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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 Consolidated Financial Statements

Opinion

We have audited the accompanying annual consolidated financial statements of Elektrociepłownia „Będzin" S.A. Group (the "Group"), whose parent entity is Elektrociepłownia „Będzin" S.A. (the „Parent Entity"), which comprise:

- the consolidated statement of financial position as at 31 December 2018,

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

- the consolidated statement of profit or loss and other comprehensive income;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows;

and

- notes comprising a summary of significant accounting policies and other explanatory information

(the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements of the Group:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS EU") and the adopted accounting policy;
- comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Parent Entity's articles of association.

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

KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k.

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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 consolidated 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 Group 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 Group 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 consolidated 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 consolidated 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 property, plant and equipment of the Group amounted to PLN 238.537 thousand as at 31 December 2018, including PLN 214.288 thousand of property, plant and equipment of energy segment (PLN 251.643 thousand and PLN 223.593 thousand, respectively, as at 31 December 2017).

Carrying value of goodwill, attributable to acquisition of shares of Energetyczne Przedsiębiorstwo Finansowo-Leasingowe Energo-Utech S.A. as at 31 December 2018 amounted to PLN 1.937 thousand (PLN 1.937 thousand as at 31 December 2017).

Key audit matter	*Our response*
The Group's core business activity 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.) The Group'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 Parent 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 Parent 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 consolidated financial statements of the Group, impairment of long-term assets was considered key audit matter.	Our audit procedures in this area included, among others: o evaluating the compliance of applied accounting policy with applicable financial reporting standards, o evaluating the allocation of assets to CGUs, o involving our own valuation specialist to assist in evaluating the appropriateness and integrity of future cash flows financial model used by the Group in assessment of recoverable value of assets, including comparison of applied methodologies to general practice in impairment testing, o challenging the appropriateness and reasonableness of the assumptions and estimates applied in the abovementioned model, including: Regarding assessment of the recoverable amount of assets involved in production of energy: — 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 assets involved in lease and factoring services: — 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 Energo-Utech S.A.

	Regarding specific data of estimates: — comparing of applied macroeconomic assumptions, especially the discount rates applied, to external sources; o evaluating the Management's sensitivity analysis of the impairment tests for key assumptions, including assessment of revaluation in challenging of the appropriateness and reasonableness of the assumptions and estimates described above; o evaluating the adequacy of the financial statement disclosures in consolidated financial statements of the Group, including disclosures of key assumptions, judgements and sensitivities.

Impairment of lease receivables

Carrying value of lease receivables amounted to PLN 289.230 thousand as at 31 December 2018 (PLN 337.034 thousand as at 31 December 2017).

Key audit matter	*Our response*
Lease receivables are measured at amortised cost, adjusted for expected credit loss allowances. Credit loss estimate consists of two stages – identification of impairment indicators or significant deterioration in credit quality and measurement. Indicators of impairment or significant deterioration in credit quality are being identified through observation of timing of debt repayment by lessees and change in current probability of default, compared to default ratio assessed at initial recognition. Expected credit loss allowances are measured with use of statistical methods based on historical risk parameters of the portfolio and for items evaluated individually, with use of current market value of leased assets and quality and value of additional securities. Expected credit loss allowances consist of 12-month expected credit losses and lifetime expected credit losses. The matter was considered key audit matter considering value of lease receivables portfolio and potentail significant impact of expected	Course of our audit included evaluating the compliance of applied accounting policy with applicable financial reporting standards and professional practise and evaluating the internal control environement with regards to to impairment of lease receivables. Our audit procedures included, among others: o analysis of the allocation of lease receivables to separate categories of balances, considering their quality, o evaluating the assumptions and input data of the statistical model applied for the calculation of the expected credit loss of the portfolio, o evaluating of the 12-month expected credit losses through historical accurancy, o assessment of design and implementation of controls over impairment losses evaluated individually, o for material balances evaluated individually – evaluating the assessment of significant deterioration in credit quality

credit loss on financial statements. The estimate is related to uncertainties and requires significant judgement of the Board. Key risk areas include ommision of existing impairment indicators or significant deterioration in credit quality, improper parametrization of the statistical model and incorrect evaluation of the items assessed individually.	and impairment indicators and assessment of the assumptions of the estimates regarding balances, considered impaired. o evaluating the adequacy of the financial statement disclosures in consolidated financial statements of the Group, including disclosures regarding credit risk.

Responsibility of the Management Board and Supervisory Board of the Parent Entity for the consolidated financial statements

The Management Board of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the European Union, the adopted accounting policy, the applicable laws and the provisions of the Parent Entity's articles of association and for such internal control as the Management Board of the Parent Entity determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

According to the accounting act dated 29 September 1994 (Official Journal from 2019, item 351) (the “Accounting Act”), the Management Board and members of the Supervisory Board of the Parent Entity are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act. Members of the Supervisory Board of the Parent Entity are responsible for overseeing the Group’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, 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 consolidated financial statements.

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

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 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 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 Group'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 Parent Entity;
- conclude on the appropriateness of the Management Board of the Parent 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 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 auditors' report on the audit of the consolidated financial statements 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 auditors' report on the audit of the consolidated financial statements. 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;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Supervisory Board of the Parent 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 Parent 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 Parent Entity, we determine those matters that were of most significance in the audit of the consolidated 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 consolidated 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 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 consolidated 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 consolidated financial statements and the Report on activities;

(together the "Other information").

Responsibility of the Management Board and Supervisory Board

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

The Management Board and members of the Supervisory Board of the Parent 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 consolidated financial statements does not cover the Other information.

In connection with our audit of the consolidated financial statements, our responsibility was to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the consolidated 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.

In accordance with the Act on certified auditors our responsibility was to report if the Report on activities was prepared in accordance with applicable laws and the information given in the Report on activities is consistent with the consolidated financial statements.

Moreover, in accordance with the requirements of the Act on certified auditors our responsibility was to report whether the Group 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 consolidated financial statements .

Opinion on the Report on activities

Based on the work undertaken in the course of our audit of the consolidated 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 consolidated 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 consolidated financial statements.

Statement on Other information

Furthermore, based on our knowledge about the Group and its environment obtained in the audit of the consolidated financial statements, we have not identified material misstatements in the Report on activities and the Other information.

Report on other legal and regulatory requirements

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 consolidated financial statements of the Group 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 consolidated 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.

On behalf of audit firm
KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546

Signed on the Polish original

Rafał Wiza

Key Certified Auditor
Registration No. 11995
Limited Partner, Proxy

Signed on the Polish original

Dominik Walawender

Key Certified Auditor
Registration No. 13077

Poznań, 25 April 2019