Report of the independent auditor

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

Report on the audit of the annual financial statements

Opinion

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

In our opinion the financial statements:

- give a true and fair view of the economic and financial position of the Company as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with the applicable International Financial Reporting Standards ("IFRSs"), as endorsed by the European Union, and the adopted accounting policies;
- comply, as regards their form and content, with the applicable laws and the articles of association of the Company;
- have been prepared based on properly kept accounting records, in accordance with Section 2 of the Accounting Act of 29 September 1994 (the "Accounting Act", Journal of Laws of 2019, item 395, as amended).

Our opinion is consistent with the Additional Report to the Audit Committee, which we issued on March 9, 2020.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs")

in a version adopted by the National Council of Statutory Auditors as the Polish Standards on Auditing ("PSAs") and in compliance with the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017 (the "Act on Statutory Auditors", Journal of Laws of 2019, item 1421, as amended) as well as 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 ("EU Regulation", Official Journal of the European Union L158). 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 Company in accordance with the International Federation of Accountants' Code of Ethics for Professional Accountants ("IFAC Code"), adopted by resolution of the National Council of Statutory Auditors, together with the ethical requirements that are relevant to the audit of the financial statements in Poland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC Code. Throughout the audit, both the key statutory auditor and the audit firm remained independent of the Company in accordance with the independence requirements set out in the Act on Statutory Auditors and in the EU Regulation.

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

Other matters

The Company's financial statements for the year ended December 31, 2018 were audited by another auditor who expressed an unqualified opinion on those statements on March 11, 2019.

Key issues of the study

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. They encompass the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to 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 those risks and, where appropriate, we presented the key findings related to those risks. We do not provide a separate opinion on these matters.

Key audit matter	How we addressed the matter

Impairment of property, plant and equipment
Net value of property, plant and equipment held by Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A., presented in the financial statements as at 31 December 2019 was PLN 1 198 million.
As at 31 December 2019 the Management Board of the Company identified indications of impairment of these assets, including changes in the prices of electricity, greenhouse gas emission certificates and raw materials. Therefore, the Management Board of the Company carried out impairment tests of cash generating units. The tests were based on estimates adopted by the Management Board of the Company, relying among others on price projections regarding electricity, bituminous coal, greenhouse gas emission certificates and including other key assumptions related to operational parameters, among others the effects of establishing the Polish Capacity Market and the national energy strategy adopted. The impairment of property, plant and equipment was considered a key audit matter due to the value of these assets as reported in the financial statements, and due to material and complex estimates, included in the prepared impairment tests.
Company's disclosures regarding impairment tests performed are presented in Note 12 "Impairment tests of assets". Disclosures regarding material estimates are presented in Note 38 "Accounting estimates and assumptions".

During the audit, we documented our understanding of the process and identified controls regarding identification of impairment indications, as well as the process of testing assets for impairment. Further, we evaluated the approach to identification of cash generating units. We designed and carried out audit procedures regarding the performed impairment tests. These procedures included assessment of the impairment model with underlying assumptions, were performed with support of evaluation experts and comprised:
• assessment of financial projections adopted by the Management Board in the form of comparison of the actual performance to former projections;
• comparison of the model assumptions (including future revenue, costs and generated margins) to market data presented by the Management Board;
• comparison of the applied discount rates to market data;
• analysis of arithmetical correctness of the discounted cash flows model and reconciliation of source data to the financial projections presented by the Management Board;
• evaluation of the adequacy of disclosures related to impairment tests.

First-time audit of financial statements
The financial statements of the Company for the year ended 31 December 2019 were the first financial statements audited by us. Due to the scale and scope of Company's operations, understanding of its organizational structure and its effects on processes performed was of crucial importance.
During the audit, we carried out a series of additional procedures in order to gain understanding and knowledge of:
• the operating profile of the Company and the accompanying processes;
• specific risks related to its operations;
• controls implemented by the Company and adopted policies that affect its financial reporting.
Owing to these procedures, we were able to evaluate the audit risk, identify the risk of material misstatement including inherent audit risks and control risk, determine the materiality level and the scope of audit procedures. Additionally, during the first-time audit of the financial statements, the additional procedures performed by us were to determine whether the opening balances included any potential material misstatement that would affect the financial statements for the current period and whether the accounting principles (policy) adopted in relation to these opening balances were applied on a continuous basis when preparing the financial statements for the current period, or whether changes introduced to them were correctly accounted for and appropriately presented in line with the applicable financial reporting framework.

In particular, our audit procedures included:
• organizing a kick-off meeting with the key personnel responsible for the Company's financial reporting;
• analysing controls implemented in the Company and testing selected controls regarding individual processes;
• understanding of the Company's accounting policy and material figures recognised in the financial statements based on professional judgment and estimates;
• communication with the key statutory auditor representing the former audit firm that included a discussion of key matters that occurred during the Company's audit performed by that auditor;
• assessment of audit matters for the prior reporting period and their effects on the Company's financial statements for the current financial year and on the opening balances;
• evaluation of the adequacy of disclosures in the financial statements of the Company, made in line with International Accounting Standard 8 "Accounting Principles (Policy), Changes in Accounting Estimates and Errors".
The outcome of our procedures was communicated to the Management Board of the Company and to its Audit Committee.

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

The Company’s Management is responsible for the preparation, based on properly maintained accounting records, the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, The Company’s Management 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 Company’s Management either intends to liquidate the Company 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 financial statements meet the requirements of 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 financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 Company 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 scepticism and 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 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,
- 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 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 independent 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 independent 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 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 31 December 2019 ("Activity Report") the representation on the corporate governance and the representation on preparation of the statement on non-financial information, mentioned in article 49b, section 1 of the Accounting Act as a separate element of the Directors'

Report and the Annual Report for the period from 31 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 financial statements does not include the Other Information. In connection with our audit of the financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the 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 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 70 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 financial statements.

Moreover, based on our knowledge of the Company 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 Company 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 financial statements.

Information on Non-Financial Information

In accordance with the requirements of the Act on Statutory Auditors, we confirm that the Company has prepared a non-financial information statement, as referred to in Article 49b.1 of the Accounting Act, as a separate part of the Report on the Activities.

We have not performed any assurance services relating to the non-financial information statement and we do not express any form of assurance conclusion thereon.

Report on Other Legal and Regulatory Requirements

Energy Law requirements: regulatory financial information

The regulatory financial information as presented in Section C comprises items of the statement of financial position and of the statement of comprehensive income prepared separately for each type of business operations including trade in electricity, indicates the legal basis of the preparation, principles underlying the allocation of assets, liabilities, expenses and revenue to each type of operations. Its preparation by the Management Board is required by Article 44 of the Energy Law of 10 April 1997 (Journal of Laws of 2018, item 755 as amended, henceforth referred to as “Energy Law” or “Act”) and is to address the obligation of equal treatment of consumers and elimination of cross-subsidies among the types of business operations.

The scope of the regulatory financial information is determined by the Act. Our audit did not include the assessment of the sufficiency of information required by the Act from the perspective of reasonableness of its preparation, in particular with regard to the required equal treatment of consumers and elimination of cross-subsidies.

In our opinion, the regulatory financial information has been prepared in all material respects in compliance with the preparation basis as presented in Section C and meets the requirements of Article 44.2 of the Act.

Statement Concerning Provision of Non-Audit Services

To the best of our knowledge and belief, we represent that non-audit services which we have provided to the Company and to its subsidiaries are in accordance with the laws and regulations applicable in Poland and that we have not provided any non-audit services which are prohibited under Article 5.1 of the EU Regulation and Article 136 of the Act on Statutory Auditors. The non-audit services which we provided to the Company and to its subsidiaries in the audited period have been listed in point “Agreement with the Auditor” in the Report on the Activities.

Selection of an audit firm

We were appointed as the auditor of the Company's financial statements by resolution no. 1/700/2019 of Supervisory Board of 22 January 2019. This is our first year as auditor of the Company.

The key statutory auditor on the audit resulting in this independent auditor's report is Adrian Karaś.

Acting on behalf of Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered seat in Warsaw, entered under number 73 on the list of audit firms, in the name of which the financial statements have been audited by the key statutory auditor:

ADRIAN KARAŚ
No. in the register: 12194

Warsaw, 9 march 2020

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A report by the Auditor
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