



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 Grupa Kęty S.A.

Audit report on the annual financial statements

### Opinion

We have audited the annual financial statements of Grupa Kęty S.A. (the 'Company') located in Kęty at Kościuszki 111, containing: the balance sheet as at 31 December 2019, the profit and loss account, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the period from 1 January 2019 to 31 December 2019 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 financial position of the Company as at 31 December 2019 and its financial performance and its cash flows for the period from 1 January 2019 to 31 December 2019 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 Company and the Company's Statute,
- have been prepared based on properly maintained accounting records, in accordance with chapter 2 of the Accounting Act dated 29 September 1994 (the 'Accounting Act').

The opinion is consistent with the additional report to the Audit Committee issued on 26 March 2020.

### 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 Company 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 Company 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 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 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. We do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
<p>Impairment of investments in subsidiaries and trade receivables from subsidiaries</p> <p>Why the issue is the key audit matter</p> <p>As at 31 December 2019 the Company recognized in the financial statement among significant assets:</p> <ul style="list-style-type: none"> <li>• investments in subsidiaries in carrying amount of PLN 369 440 thousand presented in the financial statements under shares and interests</li> <li>• receivables from subsidiaries in carrying amount of PLN 57 754 thousand presented in the</li> </ul>	<p>Audit approach</p> <p>Our procedures, in relation to the described key audit matter, included among others:</p> <ul style="list-style-type: none"> <li>• understanding of the applied accounting policies and procedures and the identification of control mechanisms functioning in the Company and related to the assessment of indicators for impairment, identification of objective events indicating impairment and tests for impairment of assets,</li> <li>• assessment, with the support of valuation specialists, of assumptions</li> </ul>

financial statements under trade and other receivables which is approximately 36,5% of the Company's balance sheet total.

According to International Financial Reporting Standards, the Management Board of the Company is required to determine the value of expected credit losses that may occur in the period of 12 months or the remaining life of receivables, including trade receivables from subsidiaries depending on the classification of assets into baskets, and in relation to shares in subsidiaries to analyze the existence of indications of impairment of assets, and in the event of the identification of such indications to conduct an impairment test.

The issue was identified as key audit matter for the audit of the financial statements due to the value of the assets listed above, which is significant for the financial statements as well as due to the complex element of professional judgment of the Company's management regarding the valuation of financial assets as well as the assessment of the impairment indicators and marketability of the selected assets and estimation of the recoverable amount of investments in subsidiaries.

The analysis of impairment indicators as well as the estimate of the recoverable amount of investments in subsidiaries requires the Company's Management Board to make a number of assumptions about future market and economic conditions, including, among others, the strategy of the Company and the Group, including forecast revenues, costs and cash flows, weighted average cost of

and estimates adopted by the Company to determine the recoverable amount of assets, including:

- the key macroeconomic assumptions made by the Company for future years (including: discount rates, projected growth rate) by comparing them to the market data and available external data;
  - arithmetical correctness of the discounted cash flow models, and;
  - assumptions made to determine cash flows and residual values after period covered by a detailed forecast;
- directing inquiries to the Company's Management Board and evaluation of the responses received related to the status of implementation of the assumptions, including the timeliness of key estimates;
  - analysis of external sources of information such as industry press and assessment with the support of valuation specialists of potential risk related to the implementation of assumptions;
  - assessment of impairment indicators and reconciliation of source data used in impairment tests to the financial forecasts adopted by the Company;
  - obtaining detailed statements of the Company's Management Board as to the completeness and correctness of the data provided to us and significant assumptions;
  - assessment of the correctness of recognizing the results of impairment tests in the accounting books;
  - assessment of the classification of receivables valuation made by the Company;

capital ("WACC"), as well as the impact of potential and already approved Polish and European regulatory changes and the anticipated macroeconomic situation.

A reference to disclosure in the financial statements

Disclosure regarding the valuation of trade receivables, including trade receivables from subsidiaries, was included by the Company in note 27 of additional information to the financial statements for the year ended 31 December 2019.

Disclosure regarding the analysis of the indicators for impairment of investments in subsidiaries is included in note 21 of additional information to the financial statements for the year ended 31 December 2019.

- assessment of the Company's Management Board's judgment regarding the existence of objective events affecting the impairment of receivables;
- assessment of the credit loss valuation model adopted by the Company, including reconciliation of the source data being the basis for the valuation of credit losses;
- assessment of the completeness of disclosures, in accordance with the International Accounting Standard 36 Impairment of assets, the International Accounting Standard 1 Presentation of Financial Statements and the International Financial Reporting Standard 7 Financial instruments - disclosure of information in the Company's financial statements regarding impairment and valuation of credit losses.

## 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 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, 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 skepticism 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 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 provide the Audit Committee 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 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 Directors' Report

The other information comprises the Directors' Report for the period from 1 January 2019 to 31 December 2019, 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 (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 Act on Statutory Auditors, we confirm, 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 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.

## Report on other legal and regulatory requirements

In addition, we have concluded that the presented in note 46 balance sheet and profit and loss account, prepared separately for each type of business activity in the transmission or distribution of electricity, transmission, distribution or storage of fuel gas comply, in all material respects, with the requirements referred to in Article 44 of the Act dated 10 April 1997 Energy Law ("Energy Law").

The scope of regulatory financial information contained in the explanatory note 46 is specified in art. 44 of the Energy Law. Our audit did not include an assessment on whether the information required to be disclosed by the law are sufficient to ensure equal treatment of customers and elimination of cross-subsidization between activities.



#### 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 we have provided to the Company and its subsidiaries, 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 Company and its subsidiaries in the audited period, have been disclosed in the Directors' Report.

#### Appointment of the audit firm

We were appointed for the audit of the Company's financial statements initially based on the resolution of Supervisory Board from 16 April 2016. The financial statement of the Company have been audited by us uninterruptedly starting from the financial year ended on 31 December 2016, i.e. for the past 4 consecutive years.

Warsaw, 26 March 2020

Key Certified Auditor

(signed electronically with qualified signature)

Wojciech Świgoń  
certified auditor  
no in the register: 11621

on behalf of:  
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