



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

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## INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

To the General Meeting and Supervisory Board of Zespół Elektrociepłowni Wrocławskich  
KOGENERACJA S.A.

Audit report on the annual consolidated financial statements

### Opinion

We have audited the annual consolidated financial statements of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Group (the 'Group'), for which the holding company is Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. (the 'Company') located in Wrocław at Łowiecka 24 Street, containing: the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January 2018 to 31 December 2018 and additional information to the consolidated financial statements, including a summary of significant accounting policies (the 'consolidated financial statements').

In our opinion the consolidated financial statements:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the period from 1 January 2018 to 31 December 2018 in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Group and the Company's Statute.

The opinion is consistent with the additional report to the Audit Committee issued on 11 March 2019.

### Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing in the version adopted as the National Auditing Standards by the National Council of Statutory Auditors ("NAS") and pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (the 'Act on Statutory Auditors') and the Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the 'Regulation 537/2014').



Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report.

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

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

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we have summarized our reaction to these risks and in cases where we deemed it necessary, we presented the most important observations related to these types of risks.

Key audit matter	How the matter was addressed in our audit
<p><b>Impairment of tangible assets</b></p> <p>The carrying amount of tangible assets presented in the consolidated financial statements of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Group as of 31 December 2018 amounted to PLN 1 590 million.</p> <p>As at 31 December 2018, the Management Board of the Company has identified impairment indicators, including the carrying amount of the net assets of the Group exceeds its market capitalization. Taking into consideration above, the Company's Management Board prepared impairment tests in relation to all cash generating units. The impairment tests were prepared on the basis of the projected</p>	<p>As part of the audit, we have documented our understanding of the process and identified internal controls in relation to identification of impairment indicators and preparation of impairment tests and we have also assessed the methodology of identification of cash generating units, moreover we have reviewed the tests. Our procedures included among others the assessment of the impairment test model and its assumptions, with support of valuation specialists, including:</p> <ul style="list-style-type: none"> <li>assessment of the financial projections assumed by the Management Board by comparison of actual results to the projections;</li> </ul>

<p>cash flows based on long-term assumptions of energy prices paths, coal prices, CO2 emission allowances prices and systems for renewable energy support, taking into consideration other key assumptions relating to operating parameters such as implementation of the Capacity Market mechanism in Poland. The impairment of tangible assets was concluded as key audit matter due to its scale and due to the fact that it is an area of significant judgement of the Management Board.</p> <p>The disclosures of the Group relating to the performed impairment tests were presented in note 16 „Impairment testing of assets” of the notes to the attached consolidated financial statements. The disclosures relating to key estimations were presented in note 38 “Accounting estimates and assumptions”.</p>	<ul style="list-style-type: none"> <li>• comparison of key assumptions in the model (including expected revenues, costs and achieved margins) to market data presented by the Management Board;</li> <li>• comparison of the applied discount rates to market data;             <ul style="list-style-type: none"> <li>• analysis of arithmetic appropriateness of discounted cash flow model and reconciliation of input data to the approved operating budgets;</li> </ul> </li> </ul> <p>assessment of adequacy of disclosures in relations to impairment tests including assessment of sensitivity analysis prepared by the Management Board.</p>
<p>Compensations relating to the termination of long-term Power Purchase Agreements (PPA) (Long-term contracts - LTC)</p> <p>The subsidiary Elektrociepłownia „Zielona Góra” S.A. (“EC ZG”, “EC Zielona Góra”) participates in the system of costs compensation regulated by the Act of 29 June 2007 on the principles of covering the costs of energy producers arisen from early termination of long-term Sales Power Agreements (stranded costs) (“the Act”). Based on the Act EC Zielona Góra receives compensations of stranded costs in relation to termination of long-term Sales Power Agreements in the form of quarterly advances, corrected by annual adjustments. After the program period there is a final adjustment. The amounts relating to stranded costs compensations in EC Zielona Góra included in the consolidated statement of comprehensive income for the year ended 31 December 2018 amounted to PLN 120 million (costs).</p>	<p>As part of the audit we have analyzed and assessed the accounting policy in relations to recognition of revenue relating to the compensations and the methodology implemented by the Management Board relating to determination and recognition of those revenues. Moreover, we have documented our understanding of the process and identified the internal controls, concerning the accounting treatment of the compensations, including annual adjustment, final adjustment and return of compensations from prior years. Our procedures included among others:</p> <ul style="list-style-type: none"> <li>• analysis of realization of the estimations from prior years;</li> <li>• assessment of assumptions taken for the purpose of preparation of financial model used in estimation of final adjustment;</li> </ul>

The value of revenue of PPA yearly adjustments and the expected final adjustment is calculated based on complex financial model prepared by the Management Board of EC Zielona Góra taking into consideration the assumptions in relation to operating results of the subsidiary in the period of participation in the system of covering of stranded costs i.e. till 2025. Considering the scale of the transactions and also considering the fact that it is an area of significant judgement of the Management Board, the matter of compensations relating to the termination of PPA was concluded as a key audit matter.

The disclosures relating to revenue on PPA compensations were presented in note 4 "Revenue from compensations of stranded costs in subsidiary EC Zielona Góra S.A." of the notes to the consolidated financial statements. The disclosures relating to key estimations were presented in note 41 "Accounting estimates and assumptions".

- assessment of arithmetic appropriateness of described above model;
- analysis of the opening balance adjustment relating to settlements of compensations of PPA booked by the Management Board;
- analysis of adequacy of disclosures relating to revenue on the compensations and also of disclosures relating to opening balance adjustment concerning the settlements on PPA compensations.

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

In preparing the consolidated financial statements, The Company's Management is responsible for assessing the Group's (the holding company and significant components') ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless The Company's Management either intends to liquidate the Group (the holding company or significant components) or to cease operations, or has no realistic alternative but to do so.

The Company's Management and the members of the Company's Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act dated 29 September 1994 (the 'Accounting Act'). The members of the Company's Supervisory Board are responsible for overseeing the Company's financial reporting process.

#### Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with NAS will always detect material misstatement when it exists. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in the aggregate, they could influence the economic decisions of the users taken on the basis of these consolidated financial statements.

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

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

Throughout the audit in accordance with NAS, we exercise professional judgment and maintain professional skepticism and we also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control,
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control,

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management,
- conclude on the appropriateness of the Company's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report, however, future events or conditions may cause the Group to cease to continue as a going concern,
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation,
- we obtain sufficient appropriate audit evidence regarding the financial information of entities and business activities within the Group for the purpose of expressing an opinion on the consolidated financial statements. We are solely responsible for the direction, supervision and performance of the audit of the Group and we remain solely responsible for our audit opinion.

We communicate with the members of the Company's Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the members of the Company's Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the members of the Company's Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Directors' Report

The other information comprises the Directors' Report for the period from 1 January 2018 to 31 December 2018, the representation on the corporate governance and the

representation on preparation of the statement on non-financial information, mentioned in article 55, section 2b of the Accounting Act as a separate element of the Directors' Report and the Annual Report for the period from 1 January 2018 to 31 December 2018 (the 'Annual Report'), (jointly 'Other Information').

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

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

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

#### Auditor's responsibility

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

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

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

#### Opinion on the Directors' Report

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

- has been prepared in accordance with the article 49 of the Accounting Act and paragraph 71 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the 'Decree on current and periodic information'),
- is consistent with the information contained in the consolidated financial statements.



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

#### Opinion on the corporate governance application representation

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

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

#### Information on non-financial information

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

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

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

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





## Appointment of the audit firm

We were appointed for the audit of the Group's consolidated financial statements initially based on the resolution of Supervisory Board no. 22/640/2017 from 20 October 2017. The consolidated financial statements of the Group have been audited by us uninterruptedly starting from the financial year ended on 31 December 2017, i.e. for the past 2 consecutive years.

Warsaw, 11 March 2019

Key Certified Auditor

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Piotr Chęciek  
certified auditor  
no in the register: 13253

on behalf of:  
Ernst & Young Audyt Polska spółka z  
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