

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

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

### **The audit report on the annual financial statements**

We have audited the accompanying annual financial statements for the year ended 31 December 2017 of Zespół Elektrowni Pątnów – Adamów – Konin S.A. ('the Company') located in Konin at Kazimierska 48 Street, containing the balance sheet as at 31 December 2017, the income statement, the statement of changes in equity, 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 financial statements').

The form of the accompanying financial statements for the year ended 31 December 2017 is prescribed by the Decree of the Minister of Finance dated 19 February 2009 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').

### *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, based on properly maintained accounting records, and fair presentation of the financial statements in accordance with the requirements of the Accounting Act dated 29 September 1994 ('the Accounting Act'), the implementing rules 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

### *Auditor's responsibility*

Our objective was to express an opinion on whether the accompanying financial statements give a true and fair view<sup>1</sup> of the financial position and results of the operations of the Company in accordance with required applicable rules of the Accounting Act and adopted accounting policies.

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<sup>1</sup> Translation of the following expression in Polish is 'rzetelny i jasny obraz'.

We conducted our audit of the accompanying 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 financial statements are free from material misstatement.

The purpose of the audit is to obtain reasonable assurance as to whether the 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 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 financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

The scope of the audit does not include assurance on the future profitability of the audited Company nor effectiveness of conducting business matters 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 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 Company 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 financial statements based on the Company’s Supervisory Board resolution dated 19 May 2017. We have been auditing the 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 financial statements as a whole, and in forming our opinion thereon. Therefore we do not provide a separate opinion on these matters.

<i>Description of the nature of the risk of material misstatement (key audit matters)</i>	<i>Audit procedures in response to the identified risk</i>
<p><b>Impairment of property, plant and equipment</b></p> <p><i>Reason of determining Key Audit Matter</i></p> <p>Net value of the Company’s property, plant and equipment as at 31 December 2017 amounted to 648 million zlotys, where the amount of recognized impairment losses in prior years amounted to 1 561 million zlotys.</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</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 Company was significantly higher than the market capitalization of the Company. 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 Company's disclosure concerning carried out tests for impairment of property, plant and equipment were embedded in paragraph 6 of introduction to the financial statement and in Note 7 of accompanying financial statement.</p>	<p>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"> <li>• 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;</li> <li>• comparison of key macroeconomic factors applied in model (discount rates, forecasted growth rates) to market data and other external sources;</li> <li>• verification of mathematical accuracy of discounted cash flow;</li> <li>• assessment of adequacy and completeness of disclosures regarding tests for impairment in consolidated financial statement, including sensitivity analysis prepared by the Management Board.</li> </ul>
<p><b>Impairment of long-term financial assets</b></p> <p><i>Reason of determining Key Audit Matter</i></p> <p>As at 31 December 2017 the Company presented in its standalone financial statements financial assets including shares in subsidiaries amounting to 1 142 million zlotys. Total impairment losses recognized in prior periods amounted to 28 million zlotys. The estimations of recoverable amount of the investments take into consideration variable market and law environment that alter operational cash flow of subsidiaries. The most important of this factors</p>	<p><i>Audit's strategy</i></p> <p>In relation to described Key Audit Matter our procedures concerned in particular:</p> <ul style="list-style-type: none"> <li>• understanding of the process of identifying and testing of impairment of investments in subsidiaries and evaluation of policies applied to disclose impairment losses. Furthermore we verified internal control environment designed by the Management Board;</li> </ul>

<p>as energy prices, lignite prices, emission rights prices and reclamations costs have direct impact on recoverable amount of the investments.</p> <p>As at 31 December 2017 the Company carried out impairment tests for investments in subsidiaries for companies that evidence of impairment were identified by the Management Board. Because of scale and area of significant Management Board's estimations we decided to determine the impairment of long-term financial assets as Key Audit Matter.</p> <p><i>Reference to consolidated financial statement disclosure</i></p> <p>The Company's disclosure concerning carried out tests for impairment of property, plant and equipment were embedded in paragraph 6 of introduction to the financial statement and in Note 8.1 of accompanying financial statement.</p>	<ul style="list-style-type: none"> <li>• assessment of applied assumptions and performed estimations of future cash flows that allow verification of recoverable amount of investments in subsidiaries i.e.: <ul style="list-style-type: none"> <li>○ assessment of rationality of macroeconomic assumptions applied by the Management Board. We verified discount and inflation rates comparing them to available external data;</li> <li>○ assessment of input data and applied assumptions in particular revenue and operational costs. We verified the data by comparing to historical values and realized budgets;</li> <li>○ assessment of discounted cash flow model utilized by the Company. We verified the compliance in accordance with financial reporting standards;</li> </ul> </li> <li>• sensitivity analysis regarding volatility of key factors and economic assumptions;</li> <li>• assessment of adequacy and completeness of disclosures regarding tests for impairment in consolidated financial statement;</li> </ul>
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### *Opinion*

In our opinion, accompanying financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2017 and its financial performance for the year from 1 January 2017 to 31 December 2017 in accordance with required applicable rules of the Accounting Act and other applicable laws and the adopted accounting policies,
- have been prepared based on properly maintained accounting records, in accordance with chapter 2 of Accounting Act,
- are in respect of the form and content in accordance with legal regulations governing the Company including the Decree on current and periodic information and the Company's Statute.

### **Report on other legal and regulatory requirements**

#### *Opinion on the Directors' Report*

Our opinion on the 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, except for the paragraph 'Statement on non-financial information', was prepared in accordance with relevant laws and that it is consistent with the information contained in the accompanying 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 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 financial statements. Moreover, based on our knowledge of the Company and its environment obtained during the audit of the accompanying 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 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 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 on current and periodic information. 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 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. 49b par. 1 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

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Piotr Chęciek  
certified auditor  
no in the register: 13253

on behalf of  
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