

## **INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS**

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

### **The audit report on the annual consolidated financial statements**

We have audited the accompanying annual financial statements for the year ended 31 December 2017 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 Ściegiennego street 3, containing the statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flow for the period from 1 January 2017 to 31 December 2017 and the summary of significant accounting policies and other explanatory notes ('the accompanying consolidated financial statements').

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

The Company's Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission decrees and other applicable laws, as well as the Company's Articles of Association. The Company's Management is also responsible for such internal control as determined is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In accordance with the Accounting Act of 29 September 1994 (the 'Accounting Act'), the Company's Management and the members of the Company's Supervisory Board are required to ensure that the accompanying consolidated financial statements meet the requirements of the Accounting Act.

#### *Auditor's responsibility*

Our objective was to express an opinion on whether the accompanying consolidated financial statements give a true and fair view<sup>1</sup> of the financial position and results of the operations of the Group in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission regulations and adopted accounting policies.

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<sup>1</sup> Translation of the following expression in Polish is 'rzetelny i jasny obraz'.

We conducted our audit of the accompanying consolidated financial statements in accordance with:

- Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (‘Act on Statutory Auditors’),
- National Auditing Standards in the wording of the International Auditing Standards adopted by the resolution no. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 with subsequent amendments,
- 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 (“Regulation 537/2014”).

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

The purpose of the audit is to obtain reasonable assurance as to whether the consolidated financial statements as a whole were prepared based on properly maintained accounting records and are free from material misstatement due to fraud or error, and to issue an independent auditor's report containing our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with the above mentioned standards will always detect material misstatements. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in aggregate, they could influence economic decisions of the users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement due to fraud is higher than the risk of not recognizing a material misstatement due to an error, as fraud may involve collusion, falsification, deliberate omissions, misleading or circumventing internal control and may affect every area of law and regulation, not just this directly affecting the consolidated financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the consolidated financial statements 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

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

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, including those on other

information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The opinion is consistent with the additional report to the audit committee issued on the date of this report.

### *Independence*

While conducting our audit, the key certified auditor and the audit firm remained independent of the entities comprising the Group in accordance with the regulations of Act on Statutory Auditors, Regulation 537/2014 and principles of professional ethics adopted by resolutions of the National Council of Statutory Auditors.

Based on our best knowledge and belief, we declare that we have not provided non-audit services, that are prohibited based on article 136 of the Act on Statutory Auditors and article 5, point 1 of Regulation 537/2014, to the Company.

### *Appointment of the audit firm*

We were appointed to audit the consolidated financial statements based on the Company's Supervisory Board resolution dated March 15, 2017. We have been auditing the consolidated financial statements of the Company consecutively since the beginning of the financial year ended 31 December 2017.

### *Most significant assessed risks*

In the course of our audit we have identified the below described most significant assessed risks of material misstatement (key audit matters), including due to fraud and we designed appropriate audit procedures in response to those risks. Where we considered to be relevant in order to understand the nature of the identified risk and audit procedures performed we have also included key observations arising with respect to those risks.

These matters were addressed in the context of our audit of the accompanying consolidated financial statements as a whole, and in forming our opinion thereon. Therefore we do not provide a separate opinion on these matters.

<p><i>description of the nature of the risk of material misstatement (key audit matters)</i></p>	<p><i>audit procedures in response to the identified risk</i></p>
<p>1. Impairment of assets analysis</p> <p><i>Why the issue is a key audit matter</i></p> <p>As at December 31, 2017, the Group presented fixed assets including property, plant and equipment and intangible assets (with a carrying amount of approximately PLN 29 374 million), loans receivable from joint ventures (with a carrying amount of approximately PLN 570 million), as well as investments in joint ventures (with a balance value of approximately PLN 499 million) constituting in total approximately 85% of the Group's consolidated balance sheet total.</p> <p>According to IFRS, based on the analysis of the indicators for impairment of assets (fixed assets, intangible assets, investments in joint ventures), as well as based on identifying objective events indicating a possible loss of value of loans receivable from joint ventures, as described in note 11 to the consolidated financial statements, the Group has performed an impairment test for the above-mentioned assets.</p> <p>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 and the complexity of the impairment tests. Tests of impairment require the Management Board to adopt a number of assumptions regarding future market and economic conditions, such as the strategy of TAURON</p>	<p><i>Audit approach</i></p> <p>Our procedures, in relation to the key audit matter described, included, among others:</p> <ul style="list-style-type: none"> <li>• 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>• Assessment of the assumptions made with regard to the grouping of assets into cash-generating units (CGU),</li> <li>• 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 style="list-style-type: none"> <li>- the key macroeconomic assumptions adopted by the Group for future years (including: discount rates, projected growth rate) by comparing them to market data and available external data;</li> <li>- arithmetical correctness of the discounted cash flows model, and</li> <li>- assumptions made to determine cash flows and residual values after the period covered by a detailed strategy;</li> </ul> </li> <li>• Inquiries to employees of the financial department and the Management Board of the parent entity referring to the status of implementation of the adopted</li> </ul>

<p>Polska Energia SA Group, 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 expected shape of the power market, and the anticipated macroeconomic situation.</p> <p>The results of impairment tests could differ materially if the model used different assumptions.</p> <p><i>A reference to disclosure in the consolidated financial statements</i></p> <p>The Group disclosed information regarding impairment indicators, adopted estimates for the purpose of the impairment test, as well as impairment losses on the assets in note 11 of the notes to the consolidated financial statements for the year ended December 31, 2017.</p>	<p>assumptions, including the validity of key estimates,</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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;</li> <li>• Assessment of completeness of disclosures in the consolidated financial statements of the Group in terms of impairment in accordance with the International Accounting Standard 36 Impairment of assets and International Accounting Standard 39 Financial Instruments.</li> </ul>
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<p style="text-align: center;">2. Claims, lawsuits and contingent liabilities</p> <p><i>Why the issue is a key audit matter</i></p> <p>The group is a party to many significant claims and court cases. The most significant are potential and submitted claims identified by the Group relate 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.</p> <p>The obligation to create adequate provision and its amount, as well as the estimate of the value of contingent liabilities are the subject of the Parent Company's Management Board's judgment.</p> <p><i>A reference to disclosure in the consolidated financial statements</i></p> <p>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, 2017.</p>	<p><i>Audit approach</i></p> <p>Our procedures, in relation to the key audit matter described, included, among others:</p> <ul style="list-style-type: none"> <li>• Monitoring of external sources of information to identify breaches or potential violations of law and regulations by Group companies;</li> <li>• 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;</li> <li>• 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;</li> <li>• 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;</li> <li>• Discussion of the selected court cases with internal specialists in the field of law;</li> <li>• Analysis and assessment of contingent liabilities and changes in the value of provisions for claims and court cases;</li> <li>• 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.</li> <li>• Assessment of the completeness of disclosures regarding pending major court and out-of-court proceedings and related contingent liabilities in the consolidated financial statements.</li> </ul>
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<p>3. Change of the statutory auditor and audit of the opening balances</p> <p><i>Why the issue is a key audit matter</i></p> <p>The consolidated financial statements of the Group for the financial year ended on December 31, 2017 was the first one being subject to our audit.</p> <p>In accordance with the provisions of the National Auditing Standard 510, in the wording of International Auditing Standard 510 "Initial Engagements - opening balances", the first-year audit of financial statements requires performing of a number of additional audit procedures that are limited in the case of the audit performed for a consecutive year.</p> <p>The purpose of these additional audit procedures is to collect sufficient and relevant audit evidence about whether:</p> <ul style="list-style-type: none"> <li>• opening balances contain misstatements that materially affect the financial statements for the current period and</li> <li>• appropriate accounting policy applied to the opening balances was used continuously in the preparation of financial statements for the current period, or whether the changes made were correctly accounted for and properly presented in accordance with the applicable financial reporting framework.</li> </ul>	<p><i>Audit approach</i></p> <p>Our procedures, in relation to the key audit matter described, included, among others:</p> <ul style="list-style-type: none"> <li>• the initiating meeting with key personnel responsible for financial reporting of the Group as well as meetings with members of the audit team, including specialists planned to be involved in the audit procedures,</li> <li>• understanding of the Group's operations, its business environment and key risk areas related to its operations,</li> <li>• understanding of the Group's internal control environment, including also tests of identified controls,</li> <li>• understanding of the Group's IT environment</li> <li>• understanding of the accounting policy of the Group and assessing the continuity of its application,</li> <li>• understanding of key areas of estimation and professional judgement of the Group's management,</li> <li>• communication with a key certified auditor acting on behalf of the previous audit firm</li> <li>• including a discussion of key audit issues and a review of audit documentation from the previous reporting period,</li> <li>• assessment of the main audit issues from the previous reporting period and their impact on the consolidated financial statements for the current financial year,</li> <li>• obtaining a reasonable assurance of the opening balances by independently carrying out selected audit procedures in relation to this period.</li> </ul> <p>Our audit strategy has been discussed and agreed with the Management Board of the parent company and the Audit Committee in order to know their expectations and discuss key reporting and auditing issues.</p>
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Accordingly, this issue was identified as key audit matter for the audit of the consolidated financial statements of the Group.	
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### *Opinion*

In our opinion, accompanying consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 December 2017 and its financial performance for the year from 1 January 2017 to 31 December 2017 in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission and other applicable laws and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Company and the Company's Articles of Association.

### *Other matters*

The consolidated financial statements for the prior financial year ended December 31, 2016 were subject to an audit by a key certified auditor acting on behalf of another authorised audit firm, who issued an unqualified opinion on these financial statements, dated March 13, 2017.

## **Report on other legal and regulatory requirements**

### *Opinion on the Directors' Report*

Our opinion on the consolidated financial statements does not include the Directors' Report.

The Company's Management is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition, the Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report meets the requirements of the Accounting Act.

Our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the Director's Report, except for the chapter 'Statement on non-financial information', was prepared in accordance with relevant laws and that it is consistent with the information contained in the accompanying consolidated financial statements.

Our responsibility was also to make a statement, on whether based on our knowledge about the Company and its environment obtained during the audit of the financial statements we have identified in the Director's Report any material misstatements and to indicate the nature of each of material misstatement.



In our opinion the Directors' Report was prepared in accordance with the relevant regulations and reconciles with the information derived from the accompanying financial statements. Moreover, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, we have not identified material misstatements in the Directors' Report.

*Opinion on the corporate governance application representation*

The Company's Management and members of the Company's Supervisory Board are responsible for preparation of the representation on application of corporate governance in accordance with the applicable laws.

In connection with the conducted audit of the consolidated financial statements, our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the issuer, obliged to present a representation on application of corporate governance, constituting a separate part of the Director's Report, included in the representation information required by applicable laws and whether the related information is in accordance with applicable regulations and with the information included in the accompanying consolidated financial statements.

In our opinion, in the representation on application of corporate governance, the Company has included information stipulated in paragraph 91, section 5, point 4, letter a, b, g, j, k and l of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of deeming information required by the regulations of a non-member country equal ('Regulation'). Information stipulated in paragraph 91, section 5, point 4 letter c-f, h and i of the Regulation included in the representation on application of corporate governance is in accordance with applicable laws and information included in the accompanying consolidated financial statements.

*Information on preparation of the statement on non-financial information*

In accordance with the Act on Statutory Auditors, we inform, that the Company has prepared a statement on non-financial information mentioned in article 49b, section 1 of the Accounting Act as a separate element of the Director's Report.

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

Warsaw, 12 March 2018

Key certified auditor

Leszek Lerch

Certified auditor no 9886

on behalf of:

Ernst & Young Audyt Polska  
spółka z ograniczoną odpowiedzialnością sp. k.

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