

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

**To the Shareholders Meeting and Supervisory Board of Capital Group Zespół Elektrowni
Pątnów – Adamów – Konin S.A.**

The audit report on the annual consolidated financial statements

We have audited the accompanying consolidated annual financial statements for the year ended 31 December 2017 of Zespół Elektrowni Pątnów – Adamów – Konin S.A. Group ('the Group'), for which the holding company is Zespół Elektrowni Pątnów – Adamów – Konin S.A. ('the Company') located in Konin at Kazimierska 45 Street, containing the consolidated statement of financial position as at 31 December 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the period from 1 January 2017 to 31 December 2017 and the summary of significant accounting policies and other explanatory notes ('the accompanying consolidated financial statements').

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

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

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

Auditor's responsibility

Our objective was to express an opinion on whether the accompanying consolidated financial statements give a true and fair view¹ of the financial position and results of the operations of the Group in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission regulations and adopted accounting policies.

¹ Translation of the following expression in Polish is 'rzetelny i jasny obraz'.

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

- Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (‘Act on Statutory Auditors’),
- National Auditing Standards in the wording of the International Auditing Standards adopted by the resolution no. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 with subsequent amendments,
- Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (“Regulation 537/2014”).

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

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

In accordance with International Auditing Standard 320 section 5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgement.

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

Independence

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

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

Appointment of the audit firm

We were appointed to audit the accompanying consolidated financial statements based on the Company's Supervisory Board resolution dated 19 May 2017. We have been auditing the consolidated financial statements of the Company consecutively since the beginning of the financial year ended 31 December 2002; this is for 16 years.

Most significant assessed risks

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

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

<p><i>Description of the nature of the risk of material misstatement (key audit matters)</i></p>	<p><i>Audit procedures in response to the identified risk</i></p>
<p>Impairment of property, plant and equipment</p> <p><i>Reason of determining Key Audit Matter</i></p> <p>Net value of Group’s property, plant and equipment as at 31 December 2017 amounted to 3 281 million zlotys, where the amount of recognized impairment losses of Group’s cash generating unit in prior years amounted to 1 880 million zlotys.</p> <p>As at 31 December 2017 the Company’s Management Board identified rationale for impairment of assets, especially the carrying amount of net assets of the Group was significantly higher than the market capitalization of the Group. Therefore, the Company’s Management Board carried out testing for impairment with respect to the related cash generating units. Tests for impairment were prepared based on discounted cash flow that included following factors: expected long-term energy prices, process of EUA allowances and green certificates, including key assumptions regarding operational specifications as implementation of Capacity Reliability Mechanism. Because of scale and area of significant Management Board’s estimations we decided to determine the impairment of the property, plant and equipment as Key Audit Matter.</p> <p><i>Reference to consolidated financial statement disclosure</i></p> <p>The Group’s disclosure concerning carried out tests for impairment of property, plant and equipment were embedded in Notes 5 and 19.1 of consolidated financial statement.</p>	<p><i>Audit’s strategy</i></p> <p>As part of audit procedures we verified the Group’s control environment designed in order to identify rationale for impairment. We obtained complete understanding of the process and evaluated method of establishing cash generating units. Our procedures, performed in cooperation with EY internal valuation experts, included analysis of established model and its key assumptions with emphasis on:</p> <ul style="list-style-type: none"> • verification of the Management Board’s future cash flow projections including comparison of actual results to previous forecasts and available market data as well as forecasts prepared for other purposes; • comparison of key macroeconomic factors applied in model (discount rates, forecasted growth rates) to market data and other external sources; • verification of mathematical accuracy of discounted cash flow; • assessment of adequacy and completeness of disclosures regarding tests for impairment in consolidated financial statement, including sensitivity analysis prepared by the Management Board.

<p>Revenue recognition related to PPA</p> <p><i>Reason of determining Key Audit Matter</i></p> <p>With the basis on the act of 29 June 2007, the Group’s subsidiary Elektrownia Pątnów II sp. z o.o. (“Elektrownia Pątnów II sp. z o.o.”) is engaged in the program of covering the stranded costs. Elektrownia Pątnów II sp. z o.o. receives compensations for recovering stranded costs emerged as a result of termination of long-term agreements for sales of power and electric energy (KDT) in form of quarterly prepayments adjusted by year end corrections. The final correction is to be made at the end of the primary long-term agreement. Total revenue of the Group for the year ended 31 December 2017 amounted to 2 433 million zlotys, out of which revenues related to the termination of long-term power purchase agreements of the subsidiary Elektrownia Pątnów II sp. z o.o. amounted to 181 million zlotys.</p> <p>Determining the value of such revenue to be recognized is based on the complex financial model prepared by the Management Board of Elektrownia Pątnów sp. z o.o.. The model is based on estimated results from operational activity of Elektrownia Pątnów II sp. z o.o. for the time of participation in program of covering stranded costs i.e. till 2026. Because of scale and area of significant Management Board’s estimations we decided to determine the revenue recognition related to PPA as Key Audit Matter.</p> <p><i>Reference to consolidated financial statement disclosure</i></p> <p>The Group’s disclosure concerning revenue recognition related to PPA were embedded in Notes 5, 9, 10.28.4, 13 and 34.1 of consolidated financial statement.</p>	<p><i>Audit’s strategy</i></p> <p>As part of audit procedures we analyzed and evaluated adopted accounting policy in terms of disclosing revenue related to PPA and implemented methods of its recognition. Furthermore we documented our understanding of this process and identified internal control environment regarding presentation of compensations in the Company’s accounting books. The analysis included verification of year end compensations, final correction and compensations in previous years. Our procedures also included i.e.:</p> <ul style="list-style-type: none"> • analysis of realization of values estimated in previous periods; • assessment of key assumptions adopted for the purposes of financial model utilized to calculate final correction, including comparison of actual results with previous estimations and analysis of available market information; • verification of mathematical accuracy of model mentioned above; • examination of year end adjustment for 2017 based on Elektrownia Pątnów sp. z o.o. financial data; • assessment of adequacy and completeness of disclosures regarding revenue related to PPA in consolidated financial statement.
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<p>Provisions for land reclamation and other related to mining activities</p> <p><i>Reason of determining Key Audit Matter</i></p> <p>As part of activities related to lignite mining in surface mines owned by subsidiaries: PAK Kopalnia Węgla Brunatnego “Konin” S.A. and PAK Kopalnia Węgla Brunatnego “Adamów” S.A., the Group is obliged to reinstate initial condition or restore mining sites caused by mining movements. The amount of provisions for reclamation and other mining activities stated in consolidated financial statement as at 31 December 2017 amounted to 362 million zlotys. Provisions are calculated for reclamation costs of area that is currently being engaged in mining activities as well as for reclamation of final excavations in relation to level of lignite excavation as at balance sheet date.</p> <p>Matter of estimations of provisions for land reclamation and other mining activities was recognized as Key Audit Matter because of value of provisions mentioned above that is significant for consolidated financial statement. What is more performed estimations require professional judgement and other substantial assumptions regarding reclamation activities, timetable of realization, amount of estimated costs including public-law costs and discount and inflation rates. During the process the Company employed external specialists, especially in the field of estimating reclamation costs and reclamation of excavations and post mining lands.</p> <p><i>Reference to consolidated financial statement disclosure</i></p> <p>The Group’s disclosure concerning provisions for land reclamation and other related to mining activities were embedded in Notes 5, 9, 10.26, 31.3.3 of consolidated financial statement.</p>	<p><i>Audit’s strategy</i></p> <p>As part of audit procedures we analyzed and evaluated adopted accounting policy in terms of disclosing provisions for land reclamation and other related to mining activities. Furthermore, we verified implemented by the Management Board of PAK Kopalnia Węgla Brunatnego “Konin” S.A. and the Management Board of PAK Kopalnia Węgla Brunatnego “Adamów” methods and techniques regarding recognition and valuation of mentioned provisions. Our audit procedures included i.e.:</p> <ul style="list-style-type: none"> • understanding and analysis of process of estimating provisions and related to this process internal control environment; • verification of mathematical accuracy of estimations prepared in order to calculate the amount of the provisions; • analysis of assumptions applied by the Management Board of PAK Kopalnia Węgla Brunatnego “Konin” S.A. and the Management Board of PAK Kopalnia Węgla Brunatnego “Adamów” S.A. We verified the applied timetable and amount of estimated costs including external specialists reports. We evaluated competencies of appointed external specialists; • assessment of key factors applied for estimating discounted value of future costs including discount and inflation rates. We compared the amounts to available market data • assessment of adequacy and completeness of disclosures regarding provisions for land reclamation and other related to mining activities in consolidated financial statement.
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Opinion

In our opinion, accompanying consolidated financial statements:

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

Report on other legal and regulatory requirements

Opinion on the Directors' Report

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

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

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

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

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

Opinion on the corporate governance application representation

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

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

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

Information on preparation of the statement on non-financial information

In accordance with the requirements of the Act on Statutory Auditors, we inform that the Company has published information on the preparation of a separate report on non-financial information, referred to in art. 55 par. 2b of the Accounting Act and that the Company has prepared such a separate report.

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

Warsaw, 19 April 2018

Key Certified Auditor

Piotr Chęciek
certified auditor
no in the register: 13253

on behalf of
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