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# Independent Auditor's Report

## To the General Shareholders' Meeting and Supervisory Board of Elektrociepłownia „Będzin” S.A.

### Report on the Audit of the Annual Financial Statements

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#### Opinion

We have audited the accompanying annual financial statements of Elektrociepłownia „Będzin” S.A. (the “Entity”), which comprise:

- the introduction to the financial statements;
- the balance sheet as at 31 December 2018;

and, for the period from 1 January to 31 December 2018:

- the profit and loss account;
- the statement of changes in equity;
- the cash flow statement;

and

- the supplementary information and explanations

(the “financial statements”).

In our opinion, the accompanying financial statements of the Entity:

- give a true and fair view of the financial position of the Entity as at 31 December 2018 and of its financial performance and its cash flows for the financial year then ended in accordance with the accounting act dated 29 September 1994 (Official Journal from 2019, item 351) (the “Accounting Act”), related bylaws and the adopted accounting policy;
- comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Entity's articles of association;
- have been prepared, in all material respects, on the basis of properly maintained accounting records in accordance with chapter 2 of the Accounting Act.

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Our audit opinion on the financial statements is consistent with our report to the Audit Committee dated 4 April 2019.

## Basis for Opinion

We conducted our audit in accordance with:

- International Standards on Auditing as adopted by the National Council of Certified Auditors as National Standards on Auditing (the “NSA”); and
- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (Official Journal from 2017, item 1089 with amendments) (the “Act on certified auditors”); and
- 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 (Official Journal of the European Union L 158 from 27 May 2014, page 77 and Official Journal of the European Union L 170 from 11 June 2014, page 66) (the “EU Regulation”); and

- other applicable laws.

Our responsibilities under those standards are further described in the Auditor’s Responsibility for the audit of the financial statements section of our report.

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

## Independence and Ethics

We are independent of the Entity in accordance with the Code of Ethics for Professional Accountants (“IFAC Code”) issued by the International Ethics Standards Board for Accountants as adopted by the resolutions of the National Council of Certified Auditors, as well as other independence and ethical requirements, applicable to audit

engagement in Poland. We have fulfilled all ethical responsibilities resulting from those requirements and IFAC Code. During our audit the key certified auditors and the audit firm remained independent of the Entity in accordance with requirements of the Act on certified auditors and the EU Regulation.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. They are the most significant assessed risks of material misstatements, including those due to fraud, described below and we performed appropriate audit procedures to address these matters.

Key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon we have summarised our response to those risks. We do not provide a separate opinion on these matters. We have determined the following key audit matters:

### Impairment of long-term assets

Carrying value of shares in subsidiaries amounted to PLN 130.588 thousand as at 31 December 2018 (PLN 130.588 as at 31 December 2017).

Reference to the financial statements: Introduction to the financial statements Note 3.1.3. “Long-term investments” and Note 4 “Long-term investments” of the Supplementary information to the financial statements.

<i>Key audit matter</i>	<i>Our response</i>
The core business activity of the Company's subsidiaries is production of energy (through subsidiary Elektrociepłownia Będzin Sp. z o.o.) and lease services (through subsidiary Energetyczne Przedsiębiorstwo Finansowo-Leasingowe Energo-Utech S.A.)	Our audit procedures in this area included, among others: <ul style="list-style-type: none"><li>○ evaluating the compliance of applied accounting policy with applicable financial reporting standards,</li></ul>

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The Entity's capitalization rate on Warsaw Stock Exchange as at 31 December 2018 was below the carrying amount of its net assets, which in line with the respective financial reporting standards is one of the long-term assets impairment indicators.

Due to the above, respective impairment tests of assets were performed as at 31 December 2018 in order to compare their recoverable and carrying values. Recoverable amount was estimated as the value in use equal to present value of future cash flows, the Entity expects from continuing use of the assets.

Assessment of the recoverable amount of the long-term assets is based on significant assumptions and estimates, especially regarding value of future cash flows and assumed discount rate, and requires the Entity to make a number of complex judgements. Additionally, regarding assessment of value of property, plant and equipment of energy segment, the forecast of future cash flows depends on energy price trends, future price of coal and carbon dioxide emission rights, which is subject to uncertainty, due to changing market conditions and significant changes in laws and regulations.

Due to the above and also due to the significance of the carrying value of long-term assets for financial statements of the Entity, impairment of long-term assets was considered key audit matter.

- evaluating the allocation of assets to CGUs,
- involving our own valuation specialist to assist in evaluating the appropriateness and integrity of future cash flows financial model used by the Entity in assessment of recoverable value of assets, including comparison of applied methodologies to general practice in impairment testing,
- challenging the appropriateness and reasonableness of the assumptions and estimates applied in the abovementioned model, including:

Regarding assessment of the recoverable amount of shares of Elektrociepłownia Będzin Sp. z o.o.:

- comparing of forecasted prices and volumes to production capacity and signed sales contracts, as well as comparison of forecasted gross margin to historical data of Elektrociepłownia Będzin Sp. z o.o. and analysis of assumptions regarding development of cost base, split into fixed and variable operating expenses,
- analysis of forecast with regards to capex through vouching to long-term development plans of Elektrociepłownia Będzin Sp. z o.o. and regulations of respective concession for production of energy;

Regarding assessment of the recoverable amount of shares of Energetyczne Przedsiębiorstwo Finansowo-Leasingowe Ergo-Utech S.A. :

- comparing of forecast regarding interest income and income from commissions to signed and negotiated contracts and historical trends, as well as comparison of projected interest and commission costs and G&A expenses to historical data of Energetyczne Przedsiębiorstwo Finansowo-Leasingowe Ergo-Utech S.A.

Regarding specific data of estimates:

- comparing of applied macroeconomic assumptions, especially the discount rates applied, to external sources;
  - evaluating the Management's sensitivity analysis of the impairment tests for key assumptions, including assessment of
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reevaluation in challenging of the appropriateness and reasonableness of the assumptions and estimates described above;

- o evaluating the adequacy of the financial statement disclosures in financial statements of the Entity, including disclosures of key assumptions, judgements and sensitivities.
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### **Responsibility of the Management Board and Supervisory Board of the Entity for the financial statements**

The Management Board of the Entity is responsible for the preparation, on the basis of properly maintained accounting records, of financial statements that give a true and fair view in accordance with the Accounting Act, related bylaws, the adopted accounting policy, the applicable laws and the provisions of the Entity's articles of association and for such internal control as the Management Board of the Entity determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management Board of the Entity is responsible for assessing the Entity's 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 Management Board of the Entity either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

According to the Accounting Act, the Management Board and members of the Supervisory Board of the Entity are required to ensure that the financial statements are in compliance with the requirements set forth in the Accounting Act. Members of the Supervisory Board of the Entity are responsible for overseeing the Entity's financial reporting process.

### **Auditor's Responsibility for the audit of the financial statements**

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

The scope of audit does not include assurance on the future viability of the Entity or on the efficiency or effectiveness with which the Management Board of the Entity has conducted or will conduct the affairs of the Entity.

As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the 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 the 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 Entity's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Entity;
- conclude on the appropriateness of the Management Board of the Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report on the audit of the financial statements to the related disclosures in the 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 auditors' report on the audit of the financial statements. However, future events or conditions may cause the Entity to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the

underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board of the Entity 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 Supervisory Board of the Entity with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with 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 with the Supervisory Board of the Entity, we determine those matters that were of most significance in the audit of the financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditors' report on the audit of the financial statements 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 report on activities

### *Other Information*

The other information comprise:

- the letter of the President of the Management Board;
  - the selected financial data;
  - the report on activities of the Entity for the year ended 31 December 2018 (the "Report on activities"), including the corporate governance statement, which is a separate part of the Report on activities;
  - the statement of the Management Board regarding the preparation of the financial statements and Report on activities;
  - the Management Board's information regarding the appointment of the audit firm;
  - the statement of the Supervisory Board regarding the Audit Committee; and
  - the Supervisory Board's assessment of the financial statements and the Report on activities;
- (together the "Other information").

### *Responsibility of the Management Board and Supervisory Board*

The Management Board of the Entity is responsible for the Other information in accordance with applicable laws.

The Management Board and members of the Supervisory Board of the Entity are required to

ensure that the Report on activities, including separate parts of the Report on activities, is in compliance with the requirements set forth in the Accounting Act.

### *Auditor's Responsibility*

Our opinion on the financial statements does not cover the Other information.

In connection with our audit of the financial statements, our responsibility was to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we performed, we conclude that there is a material misstatement in the Other information, we are required to report that fact.

activities was prepared in accordance with applicable laws and the information given in the Report on activities is consistent with the financial statements.

Moreover, in accordance with the requirements of the Act on certified auditors our responsibility was to report whether the Entity included in the statement on corporate governance information required by the applicable laws and regulations, and in relation to specific information indicated in these laws or regulations, to determine whether it complies with the applicable laws and whether it is consistent with the financial statements .

In accordance with the Act on certified auditors our responsibility was to report if the Report on

### *Opinion on the Report on activities*

Based on the work undertaken in the course of our audit of the financial statements, in our opinion, the accompanying Report on activities, in all material respects:

- has been prepared in accordance with applicable laws, and
- is consistent with the financial statements.

### *Opinion on the statement on corporate governance*

In our opinion, the corporate governance statement, which is a separate part of the Report on activities, includes the information required by paragraph 70 subparagraph 6 point 5 of the Decree of the Ministry of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (Official Journal from 2018, item 757) (the "decree").

Furthermore, in our opinion, the information identified in paragraph 70 subparagraph 6 point 5 letter c-f, h and letter i of the decree, included in the corporate governance statement, in all material respects:

- has been prepared in accordance with applicable laws; and
- is consistent with the financial statements.

### *Statement on Other information*

Furthermore, based on our knowledge about the Entity and its environment obtained in the audit of the financial statements, we have not

identified material misstatements in the Report on activities and the Other information.

## Report on other legal and regulatory requirements

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### Statement on services other than audit of the financial statements

To the best of our knowledge and belief, we did not provide prohibited non-audit services referred to in art. 5 paragraph 1 second

subparagraph of the EU Regulation and art. 136 of the act on certified auditors.

### Appointment of the audit firm

We have been appointed for the first time to audit the annual financial statements of the Entity by resolution of the Supervisory Board dated 18 February 2014 and reappointed in the following years, including the resolution dated 25 May 2018, to audit the annual financial

statements for the year ended 31 December 2018. Our period of total uninterrupted engagement is 5 years, covering the periods ended 31 December 2014 to 31 December 2018.

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On behalf of audit firm

**KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.**

Registration No. 3546

*Signed on the Polish original*

*Signed on the Polish original*

Rafał Wiza

Dominik Walawender

Key Certified Auditor  
Registration No. 11995  
*Limited Partner, Proxy*

Key Certified Auditor  
Registration No. 13077

Poznań, 25 April 2019