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

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

The audit report on the annual consolidated financial statements

We have audited the accompanying annual consolidates financial statements for the year ended 31 December 2017 of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Group ('the Group') located in Wrocław at Łowiecka 24, containing the consolidated statement of comprehensive income for the period ended 31 December 2017, consolidated statement of financial position as at 31 December 2017, the consolidated statement of cash flows for the period ended 31 December 2017, the consolidated statement of changes in equity for the year period 31 December 2017 and the explanatory notes to the consolidated financial statements ("consolidated financial statements").

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

The Company's Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission decrees and other applicable laws, as well as the Company's Statute. The Company's Management is also responsible for such internal control as determined is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In accordance with the Accounting Act of 29 September 1994 (the 'Accounting Act'), the Company's Management and the members of the Company's Supervisory Board are required to ensure that the accompanying consolidated financial statements meet the requirements of the Accounting Act.

Auditor's responsibility

Our objective was to express an opinion on whether the accompanying consolidated financial statements give a true and fair view [1] of the financial position and results of the operations of the Group in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission regulations and adopted accounting policies.

[1] Translation of the following expression in Polish is 'rzetelny i jasny obraz'.

We conducted our audit of the accompanying consolidated financial statements in accordance with:

- Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (‘Act on Statutory Auditors’),
- National Auditing Standards in the wording of the International Auditing Standards adopted by the resolution no. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 with subsequent amendments,
- Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (“Regulation 537/2014”).

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

The purpose of the audit is to obtain reasonable assurance as to whether the consolidated financial statements as a whole were prepared based on properly maintained accounting records and are free from material misstatement due to fraud or error, and to issue an independent auditor's report containing our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with the above mentioned standards will always detect material misstatements. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in aggregate, they could influence economic decisions of the users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement due to fraud is higher than the risk of not recognizing a material misstatement due to an error, as fraud may involve collusion, falsification, deliberate omissions, misleading or circumventing internal control and may affect every area of law and regulation, not just this directly affecting the consolidated financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The opinion is consistent with the additional report to the Audit Committee issued on the date of this report.

Independence

While conducting our audit, the key certified auditor and the audit firm remained independent of the entities comprising the Group in accordance with the regulations of Act on Statutory Auditors, Regulation 537/2014 and principles of professional ethics adopted by resolutions of the National Council of Statutory Auditors.

Based on our best knowledge and belief, we declare that we have not provided non-audit services, that are prohibited based on article 136 of the Act on Statutory Auditors and article 5, point 1 of Regulation 537/2014, to the Company.

Appointment of the audit firm

We were appointed to audit the Company's consolidated financial statements based on the Company's Supervisory Board resolution 22/640/2017 dated 20 October 2017. We have been auditing the consolidated financial statements of the Company for the first time since the beginning of the financial year ended 31 December 2017.

Most significant assessed risks

In the course of our audit we have identified the below described most significant assessed risks of material misstatement (key audit matters), including due to fraud and we designed appropriate audit procedures in response to those risks. Where we considered to be relevant in order to understand the nature of the identified risk and audit procedures performed we have also included key observations arising with respect to those risks.

These matters were addressed in the context of our audit of the accompanying consolidated financial statements as a whole, and in forming our opinion thereon. Therefore we do not provide a separate opinion on these matters.

Key audit matters	*Audit procedures in response to the identified risk*
Impairment of tangible assets The carrying amount of tangible assets presented in the consolidated financial statements of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Capital Group as of 31 December 2017 amounted to PLN 1 610 million. The Management Board of the Group has identified impairment indicators, including the	As part of the audit, we have documented 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

carrying amount of the net assets exceeding its market capitalization. Taking into consideration above, the Group's Management Board prepared impairment tests in relation to all identified cash generating units. The impairment tests were prepared on the basis of the projected cash flows based on long- term assumptions of energy prices paths, coal, gas 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 Capacity Market mechanism in Poland. The impairment test of tangible and intangible 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. The disclosures of the Group relating to the performed impairment tests were presented in note 18 „Impairment testing of assets" of the notes to the consolidated financial statements. The disclosures relating to key estimations were presented in note 41 "Accounting estimates and assumptions".	assumptions, with support of valuation specialists, including: · assessment of the financial projections assumed by the Management Board by comparison of actual results to the projections, · comparison of key assumptions in the model (including expected revenues, costs and achieved margins) to market data presented by the Management Board of the Group; · comparison of the applied discount rates to market data; · analysis of arithmetic appropriateness of discounted cash flow model and reconciliation of input data to the approved operating budgets; · assessment of adequacy of disclosures in relations to impairment tests including assessment of sensitivity analysis prepared by the Management Board.
Compensations relating to the termination of long- term Purchase Power Agreements - PPA (Long-term contracts - LTC) 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, however 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	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: · analysis of realization of the estimations from prior years;

December 2017 amounted to PLN 27 million (costs). 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. Moreover, in the attached consolidated financial statements of KOGENERACJA Group, the opening balance was adjusted in relation to recognition of PPA compensations. 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 opening balance adjustment concerning PPA settlements and its impact on the attached consolidated financial statements were described in note 43 "Adjustments to the opening balances due to the accounting treatment of the LTC programme". The disclosures relating to key estimations were presented in note 41 "Accounting estimates and assumptions".	· assessment of assumptions taken for the purpose of preparation of financial model used in estimation of final adjustment; · 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.
Initial audit of consolidated financial statements The consolidated financial statements of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Group for the year ended 31 December 2017 was the first financial statements being a subject to our audit. During the audit we have performed number of additional procedures to understand and gain the knowledge of the Company's and Group's	Our procedures included among others: · kick – off meeting with key personnel responsible for financial reporting of the Capital Group and also internal meetings with audit team members including the teams responsible for subsidiary and also meetings with specialists dedicated to be involved in the audit procedures,

business profile, accompanying processes, specific risks concerning the activity of the Company and Group, internal controls implemented by the Company and subsidiaries within KOGENRACJA Group and implemented policies which impact on the financial reporting of the Company and the Group. These procedures enabled us to assess the audit risk, identify the risk of material misstatements including the inherent risk of the audit and the control risk, determine the materiality levels and audit scope. Moreover, the initial audit additional procedures purpose was to determine whether the opening balance contained misstatements which significantly impacted on the consolidated financial statements for current year and whether the accounting policies implemented for opening balances were applied on the continuous basis in preparation of the financial statements for current year and whether the changes, which were applied, were appropriately booked and relevantly presented in accordance with applicable reporting framework. In the consolidated financial statement for the year ended 31 December 2017 the Management Board has verified the accounting and reporting treatment of the settlement in relation to PPA compensations. As result of the analysis, relating to the recognition of the compensation, the opening balance adjustment was recorded in the consolidated financial statements. It resulted in additional procedures to be performed in this respect.	· review of the internal controls implemented in the Group and testing of the selected controls in relations to particular processes, · understanding of Group accounting policies and significant areas of the financial statements which are subject to professional judgement and include estimates, · communication with key certified auditor acting on behalf of the predecessor auditor including discussion on the key audit issues and review of the audit work papers relating to prior year, · assessment of key audit issues from prior year and its impact on the consolidated financial statements for the current year, · analysis of the opening balance adjustment recorded by the Management Board in relation to PPA compensation settlements and also assessment of financial statements disclosures in this respect. The results of our procedures and the revised audit strategy were communicated to the Management Board of the Group and to the Audit Committee. The disclosures in relations to the opening balance adjustment were presented in note 43 “Adjustments to the opening balances due to the accounting treatment of the LTC programme” of explanatory notes to the consolidated financial statements.

Opinion

In our opinion accompanying consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 December 2017 and its financial performance for the year from 1 January 2017 to 31 December 2017 in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission and other applicable laws and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Company and the Company's Statute.

Other matters

The consolidated financial statements for the previous financial year ended as of 31 December 2016 were subject to audit by a key certified auditor acting on behalf of another auditing company, which on 6 March 2017 issued an unqualified opinion on this consolidated financial statements.

Report on other legal and regulatory requirements

Opinion on the Directors' Report

Our opinion on the consolidated financial statements does not include the Directors' Report.

The Company's Management is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition, the Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report meets the requirements of the Accounting Act.

Our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the Director's Report, except for the chapter 'Statement on disclosing of non-financial information', was prepared in accordance with relevant laws and that it is consistent with the information contained in the accompanying consolidated financial statements.

Our responsibility was also to make a statement, on whether based on our knowledge about the Company and its environment obtained during the audit of the financial statements we have identified in the Director's Report any material misstatements and to indicate the nature of each of material misstatement.

In our opinion the Directors' Report was prepared in accordance with the relevant regulations and reconciles with the information derived from the accompanying financial statements. Moreover, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

The Company's Management and members of the Company's Supervisory Board are responsible for preparation of the representation on application of corporate governance in accordance with the applicable laws.

In connection with the conducted audit of the consolidated financial statements, our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the issuer, obliged to present a representation on application of corporate governance, constituting a separate part of the Director's Report, included in the representation information required by applicable laws and whether the related information is in accordance with applicable regulations and with the information included in the accompanying consolidated financial statements.

In our opinion, in the representation on application of corporate governance, the Company has included information stipulated in paragraph 91, section 5, point 4, letter a, b, g, j, k and l of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of deeming information required by the regulations of a non-member country equal ('Regulation'). Information stipulated in paragraph 91, section 5, point 4 letter c-f, h and i of the Regulation included in the representation on application of corporate governance is in accordance with applicable laws and information included in the accompanying consolidated financial statements.

Information on preparation of the statement on non-financial information

In accordance with the Act on Statutory Auditors, we inform, that the Company has prepared a statement on non-financial information mentioned in article 49b, section 1 of the Accounting Act as a separate element of the Director's Report.

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

Warsaw, 5 March 2018

Key Certified Auditor

Piotr Chęciek
Partner's name and surname
certified auditor
No. 13253

on behalf of
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