company was issued with tax identification number (NIP) 9542583988 on 13 March 2007 and statistical number (REGON) 240524697 on 11 December 2006.

The Company is the holding company of the TAURON Polska Energia S.A. capital group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Notes 7 and 34 of the explanatory notes ("the additional notes") to the audited financial statements for the year ended 31 December 2012.

The principal activities of the Company are as follows:

- activities of head offices and holdings, excluding financial holdings,
- electricity trade,
- trade services of coal and biomass,
- trade services of gas through mains.

As at 31 December 2012, the Company's issued share capital amounted to 8,762,747 thousand zlotys. Equity as at that date amounted to 18,042,008 thousand zlotys.

In accordance with the information included in Note 22.2 of the additional notes to the accompanying audited financial statements as at 31 December 2012, the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Par value of shares	% of issued share capital
State Treasury	526,883,897	2,634,419	30.06%
KGHM Polska Miedź S.A.	182,110,566	910,553	10.39%
ING Otwarty Fundusz Emerytalny	88,742,929	443,715	5.06%
Other shareholders	954,812,002	4,774,060	54.49%
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Total	1,752,549,394	8,762,747	100.00%
	=====	=====	=====

There were no changes in the ownership structure of the Company during the reporting period as well as during the period from the balance sheet date to the date of the opinion.

There were no movements in the share capital in the reporting period.

As at 12 March 2013, the Company's Management Board was composed of:

- Dariusz Lubera - President
- Joanna Schmid - Vice President
- Dariusz Stolarczyk - Vice President
- Krzysztof Zawadzki - Vice President

On 29 November 2012 Mr. Krzysztof Zamasz resigned from his position as Vice President of the Management Board with effect from 31 December 2012.

There were no changes in the Company's Management Board composition from the balance sheet date to the date of the opinion.

## 2. Financial Statements

On 7 June 2010 the Extraordinary General Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

### 2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by the Supervisory Board on 29 October 2010 to audit the Company's financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649 with subsequent amendments).

Under the contract executed on 19 November 2010 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2012.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an unqualified auditors' opinion dated 12 March 2013, stating the following:

**“To the General Shareholders' Meeting and the Supervisory Board of TAURON Polska Energia S.A.**

1. We have audited the attached financial statements for the year ended 31 December 2012 of TAURON Polska Energia S.A. ('the Company') located in Katowice at ks. Piotra Ściegiennego Street 3, containing statement of financial position as at 31 December 2012, the statement of comprehensive income, the statement of changes in equity, the statement of cash flow for the period from 1 January 2012 to 31 December 2012 and other explanatory notes ('the attached financial statements').

2. The truth and fairness<sup>1</sup> of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly<sup>2</sup> reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit of the attached financial statements in accordance with:
- chapter 7 of the Accounting Act,
  - national auditing standards issued by the National Council of Statutory Auditors,
- in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.
4. In our opinion, the attached financial statements, in all material respects:
- present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2012 to 31 December 2012, as well as its financial position<sup>3</sup> as at 31 December 2012;
  - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
  - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.

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<sup>1</sup> Translation of the following expression in Polish: 'rzetelność i jasność'

<sup>2</sup> Translation of the following expression in Polish: 'rzetelnie i jasno'

<sup>3</sup> Translation of the following expression in Polish: 'sytuacja majątkowa i finansowa'

5. We have read the 'Directors' Report for the period from 1 January 2012 to 31 December 2012 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 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 (Journal of Laws No. 33, item 259 – with subsequent amendments)."

We conducted the audit of the Company's financial statements during the period from 19 November 2012 to 12 March 2013. We were present at the Company's head office from 19 November 2012 to 23 November 2012 and from 4 February 2013 to 8 February 2013.

## 2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness<sup>4</sup> of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 12 March 2013, confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements,

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

At the same time declare that during the audit of the financial statements, there were no limitations of scope.

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<sup>4</sup> Translation of the following expression in Polish: "rzetelność i jasność"

### 2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2011 were audited by Artur Żwak, key certified auditor no. 9894, acting on behalf of Ernst & Young Audit sp. z o.o. with its seats in Warsaw, Rondo ONZ 1, registered on the list of entities authorized to audit financial statements under no. 130. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2011. The Company's financial statements for the year ended 31 December 2011 were approved by the General Shareholders' Meeting on 24 April 2012, and the shareholders resolved to appropriate the 2011 net profit in the amount of 1,083,429 thousand zlotys as follows:

Dividends for the shareholders	543,290 thousand zlotys
Reserve capital	540,139 thousand zlotys

The financial statements for the financial year ended 31 December 2011, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 27 April 2012 with the National Court Register.

The statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of changes in equity, the statement of cash flow for the year ended 31 December 2011, together with the auditors' opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the appropriation of profit were published in Monitor Polski B No. 1508 on 18 July 2012.

The closing balances as at 31 December 2011 were correctly brought forward in the accounts as the opening balances at 1 January 2012.

### 3. Analytical Review

#### 3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2011 - 2012. The ratios were calculated on the basis of financial information included in the financial statements for the year ended 31 December 2012.

	<b>2012</b>	<b>2011</b> <i>(restated figures)</i>
<b>Total assets</b>	25,758,069	22,823,054
<b>Shareholders' equity</b>	18,042,008	17,341,198
<b>Net profit/loss</b>	1,435,188	1,086,093
<b>Return on assets (%)</b>	5.57%	4.76%
$\frac{\text{Net profit} \times 100}{\text{Total assets}}$		
<b>Return on equity (%)</b>	7.95%	6.26%
$\frac{\text{Net profit} \times 100}{\text{Total equity}}$		
<b>Profit margin (%)</b>	14.51%	12.28%
$\frac{\text{Net profit} \times 100}{\text{Sales revenues}}$		
<b>Liquidity I</b>	1.13	1.07
$\frac{\text{Current assets}}{\text{Short-term liabilities}}$		
<b>Liquidity III</b>	0.37	0.21
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$		
<b>Debtors days</b>	41 days	31 days
$\frac{\text{Trade debtors} \times 365}{\text{Sales revenues}}$		



	<b>2012</b>	<b>2011</b> <i>(restated figures)</i>
<b>Creditors days</b>	26 days	13 days
$\frac{\text{Trade creditors} \times 365}{\text{Costs of sales}}$		
<b>Stability of financing (%)</b>	90.55%	94.12%
$\frac{(\text{Equity} + \text{non-current liabilities}) \times 100}{\text{Total equity and liabilities}}$		
<b>Debt ratio (%)</b>	29.96%	24.02%
$\frac{\text{Total liabilities} \times 100}{\text{Total assets}}$		
<b>Rate of inflation:</b>		
yearly average	3.7%	4.3%
December to December	2.4%	4.6%

### 3.2 Comments

The following trends may be observed based on the above financial ratios:

- The return on assets ratio in 2012 was 5.57% and was higher in comparison to 4.76% in 2011.
- The return on equity ratio in 2012 was 7.95% and was higher in comparison to 6.26% in 2011.
- The profit margin ratio in 2012 was 14.51% and was higher in comparison to 12.28% in 2011.
- The liquidity I ratio as at 31 December 2012 was 1.13 and was higher in comparison to 1.07 as at 31 December 2011.
- The liquidity III ratio as at 31 December 2012 was 0.37 and was higher in comparison to 0.21 as at 31 December 2011.
- The debtor days ratio in 2012 was 41 days and was higher in comparison to 31 days in 2011.
- The creditor days ratio in 2012 was 26 days and was higher in comparison to 13 days in 2011.
- The stability of financing ratio was 90.55% as at 31 December 2012 and was lower in comparison to 94.12% as at 31 December 2011.
- The debt ratio was 29.96% as at 31 December 2012 and was higher in comparison to 24.02% as at 31 December 2011.

### **3.3 Going concern**

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2012 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 2 of the additional notes to the audited financial statements for the year ended 31 December 2012, the Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2012 and that there are no circumstances that would indicate a threat to its continued activity.

## **II. DETAILED REPORT**

### **1. Accounting System**

The Company's accounts are kept using the SAP computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'), including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfillment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

### **2. Assets, Liabilities and Equity, Profit and Loss**

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2012.

Verification of assets and liabilities was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2012.

### **3. Additional notes**

The additional notes to the financial statements for the year ended 31 December 2012 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

### **4. Directors' Report**

We have read the Directors' report on the Company's activities in the period from 1 January 2012 to 31 December 2012 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of Finance dated 19 February 2009 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 (Journal of Laws No. 33, item 259 – with subsequent amendments).

## 5. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Company's Articles of Association were breached during the financial year.

on behalf of:  
Ernst & Young Audit sp. z o.o.  
Rondo ONZ 1  
00-124 Warsaw  
Reg. No 130

Key certified auditor

Artur Żwak  
Certified auditor No. 9894

Warsaw, 12 March 2013