



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 Zespół Elektrowni Pątnów-Adamów-Konin S.A.

Report on the audit of financial statements

Our opinion

In our opinion, the attached annual financial statements of Zespół Elektrowni Pątnów-Adamów-Konin S.A. ("the Company"):

- give a true and fair view of the financial position of the Company as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with the applicable provisions of the Accounting Act of 29 September 1994 ("the Accounting Act" – Journal of Laws of 2019, item 351, as amended) 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.

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

What we have audited

We have audited the annual financial statements of Zespół Elektrowni Pątnów-Adamów-Konin S.A. which comprise:

- the balance sheet as at 31 December 2019; and the following prepared for the financial year from 1 January to 31 December 2019:
- the profit and loss account;
- the statement of changes in equity;
- the statement of cash flows, and
- the introduction to the financial statements and additional explanatory notes.

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 Auditors" – Journal of Laws of 2019, item 1421 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



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

- The overall materiality threshold adopted for the purposes of our audit was set at PLN 12.8 million, which represents 0.9% of the net sales of finished goods, goods for resale and raw materials sold.
- We have audited the annual financial statement of the Company for the period ended 31 December 2019.
- Impairment of investments in subsidiaries
- Impairment of tangible fixed assets
- Provision for reclamation cost

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

PLN 12.8 million

Basis for determination

0.9% of the net sales of finished goods, goods for resale and raw materials sold

Rationale for the materiality benchmark applied

We have adopted net sales of finished goods, goods for resale and raw materials sold as the basis for determining materiality because, in our opinion, this measure best reflects the scale of the Company's operations and it is as free from fluctuations in market prices of cost components that significantly affected the Company's profitability in the recent period. We adopted the materiality threshold at 0.9% 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 1.3 million, as well as any misstatements below that amount, that in our view, warranted reporting for qualitative reasons.

Material uncertainty related to going concern

We draw attention to point 4 of Introduction to the financial statements which describes that the Company incurred a loss in the amount of PLN 46.3 million in the financial year ended 31 December 2019 (with a net loss for the previous financial year in the amount of PLN 64.5 million) and in which it was informed about the significant risk of lack of balancing between planned electricity production with coal supplies

from exploited and planned open-pit mines. The above conditions, together with other information described in point 4 of the Introduction to the financial statements, indicate the existence of significant uncertainty that may raise serious doubts regarding the Company's ability to continue as a going concern. Our opinion is not modified in this respect of this matter.

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. In addition to the matter described in the *Material uncertainty related to going concern* section, we identified matters described below to be the key audit matters to be communicated in our report.

Key audit matter

How our audit addressed the key audit matter

Impairment of investments in subsidiaries

In the financial statements prepared as at 31 December 2019, the Company presented shares in related entities in net value of PLN 1,049.4 million (representing 52.6% of total assets), i.e. less accumulated write-down of PLN 121.2 million. Accounting policies regarding initial recognition and measurement of shares in related parties are presented in point 6 of the Introduction to the

Our procedures included in particular:

- understanding and assessing the process of identifying evidence for impairment of assets
- verification of mathematical correctness and methodological consistency (using internal PwC specialists in the field of

financial statements.

According to the information presented in point 43 of Explanatory notes, the Management Board of the Company has identified indications for impairment of shares held in the subsidiaries - PAK-Volt S.A., Elektrownia Pątnów II Sp. z o.o. and PAK Kopalnia Węgla Brunatnego Konin S.A. and therefore, tests for the impairment of investments in these subsidiaries have been carried out. As a result of the impairment tests, no need to recognise an impairment loss on the investment was identified.

The calculation of the recoverable amount is associated with the need to make a number of assumptions and judgments by the Company's Management Board regarding, among others, adopted strategy, financial plans and cash flow forecasts for subsequent years, as well as macroeconomic and market assumptions (mainly regarding electricity prices, prices of CO2 emissions allowances, raw material prices, level and schedule of overburden stripping and coal extraction, the amount of reclamation costs, support system for renewable energy sources and the capacity market).

Bearing in mind the significance of this item to the financial statements, and also because of the sensitivity of the results of the mentioned test to the adopted assumptions, this issue was the subject of our analysis.

Impairment of tangible fixed assets

In point 7 of Additional information and explanations to the financial statements, the Company presented disclosures regarding impairment tests carried out in relation to the cash-generating unit (CGU), including test results, assumptions used to calculate the value in use and analysis of calculations sensitivity to reasonably possible change of the main assumptions used in the calculation of value in use.

The carrying amount of property, plant and equipment as at 31 December 2019 is PLN 455.9 million (representing 22.8% of total assets). As a result of impairment tests, the need to make revaluation write-offs was identified and impairment of property, plant and equipment was recognized in the amount of PLN 109 million.

Pursuant to the Accounting Act and the National Accounting Standard No. 4 "Impairment of assets", the Management Board of the Company conducts an analysis of the indicators for impairment at the end of the reporting period, and for assets where there are indicators for impairment or reduction of a previously recognized write-off, impairment tests are carried out on given reporting day.

The calculation of the recoverable amount is associated with the need to make a number of assumptions and make judgments by the Company's Management Board regarding, among others, the Company's adopted strategy, financial plans and cash flow forecasts for

valuations) of valuation models prepared by the Company's Management Board based on discounted cash flows;

- a critical assessment of the assumptions and estimates made by the Company's Management Board to determine the value in use of non-current assets, including among others:
 - projection period of future cash flows and the level of revenues, operating margin and expenditures necessary to maintain the activity in the unchanged range assumed in it,
 - the discount rate used (based on weighted average cost of capital),
- assessment of the sensitivity analysis of the assumptions made by the Company's Management Board that may affect the valuation result;
- assessment of the correctness and completeness of disclosures in the financial statements.

Our procedures included in particular:

- understanding and assessing the process of identifying indications of impairment of assets and the correctness of grouping assets into cash-generating units in accordance with the relevant financial reporting standards;
- checking mathematical correctness and methodological consistency (using internal PwC experts in the field of valuations) of valuation models prepared by the Company's Management Board based on discounted cash flows;
- critical assessment of the assumptions and estimates made by the Company's Management Board to determine the value in use of non-current assets, including:
 - the period of projection of future cash flows and the level of revenues, operating margin and expenditures necessary to maintain the activity in the same scope assumed in it,
 - the discount rate used (based on weighted average cost of capital),
- assessment of the sensitivity analysis of the assumptions made by the Company's Management Board that may affect the

subsequent years, as well as macroeconomic and market assumptions (mainly regarding electricity prices, emission rights prices CO₂, raw material prices, level and schedule of effort removal and coal extraction, the amount of reclamation costs, the support system for renewable energy sources and the power market).

Bearing in mind the significance of the position in the financial statements, and also because of the sensitivity of the results of the above of the test for adopted assumptions, this matter was the subject of our analysis.

Provision for reclamation cost

Due to the nature of its business, the Company is required to create provisions specific for energy production companies. These include, among others, decommissioning provisions, provisions for the costs of reclamation of land used in connection with the conducted operations, including ash landfill. As at 31 December 2019 these provisions were in the amount of PLN 82.0 million.

Estimating the provision for reclamation costs and other costs related to the conducted activity is a key issue of the audit due to the value of provisions, which is material from the point of view of the financial statements. In addition, estimates of future costs require professional judgment and significant assumptions in the field of reclamation works, their implementation time, the amount of expected costs and discount rates. When determining the amount of provisions, external independent experts' services were used.

Given the significance of this item in the financial statements this issue was the subject of our analysis.

Accounting policy, details of assumptions made and calculations of significant estimates as well as other relevant information regarding provisions for liabilities are included in point 6 of the Introduction to the financial statements and in point 14 of Additional explanatory notes.

valuation result;

- assessment of the correctness and completeness of disclosures in the financial statements.

In order to address the identified risk, we have obtained detailed knowledge about processes related to the estimation of provisions for liabilities, adopted assumptions and applied accounting policies.

Our procedures also included:

- assessment of the assumptions adopted by the Company for the calculation of the provision, the correctness of the input data used in the calculation (including the completeness of the fixed assets that will be subject to liquidation or reclamation);
- verification of the mathematical correctness of the provision calculation, as well as the correctness of depreciation of assets related to the future costs of decommissioning and discount settlement;
- assessment of the independence and competence of the external expert, in particular considering whether he has the appropriate knowledge, experience and database to reliably estimate the amount of future costs of decommissioning of the mining plant and land reclamation;
- assessment of the correctness and completeness of disclosures in the financial statements.

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 provisions of

the Accounting Act, 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 2019 (*"the Report on the operations"*) and the corporate governance statement and the statement on non-financial information referred to in Article 49b(1) of the Accounting Act which separate parts 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 parts 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 and to inform whether the Company prepared a statement on non-financial information.

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 para. 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.

Information on non-financial information

In accordance with the requirements of the Act on the Registered Auditors, we confirm that the Company has prepared a statement on non-financial information referred to in Article 49b(1)

of the Accounting Act as a separate section of the Report on the operations.

We have not performed any assurance work relating to the statement on non-financial

information and we do not provide any assurance with regard to it.

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 section 12.4 of the Report on the Company's operations.

Appointment

We have been appointed to audit the annual financial statements of the Company by Resolution of the Supervisory Board of 9 May 2018. We have been auditing the Company's financial statements without interruption since the financial year ended 31 December 2018, i.e. for 2 consecutive years.

The Key Registered Auditor responsible for the audit on behalf of PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k., a company entered on the list of Registered Audit Companies with the number 144., is Borys Malinowski.

Borys Malinowski
Key Registered Auditor
No. 12798

Warsaw, 3 April 2020