

***ZESPÓŁ ELEKTROWNI
PAŃNÓW – ADAMÓW – KONIN S.A.***

**LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

I. GENERAL NOTES

1. Background

Zespół Elektrowni Pątnów – Adamów – Konin S.A. (hereinafter 'the Company') was incorporated on the basis of a Notarial Deed dated 29 December 1994. The Company's registered office is located in Konin at ul. Kazimierska 45.

The Company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000021374 on 21 June 2001.

The Company was issued with tax identification number (NIP) 665-00-01-645 on 17 September 1993 and statistical number (REGON) 310186795 on 14 December 2000.

The Company is the holding company of the Zespół Elektrowni Pątnów – Adamów – Konin S.A. capital group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Note III.6f, III.13, III.14 and III.18 of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the audited financial statements for the year ended 31 December 2016.

The principal activities of the Company are as follows:

- production and distribution of electricity,
- Production and distribution of heat (steam and hot water).

As at 31 December 2016, the Company's issued share capital amounted to 101,647 thousand zlotys. Equity as at that date amounted to 1,491,837 thousand zlotys.

In accordance with information in note III.6.f of the accompanying financial statements as at 31 December 2016, the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	Per value of shares (in PLN)	% of issued share capital
Zygmunt Solorz Żak (indirectly) through: Elektrim S.A. , Embud sp. z o.o., Trigon XIX Fundusz Inwestycyjny Zamknięty, Argumenol				
Investment Company Limited	26,200,867	26,200,867	52,401,734	51,55%
Nationale Nederlanden OFE	5,068,410	5,068,410	10,136,820	9,97%
Towarzystwo Funduszy Inwestycyjnych PZU SA	3,081,567	3,081,567	6,163,134	6,06%
OFE PZU "Złota Jesień"	2 664 378	2 664 378	5,328,756	5,24%
Other	13,808,325	13,808,325	27,616,650	27,18%
	-----	-----	-----	-----
Total	50,823,547	50,823,547	101,647,094	100,00%
	=====	=====	=====	=====

The following changes took place in the ownership structure of the Company's issued share capital during the financial year and between the balance sheet date and the date of the opinion:

- on 14 March 2016 IPOPEMA 116 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych has sold 5.000.000 ordinary bearer shares series A to Argumenol Investment Company Limited,
- on 19 May 2016 IPOPEMA 116 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych has sold 4.000.000 ordinary bearer shares series A to Argumenol Investment Company Limited,
- on 19 October 2016 Towarzystwo Funduszy Inwestycyjnych PZU SA has bought 550.000 ordinary bearer shares series A,
- w dniu 17 listopada 2016 Otwarty Fundusz Emerytalny PZU "Złota Jesień" has bought 150.000 ordinary bearer shares series A.

There were no movements in the share capital in the reporting period.

As at 21 March 2017, the Company's Management Board was composed of:

Adam Kłapszta	- President
Aneta Lato-Żuchowska	- Vice President
Zygmunt Artwik	- Vice President
Elżbieta Niebisz	- Vice President

During the reporting period as well as from the balance sheet date to the date of the opinion there were changes in the Company's Management Board as described below:

- on 11 February 2016 Supervisory Board has appointed Mr Aleksander Grad as President of the Management Board, starting from 18 February 2016,
- on 8 April 2016 Supervisory Board has appointed Mr Adam Kłapszta as Vice President of the Management Board, effective from that date,
- on 17 June 2016 Mr Aleksander Grad has resigned from his position as President of the Management Board,
- on 17 June 2016 Supervisory Board has delegated Vice President of the Management Board Mr Adam Kłapszta to temporarily perform the duties of President of the Management Board,
- on 26 October 2016 Mr Adrian Kaźmierczak has resigned from his position as Vice President of the Management Board,
- on 26 October 2016 Supervisory Board has appointed Mrs Katarzyna Sobierajska as Vice President of the Management Board, effective from that date,
- on 3 March 2017 Supervisory Board has appointed Mr Adam Kłapszta, Vice President of the Management temporarily performing the duties of President of the Management Board, as President of The Management Board,
- on 3 March 2017 Mrs Katarzyna Sobierajska and Mr Tomasz Zadroga have resigned from their positions as Vice Presidents of the Management Board,
- on 3 March 2017 Supervisory Board has appointed Mrs Elżbieta Niebisz as Vice President of the Management Board, effective from that date.

2. Financial Statements

2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was appointed by Supervisory Board of the Company on 31 May 2016 to audit the Company's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009.

Under the contract executed on 17 August 2016 with the Company's Management Board, we have audited the financial statements for the year period ended 31 December 2016.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an unmodified auditors' opinion dated 21 March 2017, stating the following:

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

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements for the year ended 31 December 2016 of Zespół Elektrowni Pątnów – Adamów – Konin S.A. ('the Company') located in Konin, ul. Kazimierska 45, which comprise the introduction to the financial statements, the balance sheet as at 31 December 2016, the profit and loss account, the statement of changes in equity, the cash flow statement for the year from 1 January 2016 to 31 December 2016 and the additional notes and explanations ('the accompanying financial statements').

The form of the accompanying financial statements for the year ended 31 December 2016 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 Management Board and Members of the Supervisory Board for the financial statements

The Management Board is responsible for the preparation based on properly maintained accounting records and fair presentation of the financial statements in accordance with the Accounting Act dated 29 September 1994 ('the Accounting Act'), regulations issued on the basis of the Accounting Act and other applicable laws. The Management Board is also responsible for such internal control as

management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act the Management Board and Members of the Supervisory Board are required to ensure that the financial statements meet the requirements of the Accounting Act.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to express an opinion on accompanying financial statements based on our audit.

We conducted our audit in accordance with chapter 7 of the Accounting Act and National Auditing Standards in the version of International Standards on Auditing as adopted by Resolution no 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015 with subsequent amendments ('National Auditing Standards'). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 and fair presentation 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 overall presentation of the financial statements.

In accordance with National Auditing Standard 320 point 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.

Opinion

In our opinion, paragraph the accompanying financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2016 and its financial performance and its cash flows for the year from 1 January 2016 to 31 December 2016 in accordance with the required applicable regulations of the Accounting Act and accounting policies;
- have been prepared based on properly maintained accounting records;
- are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.

Report on Other Legal and Regulatory Requirements

Report 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 Board and Members of the Supervisory Board are obliged to state that Directors' Report ('Directors' Report') meet the requirements of the Accounting Act.

In connection with the audit of the financial statements, our responsibility was to read the content of the Directors' Report and consider whether the information contained in it take into account the provisions of art. 49 of the Accounting Act and the Decree on current and periodic information and whether they are consistent with the information contained in the accompanying financial statements.

Our responsibility was also to report, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, whether the Directors' Report does not include material misstatements.

We have concluded that the information included in the Directors' Report corresponds with the relevant regulations of art. 49 of the Accounting Act and the Decree on current and periodic information and that the information derived from the accompanying financial statements reconciles with the Directors' Report. 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.

In connection with the conducted audit of the financial statements, our responsibility was also to read the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the accompanying financial statements.

Information about the fulfilment of other obligations required the law

In addition, we have concluded that the Company presented in note 16 to the accompanying financial statements, items of balance sheet and profit and loss account, prepared separately for each type of business activity in the transmission or distribution of electricity, transmission, distribution or storage of gas, fuel gas trading, natural gas liquefaction or regasification of liquefied natural gas, comply, in all material respects, with the requirements referred to in Article 44 of the Act dated 10 April 1997 Energy Law ("Energy Law").

The scope of regulatory financial information presented in the note 16 to the accompanying financial statements, is specified in Article 44 of the Energy Law. Our audit did not include an assessment on whether the information required to be disclosed by law are sufficient to ensure equal treatment of customers and the elimination of cross-subsidization between activities.'

We conducted the audit of the Company's financial statements during the period from 17 August 2016 to 21 March 2017. We were present at the Company's head office from 17 August 2016 to 26 August 2016 and from 13 February 2017 to 17 March 2017.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness¹ of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 21 March 2017, confirming that:

- the information included in the books of account was complete;
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements;

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

At the same time declare that during the audit of the financial statements, there were no limitations of scope.

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2015 were audited by Robert Klimacki, key certified auditor no. 90055, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 130. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2015. The Company's financial statements for the year ended 31 December 2015 were approved by the General Shareholders' Meeting on 28 June 2016, and the shareholders resolved to coverage the 2015 net loss it total amount 1,515,851 thousand zlotys from reserve capital in amount of 2,405 thousands zlotys and supplementary capital in amount of 1,513,446 thousands zlotys.

The financial statements for the financial year ended 31 December 2015, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the coverage of loss and the Directors' Report, were filed on 7 July 2016 with the National Court Register. The closing balances as at 31 December 2015 were correctly brought forward in the accounts as the opening balances at 1 January 2016.

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2014 - 2016. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2015 and 31 December 2016.

	2016	2015	2014
Total assets	2,598,206	2,649,371	3,950,698
Shareholders' equity	1,491,837	1,360,431	2,995,960
Net profit/ loss	131,407	-1,515,850	204,642
 Return on assets	 5,1%	 -57,2%	 5,2%
$\frac{\text{Net profit/ loss} \times 100\%}{\text{Total assets}}$			
 Return on equity	 8,8%	 -111,4%	 6,8%
$\frac{\text{Net profit/ loss} \times 100\%}{\text{Shareholders' equity at the beginning of the period}}$			
 Profit margin	 8,1%	 -98,5%	 12,5%
$\frac{\text{Net profit/ loss} \times 100\%}{\text{Sales of finished goods, goods for resale and raw materials}}$			
 Liquidity I	 0,97 ¹	 1,34 ¹	 1,52 ¹
$\frac{\text{Current assets}}{\text{Short-term creditors}}$			
 Liquidity III	 0,43 ¹	 0,52 ¹	 0,51 ¹
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$			
 Debtors days	 26 days	 29 days	 22 days
$\frac{\text{Trade debtors} \times 365}{\text{Sales of finished goods, goods for resale and raw materials}}$			
 Creditors days	 21 days	 21 days	 29 days
$\frac{\text{Trade creditors} \times 365}{\text{Costs of finished goods, goods for resale and raw materials sold}}$			

	2016	2015	2014
Inventory days	10 days ²	9 days ²	11 days ²
<u>Inventory x 365</u>			
Costs of finished goods, goods for resale and raw materials sold			
Stability of financing	74,3%	75,0%	86,9%
<u>(Equity + long-term provisions and liabilities) x 100%</u>			
Total liabilities, provisions and equity			
Debt ratio	42,6%	48,7%	24,2%
<u>(Total liabilities and provisions) x 100%</u>			
Total assets			
Rate of inflation:			
Yearly average	-0,6%	-0,9%	0,0%
December to December	0,8%	-0,5%	-1,0%

¹When calculating the liquidity I and III ratios restricted cash, which is further described in additional notes and explanations to audited financial statements, was not included

²When calculating the inventory days ratio the value of rights granted to the Company in respect of production of energy from renewable sources and cogeneration was deducted.

3.2 Comments

The following trends may be observed based on the above financial ratios:

- Return on assets increased to 5,1% in 2016 in comparison with -57,2% in 2015 and decreased in comparison with 5,2% in 2014.
- Return on equity increased to 8,8% in 2016 in comparison with -111,4% in 2015 and 6,8% in 2014.
- Profit margin increased to 8,1% in 2016 in comparison with -98,5% in 2015 and decreased in comparison with 12,5% in 2014.
- Liquidity I amounted to 0,97 as at 31 December 2016 and was lower in comparison with 1,34 as at 31 December 2015 and 1,52 as at 31 December 2014.
- Liquidity III amounted to 0,43 as at 31 December 2016 and was lower in comparison with 0,52 as at 31 December 2015 and 0,51 as at 31 December 2014.
- Debtors days ratio amounted to 26 days in 2016 and decreased in comparison with 29 days in 2015, but increased in comparison with 22 days in 2014.
- Creditor days ratio amounted to 21 days in 2016 and 2015 and decreased in comparison with 29 days in 2014.
- Inventory days ratio amounted to 10 days in 2016 and increased in comparison with 9 days in 2015, but decreased in comparison with 11 days in 2014.
- Stability of financing ratio amounted to 74,3% as at 31 December 2016 and decreased in comparison with 75,0% as at 31 December 2015 and 86,9% as at 31 December 2014.

- Debt ratio amounted to 42,6% as at 31 December 2016 and decreased in comparison to 48,7% as at 31 December 2015, but increased in comparison to 24,2% as at 31 December 2014.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2016 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note II.4 of the introduction to the audited financial statements for the year ended 31 December 2016, the Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2016 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the SAP R/3 computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 ('the Accounting Act'), including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2016.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2016.

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2016 were prepared, in all material respects, in accordance with the requirements of the Accounting Act.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2016 to 31 December 2016 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information contained in it take into account the provisions of Art. 49 para 2 of the Accounting Act and the relevant provisions of 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. We have also concluded, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, that the Directors' Report does not include material misstatements. We have read also the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the financial statements.

5. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Company's Articles of Association were breached during the financial year.

Warsaw, 21 March 2017

Key Certified Auditor

Piotr Chęciek
Certified Auditor
No. 13253

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130