**TRANSLATORS' EXPLANATORY NOTE**

The English content of this report is a free translation of the registered auditor's report of the below-mentioned Polish Company. In Poland statutory accounts as well as the auditor's report should be prepared and presented in Polish and in accordance with Polish legislation and the accounting principles and practices generally adopted in Poland.

The accompanying translation has not been reclassified or adjusted in any way to conform to the accounting principles generally accepted in countries other than Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancies in interpreting the terminology, the Polish language version is binding.

# Independent Registered Auditor's Report

## To the General Shareholders' Meeting and the Supervisory Board of Polenergia S.A

## Report on the audit of financial statements

### Our opinion

In our opinion, the attached annual financial statements Polenergia S.A. ("the Company"):

- give a true and fair view of the financial position of the Company as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with the applicable International Financial Reporting Standards as adopted by the European Union and the adopted accounting policies;
- comply in terms of form and content with the laws applicable to the Company and the Company's Articles of Association;
- have been prepared on the basis of properly maintained books of account in accordance with the provisions of Chapter 2 of the Accounting Act of 29 September 1994 ("the Accounting Act" – Consolidated text: Journal of Laws of 2019, item 351, as amended)

Our opinion is consistent with our additional report to the Audit Committee issued on the date of this report on 4 March 2019.

#### *What we have audited*

We have audited the annual financial statements of Polenergia S.A which comprise:

- the balance sheet as at 31 December 2018;

and the following prepared for the financial year from 1 January to 31 December 2018:

- the income statement;
- the statement of comprehensive other income;
- the statement of changes in equity;
- the cash flows statement, and
- the notes comprising a description of the adopted accounting policies and other explanations.

### Basis for opinion

#### *Basis for opinion*

We conducted our audit in accordance with the International Standards on Auditing as adopted as National Standards on Auditing by the National Council of Statutory Auditors ( "NSA") and pursuant to the Act of 11 May 2017 on Registered Auditors, Registered Audit Companies and Public Oversight ("the Act on Registered

*Translation note:*
*This version of our report is a translation from the original, which was prepared in Polish language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

Auditors" – Journal of Laws of 2017, item 1089 as amended) and Regulation (EU) No. 537/2014 of 16 April 2014 on specific requirements regarding the statutory audit of public-interest entities ("the EU Regulation" – Journal of Laws EU L158). Our responsibilities under those NSA are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

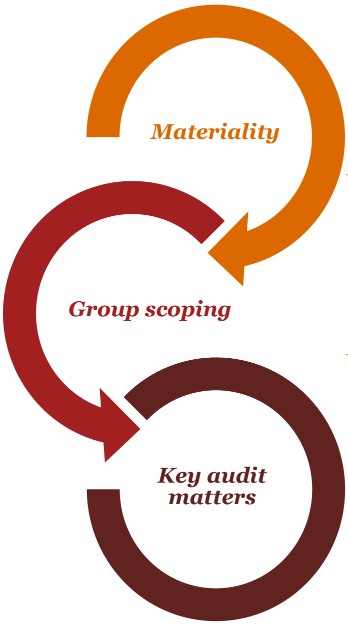
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence and ethics*

We are independent of the Company in accordance with the International Federation of Accountants' *Code of Ethics for Professional Accountants* ("the IFAC Code") as adopted by resolutions of the National Council of Statutory Auditors and other ethical requirements that are relevant to our audit of the financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC's Code. During the audit, the key registered auditor and the registered audit firm remained independent of the Company in accordance with the independence requirements set out in the Act on Registered Auditors and in the EU Regulation.

## Our audit approach

### *Overview*




- The overall materiality threshold adopted for the purposes of our audit was set at PLN 10,930 thousand, which represents 1% of the Company's assets.

- We have audited the annual financial statement of the Company for the period ended 31 December 2018.

- Impairment allowances in respect of investments in subsidiaries
- The recognition of loss of control transactions in respect of Polenergia Bałtyk I S.A., MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Company's Management Board made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### *Materiality*

The scope of our audit was influenced by the adopted materiality level. Our audit was designed to obtain reasonable assurance that the financial statements as a whole are free from material misstatement. Misstatements may arise due to fraud or error.

They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as presented below. These thresholds, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

The concept of materiality is used by the registered auditor both in planning and conducting an audit, as well as in assessing the effect of the misstatements identified during the audit and the unadjusted misstatements (if any), on the financial statements, and also when forming the registered auditor's report. Therefore, all opinions, assertions and statements contained in the registered auditor's report have been made taking into consideration the quantitative and qualitative materiality levels determined in accordance with the audit standards and the registered auditor's professional judgement.

| | |
|---|---|
| ***Overall materiality*** | year 2018: PLN 10,930 thousand, year 2017: PLN 11,600 thousand |
| ***Basis for determination*** | 1% of total assets of the Company |
| ***Rationale for the materiality benchmark applied*** | *We have adopted the Company's total assets as the basis for determining materiality because the value of total assets – mainly investments in subsidiaries - in our opinion it is an indicator commonly used by the users of financial statements to evaluate the operations of a holding company. The sum of total assets is also a generally adopted benchmark. We adopted the materiality threshold at 1% because based on our professional judgement it is within the acceptable quantitative materiality thresholds .* |

We agreed with the Company's Audit Committee that we would report to them of misstatements identified during our audit of the financial statements above PLN 1,093 thousand, as well as any misstatements below that amount, that in our view, warranted reporting for qualitative reasons.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. They include the most significant identified risks of material misstatements, including the identified risks of material misstatement resulting from fraud. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We summarized our response to these risks and, when deemed appropriate, presented the most important observations relating to these risks. We do not provide a separate opinion on these matters.

| ***Key audit matter*** | ***How our audit addressed the key audit matter*** |
|---|---|
| *Impairment allowances in respect of investments in subsidiaries*<br><br>As at 31 December 2018, investments in subsidiaries were presented in Polenergia S.A.'s separate financial statements in long-term and short-term financial assets at an | Our audit procedures included, in particular:<br><br>• the understanding and assessment of the process of identifying the premises for impairment of investments in subsidiaries by the Management Board, as well as a critical analysis of the assessment of the premises identified by the Management Board; |

amount of PLN 839.0 million, which represents 76% of all of the Company's assets.

The Company's Management Board is required to assess the impairment of the financial assets if evidence exists suggesting that these assets have become impaired.

For the purposes of preparing the financial statements for the year ended 31 December 2018, the Company's Management Board analysed the investments in the subsidiaries to identify any evidence of premises for impairment of the investments.

In terms of the investments with respect to which such evidence was found, an analysis was conducted encompassing, among other things, a comparison of the value of the shares with the net asset value of the affiliates, or the financial projections prepared for the businesses being tested. In the case of financial projections, the assessment made by the Management Board required the adoption of certain estimates, among other things, the expected future cash flows, market prices and expected net sales prices. The use of various valuation techniques and various assumptions can result in the achievement of substantially different estimates of impairment charges to investments in subsidiaries. The methodology of establishing an impairment allowance and the test results have been described in the accounting policies in note 11.11 and notes 34 and 35 to the financial statements.

Based on the analyses conducted, the Company recognized impairment of selected investments in subsidiaries at a total amount of PLN 51.5 M, as well as an impairment of loans granted to the subsidiary Energopep Sp. z o.o. Sp. Komandytowa in the amount of PLN 35.7 million. At the same time, as a result of the tests conducted, the Management Board decided to reverse the impairment of shares within the wind power segment at an amount of PLN 30.5 million.

In view of the inherent risk of uncertainty related to material estimates made by the Management Board, as well as the materiality of the amounts of the investments in subsidiaries recognized in the balance sheet, we acknowledged that this is a key issue of our audit.

- in the event of finding that there are premises for impairment, we analysed the impairment tests performed by the Management Board; in particular, (a) we analysed the cash flow forecasts, (b) we considered the grounds for the adopted assumptions based on our knowledge, practice and experience and we compared the estimates with the external evidence, if this was available, (c) we verified the mathematical correctness of the models used for conducting the tests;
- the assessment of the completeness and correctness of the disclosures regarding impairment charges to the investments in the subsidiaries.

*The recognition of loss of control transactions in respect of Polenergia Bałtyk I S.A., MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o.*

In the financial statements, the Company presented a sales transaction transferring ownership of 50% of the shares in the subsidiaries, MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o. to Statoil (Equinor). Simultaneously, within this transaction, Statoil (Equinor) received an option to buy 50% of the shares in Polenergia Bałtyk I S.A.

The consequence of this sales transaction and the purchase option that was issued was the loss of control over Bałtyk I, Bałtyk II and Bałtyk III.

According to the Management Board's judgement, the 100% of shares retained in Bałtyk I and the 50% of shares in Bałtyk II and Bałtyk III and their resulting voting rights give the Company joint control over these entities and, as a result, the Company classifies these investments as joint ventures.

The loss following from the loss of control over the subsidiaries was identified as the difference between the sales price and the historic cost at which the sold shares were recognized in the financial statements and amounted to PLN 38.9 M. The calculation of the result on the transaction did not include the element of a contingent fee in the sales price, which depended on the completion of specific stages or parameters of the project to be completed by these companies, as, according to the Management Board, there is an uncertainty as to the fulfilment of the objectives conditioning the receipt of this fee.

Information on the accounting recognition of the joint ventures has been presented in note 17 to the financial statements.

In view of the materiality of the items in the financial statements, as well as the complexity of the issue and its sensitivity to the adopted assumptions and the judgements made, we believe that the method of recognizing the transaction of loss of control is a key audit issue.

Our audit procedures included, in particular:

- the analysis of the sales contracts and additional accompanying contracts, as well as the assessment of whether the contractual provisions regarding the conditions of implementing the project enable the conclusion to be drawn that the Company has joint control over the companies in question in the context of the requirements of IFRS 11, including consultations with internal IFRS experts to determine the correct recognition of the consequences of the concluded agreements in the financial statements;
- the assessment of the appropriateness of the Management Board not taking into account the contingent fee in the sales price;
- the reconciliation on the settlement of the loss on the loss of control over the subsidiaries with the contracts and books of account;
- verification of the measurement of the purchase option granted to Statoil (Equinor), which was measured at fair value in accordance with IFRS 9 as at the balance sheet date;
- the assessment of the disclosures presented in the financial statements regarding the judgement made and the disclosures required with regard to joint ventures.

## Responsibility of the Management and Supervisory Board for the financial statements

The Management Board of the Company is responsible for the preparation, based on the properly maintained books of account of annual financial statements that give a true and fair view of the Company's financial position and results of operations, in accordance with the International Financial Reporting Standards as adopted by the European Union, the adopted accounting policies, the applicable laws and the Company's Articles of Association, and for such internal control as the Management Board 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 Company's Management Board is responsible for assessing the Company'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 either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Company's Management Board and members of its Supervisory Board are obliged to ensure that the financial statements comply with the requirements specified in the Accounting Act. Members of the Supervisory Board are responsible for overseeing the 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 auditor's 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 the NSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these financial statements.

The scope of the audit does not cover an assurance on the Company's future profitability or the efficiency and effectiveness of the Company's Management Board conducting its affairs, now or in future.

As part of an audit in accordance with the NSA, we exercise professional judgement 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 Company'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 Board.
- Conclude on the appropriateness of the Company's Management Board'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report 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 auditor's report. However, future events or conditions may cause the Company 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 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 also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 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 Report on the operations

### *Other information*

Other information comprises a Report on the Company's operations for the financial year ended 31 December 2018 ("the Report on the operations") and corporate governance statement which is a separate part of the Report on the operations (together "Other Information").

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

The Management Board of the Company is responsible for preparing Other Information in accordance with the law.

The Company's Management Board and the members of the Supervisory Board are obliged to ensure that the Report on the Company's operations including its separate complies with the requirements of the Accounting Act.

### *Registered auditor's responsibility*

Our opinion on the audit of the financial statements does not cover Other Information.

In connection with our audit of the financial statements, our responsibility is to read Other Information and, in doing so, consider whether it is materially inconsistent with the information in the financial statements, our knowledge obtained in our audit, or otherwise appears to be materially misstated. If, based on the work performed, we identified a material misstatement in Other Information, we are obliged to inform about it in our audit report. In accordance with the requirements of the Act on the Registered Auditors, we are also obliged to issue an opinion on whether the Report on the operations has been prepared in accordance with the law and is consistent with information included in annual financial statements.

Moreover, we are obliged to issue an opinion on whether the Company provided the required information in its corporate governance statement

### *Opinion on the Report on the operations*

Based on the work we carried out during the audit, in our opinion, the Report on the Company's operations:

- has been prepared in accordance with the requirements of Article 49 of the Accounting Act and para. 70 of the Regulation of the

Minister of Finance dated 29 March 2018 on current and periodical information submitted by issuers of securities and conditions for considering as equivalent the information required under the legislation of a non-Member State ("Regulation on current information" – Journal of Laws 2018, item 757)

- is consistent with the information in the financial statements.

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

### *Opinion on the corporate governance statement*

In our opinion, in its corporate governance statement, the Company included information set out in paragraph 70.6 (5) of the Regulation on current information. In addition, in our opinion, information specified in paragraph 70.6 (5)(c)–(f), (h) and (i) of the said Regulation included in the corporate governance statement are consistent with the applicable provisions of the law and with information included in the financial statements.

## Report on other legal and regulatory requirements

### *Statement on the provision of non-audit services*

To the best of our knowledge and belief, we declare that the non-audit services we have provided to the Company and its subsidiaries are in accordance with the laws and regulations applicable in Poland and that we have not provided any non-audit services prohibited under Article 5(1) of the EU regulation and Article 136 of the Act on Registered Auditors.

The non-audit services which we have provided to the Company and its subsidiaries in the audited period are disclosed in the note 30 to the financial statements.

### *Appointment*

We have been appointed for the first time to audit the annual financial statements of the Company by resolution of the Supervisory Board dated 13 may 2015 for 3 years and re-appointed by resolution dated 27 April 2018 for 2 years. We have been auditing the Company's financial statements without interruption since the financial year ended 31 December 2015, i.e. for 4 consecutive years.

The Key Registered Auditor responsible for the audit on behalf of PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. (formerly: PricewaterhouseCoopers sp. z o.o.), a company entered on the list of Registered Audit Companies with the number 144., is Anna Góra

Anna Góra

Key Registered Auditor

No. 10519

Warsaw, 4 March 2019