



The Polish original should be referred to in matters of interpretation.  
Translation of auditor's report originally issued in Polish.

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## INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

To the General Meeting and Supervisory Board of the Grupa Kęty S.A.

Audit report on the annual consolidated financial statements

### Opinion

We have audited the annual consolidated financial statements of Grupa Kęty S.A. Capital Group (the 'Group'), for which the holding company is Grupa Kęty S.A. (the 'Company') located in Kęty at Kościuszki 111 street, containing: the consolidated balance sheet as at 31 December 2019, the consolidated profit and loss account, statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January 2019 to 31 December 2019 and additional information to the consolidated financial statements, including a summary of significant accounting policies (the 'consolidated financial statements').

In our opinion, the consolidated financial statements:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the period from 1 January 2019 to 31 December 2019 in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Group and the Company's Statute.

The opinion is consistent with the additional report to the Audit Committee issued on 26 March 2020.

## Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing in the version adopted as the National Auditing Standards by the National Council of Statutory Auditors (“NAS”) and pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (the ‘Act on Statutory Auditors’) and the 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 (the ‘Regulation 537/2014’). Our responsibilities under those standards are further described in the ‘Auditor’s responsibilities for the audit of the financial statements’ section of our report.

We are independent of the Group in accordance with the Code of ethics for professional accountants, published by the International Federation of Accountants (the ‘Code of ethics’), adopted by the National Council of Statutory Auditors and other ethical responsibilities in accordance with required applicable rules of the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of ethics. While conducting the audit, the key certified auditor and the audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Statutory Auditors and the Regulation 537/2014.

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

## 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 include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we have summarized our reaction to these risks and in cases where we deemed it necessary, we presented the most important observations related to these types of risks. We do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
<p>Impairment of assets</p> <p>Why the issue is the key audit matter</p> <p>As at 31 December 2019 the Group recognized in the consolidated financial statement among significant assets:</p> <ul style="list-style-type: none"> <li>• tangible fixed assets in carrying amount of PLN 1 438 981 thousand</li> <li>• right-of-use assets in carrying amount of PLN 44 587 thousand</li> <li>• intangible assets in carrying amount of PLN 37 244 thousand</li> <li>• goodwill in carrying amount of PLN 19 867 thousand</li> <li>• prepayments for the purchase of fixed assets in carrying amount of PLN 10 329 thousand</li> </ul> <p>which is approximately 55,8% of the Group's balance sheet total.</p> <p>According to International Financial Reporting Standards, the Management Board of the holding Company is required to perform an impairment test of intangible assets with an indefinite useful life, in relation to tangible fixed assets, intangible assets, right-of-use assets and prepayments for the purchase of fixed assets to analyze the existence of indications of impairment of assets, and in the event of the identification of such indications to conduct an impairment test.</p>	<p>Audit approach</p> <p>Our procedures, in relation to the described key audit matter, included among others:</p> <ul style="list-style-type: none"> <li>• understanding of the applied accounting policies and procedures and the identification of control mechanisms functioning in the Company and related to the assessment of indicators for impairment, identification of objective events indicating impairment and tests for impairment of assets;</li> <li>• assessment of the judgments adopted by the Group regarding the grouping of assets into cash-generating units;</li> <li>• assessment, with the support of valuation specialists, of assumptions and estimates adopted by the Group to determine the recoverable amount of assets, including: <ul style="list-style-type: none"> <li>– the key macroeconomic assumptions made by the Group for future years (including: discount rates, projected growth rate) by comparing them to the market data and available external data;</li> <li>– arithmetical correctness of the discounted cash flow models, and;</li> <li>– assumptions made to determine cash flows and residual values after period covered by a detailed forecast;</li> </ul> </li> <li>• directing inquiries to the holding Company's Management Board and evaluation of the responses received related to the status of implementation of the assumptions, including the timeliness of key estimates;</li> </ul>

The issue was identified as key audit matter for 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 complex element of professional judgment of the Group's management regarding the valuation of financial assets as well as the assessment of the impairment indicators and marketability of the selected assets and estimation of their recoverable amount.

The analysis of impairment indicators as well as the estimate of the recoverable amount of tangible assets, intangible assets, right-of-use assets and prepayments for the purchase of fixed assets requires the holding Company's Management Board to make a number of assumptions about future market and economic conditions, including, among others, the strategy of the Group, including forecast 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 and the anticipated macroeconomic situation.

A reference to disclosure in the consolidated financial statements

Disclosure regarding the analysis of the indicators for impairment, estimates adopted for the impairment test as well as impairment losses on non-financial assets is included in notes 13.8, 17, 18, 20 and 22 of additional information to the consolidated financial statements for the year ended 31 December 2019.

- analysis of external sources of information such as industry press and assessment with the support of valuation specialists of potential risk related to the implementation of assumptions;
- assessment of impairment indicators and reconciliation of source data used in impairment tests to the financial forecasts adopted by the holding Company;
- obtaining detailed statements of the holding Company's Management Board as to the completeness and correctness of the data provided to us and significant assumptions;
- assessment of the correctness of recognizing the results of impairment tests in the accounting books;
- assessment of the completeness of disclosures, in accordance with the International Accounting Standard 36 Impairment of assets, the International Accounting Standard 1 Presentation of Financial Statements - disclosure of information in the consolidated financial statements regarding impairment.

Recognition and valuation of deferred tax assets calculated in relation to the activities conducted under the Special Economic Zones

Why the issue is the key audit matter

As at 31 December 2019 the Group recognized in the consolidated financial statements deferred tax assets calculated in relation to the activities carried out within the Special Economic Zones, in carrying amount of PLN 86 251 thousand, which is approximately 3,1% of the Group's balance sheet total.

According to the International Accounting Standard 12 Income tax, each time at the balance sheet date, the Group measures deferred tax assets calculated in relation to the activities within the Special Economic Zones based on the cumulative value of eligible costs incurred under the zone permit until the balance sheet date, the intensity of aid specified in the zone permit and discounted forecasted cash flows related to zone activities.

Audit approach

Our procedures, in relation to the key audit matter described, included, among others:

- overview of the process and identification of control mechanisms operating in the Group related to the process of valuation of deferred tax assets, as well as understanding the applied accounting policies and procedures, including the internal control environment, relating to the process of valuation of deferred tax assets;
- assessment of the assumptions and estimates adopted to determine the value of deferred tax assets calculated in relation to the activities carried out within the Special Economic Zones, including:
  - arithmetical correctness of deferred tax assets valuation model calculated in relation to the activities carried out within the Special Economic Zones;
  - assumptions in relation to historical data and comparison of short-term assumptions to the financial forecasts adopted by the holding Company's Management Board, and;
  - assumptions adopted to determine cash flows related to activities covered by special economic zone exemptions;

The issue was identified as key audit matter in the audit of consolidated financial statements due to the value of deferred tax assets calculated in relation to the activities within the Special Economic Zones, which is significant for the consolidated financial statements, as well as due to the professional judgement of the Group's management, related to the valuation of deferred tax assets. This issue requires the holding Company's Management Board to adopt a number of assumptions regarding cash flow projections as part of its zonal operations, including those regarding sales revenue, operating expenses and general market conditions.

A reference to disclosure in the consolidated financial statements

Disclosure regarding deferred tax assets for activities within the Special Economic Zones is included in notes 14.1 and 14.2 of the additional information to the consolidated financial statements for the year ended 31 December 2019.

- directing inquiries to employees of the Group financial departments and the holding Company's Management Board and evaluation of the responses received related to the status of implementation of the assumptions, including the timeliness of key estimates;
- assessment of judgments and estimates adopted by the holding Company's Management Board in terms of parameters used for the valuation of deferred tax assets calculated in relation to the activities carried out within the Special Economic Zones;
- assessment and analysis of the correctness of recognition and presentation of the assets and their movements throughout the reporting periods presented in the Group's consolidated financial statements;
- conducting substantive tests in relation to incurred zone expenditures as well as revenues and costs recognized as part of zone activities in order to analyze the correctness of their classification and recognition when determining the value of deferred tax assets calculated in relation to activities carried out within Special Economic Zones;
- obtaining detailed statements of the holding Company's Management Board as to the completeness and correctness of the data provided to us and significant assumptions;
- assessment of the completeness of disclosures in accordance with International Accounting Standard 12 Income tax and International Accounting Standard 1 Presentation of Financial Statements in the consolidated financial statements of the Group regarding deferred tax assets calculated in relation to activities carried out within Special Economic Zones.

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

The Company's Management is responsible for the preparation the consolidated financial statements that give a true and fair view of the consolidated financial position and the consolidated financial performance in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union, the adopted accounting policies, other applicable laws, as well as the Company's Statute, and is also responsible for such internal control as determined is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, The Company's Management is responsible for assessing the Group's (the holding company and significant components') 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 Company's Management either intends to liquidate the Group (the holding company or significant components) or to cease operations, or has no realistic alternative but to do so.

The Company's Management and the members of the Company's Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act dated 29 September 1994 (the 'Accounting Act'). The members of the Company's Supervisory Board are responsible for overseeing the Company'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 due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with NAS will always detect material misstatement when it exists. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in the aggregate, they could influence the economic decisions of the users taken on the basis of these consolidated financial statements.

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 are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgment.

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

Throughout the audit in accordance with NAS, we exercise professional judgment and maintain professional skepticism and 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 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 Company's Management,
- conclude on the appropriateness of the Company's Management'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 independent auditor's report 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 independent auditor's report, 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,
- we obtain sufficient appropriate audit evidence regarding the financial information of entities and business activities within the Group for the purpose of expressing an opinion on the consolidated financial statements. We are solely responsible for the direction, supervision and performance of the audit of the Group and we remain solely responsible for our audit opinion.

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 provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to 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 Directors' Report

The other information comprises the Directors' Report for the period from 1 January 2019 to 31 December 2019, the representation on the corporate governance and the representation on preparation of the statement on non-financial information, mentioned in article 55, section 2b of the Accounting Act as a separate element of the Directors' Report (jointly 'Other Information').

Responsibilities of the Company's Management and members of the Supervisory

The Company's Management is responsible for the preparation the Other Information in accordance with the law.

The Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report (with separate elements) meets the requirements of the Accounting Act.

## Auditor's responsibility

Our opinion on the consolidated financial statements does not include the Other Information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other information, we are required to report that fact in our independent auditor's report. Our responsibility in accordance with the Act on Statutory Auditors is also to issue an opinion on whether the Directors' Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the consolidated financial statements.

In addition, we are required to inform whether the Company has prepared the representation on non-financial information and to issue an opinion on whether the Company has included the required information in the representation on application of corporate governance.

## Opinion on the Directors' Report

Based on the work performed during our audit, in our opinion, the Directors' Report:

- has been prepared in accordance with the article 49 of the Accounting Act and paragraph 71 of the Decree of the Minister of Finance dated 29 March 2018 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 (the 'Decree on current and periodic information'),
- is consistent with the information contained in the consolidated financial statements.

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

#### Opinion on the corporate governance application representation

In our opinion, in the representation on application of corporate governance, the Group has included information stipulated in paragraph 70, section 6, point 5 of the Decree on current and periodic information.

Moreover, in our opinion, the information stipulated in paragraph 70, section 6, point 5 letter c-f, h and i of the Decree included in the representation on application of corporate governance is in accordance with applicable laws and information included in the consolidated financial statements.

#### Information on non-financial information

In accordance with the Act on Statutory Auditors, we confirm, that the Company has prepared a statement on non-financial information mentioned in article 55, section 2b of the Accounting Act as a separate element of the Directors' Report.

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

#### Representation on the provision of non-audit services

To the best of our knowledge and belief, we represent that services other than audits of the financial statements, which have been provided to the Group, are compliant with the laws and regulations applicable in Poland, and that we have not provided non-audit services, which are prohibited based on article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors. The non-audit services, which we have provided to the Group in the audited period, have been disclosed in the Directors' Report.



## Appointment of the audit firm

We were appointed for the audit of the Group's consolidated financial statements initially based on the resolution of Supervisory Board from 16 April 2016. The consolidated financial statement of the Group have been audited by us uninterruptedly starting from the financial year ended on 31 December 2016, i.e. for the past 4 consecutive years.

Warsaw, 26 March 2020

Key Certified Auditor

(signed electronically with qualified signature)

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Wojciech Świgoń  
certified auditor  
no in the register: 11621

on behalf of:  
Ernst & Young Audyt Polska  
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