

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

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

**To the Shareholders Meeting and Supervisory Board of Grupa Kęty S.A.**

### **The audit report on the annual financial statements**

We have audited the accompanying annual financial statements for the year ended 31 December 2017 of Grupa Kęty S.A. ('the Company') located in Kęty at Kościuszki 111, containing the balance sheet as at 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in equity, cash flow statement for the period from 1 January 2017 to 31 December 2017 and the summary of significant accounting policies and other explanatory notes ('the accompanying financial statements').

### *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, and fair presentation of the 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 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 financial statements meet the requirements of the Accounting Act.

### *Auditor's responsibility*

Our objective was to express an opinion on whether the accompanying financial statements give a true and fair view<sup>1</sup> of the financial position and results of the operations of the Company 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.

We conducted our audit of the accompanying 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 accompanying financial statements are free from material misstatement.

The purpose of the audit is to obtain reasonable assurance as to whether the 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 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 financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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<sup>1</sup> Translation of the following expression in Polish is 'rzetelny i jasny obraz'.

The scope of the audit does not include assurance on the future profitability of the audited Company nor effectiveness of conducting business matters 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 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 Company 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 accompanying financial statements based on the Company's Supervisory Board resolution dated 14th April, 2016. We have been auditing the financial statements of the Company consecutively since the beginning of the financial year ended 31 December 2016, this is for 2 years.

#### *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 financial statements as a whole, and in forming our opinion thereon. Therefore we do not provide a separate opinion on these matters.

<p><b>Impairment of assets</b></p> <p><i>Why the issue is a key audit matter</i></p> <p>As at December 31, 2017 the Company presented investments in subsidiaries and associated companies (with a total carrying amount of approximately PLN 368 mln) and receivables from subsidiaries and associated companies (with a carrying amount of approximately PLN 58 mln) constituting in total approximately 39% of the Company's balance sheet total.</p> <p>The issue was identified as key audit matter in 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 element of professional judgment of the Company's management in assessing indication of impairment and marketability of the assets.</p> <p>To assess the selected assets the Company's Board uses impairment tests based on multi-faceted assumptions regarding future market and economic conditions including inter alia the strategy of subsidiaries and associated companies, including projected revenues, costs and cash flows, weighted average cost of capital ("WACC"), projected growth rate ("PGR") and the anticipated macroeconomic situation</p>	<p><i>Audit approach</i></p> <p>Our procedures, in relation to the key audit matter described, included among others:</p> <ul style="list-style-type: none"> <li>• understanding the applied accounting policies and procedures, including the internal control environment, relating to the process of impairment indication assessment, identification of objective events indicating impairment and impairment tests</li> <li>• assessment (with the assistance of valuation specialists) of estimates and assumptions made by the Company in order to determine the assets recoverable amount, including: <ul style="list-style-type: none"> <li>- 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;</li> <li>- arithmetical correctness of the discounted cash flow models, and;</li> </ul> </li> </ul>
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<p><i>A reference to disclosure in the financial statements</i></p> <p>The Company disclosed the information regarding impairment of assets in noted 21 and 27 of the additional notes and explanations to the financial statements for the year ended December 31, 2017.</p>	<p>- assumptions made to determine cash flows and residual values after period covered by a detailed forecast;</p> <ul style="list-style-type: none"> <li>• inquiries to employees of the financial department and the Management Board of the company referring to the status of implementation of the adopted assumptions, including the validity of key estimates</li> <li>• analysis of the indications of impairment and reconciliation of source data used in impairment test to the financial forecasts approved by the Company's Management Board</li> <li>• assessment of the completeness the disclosures in the financial statements of the Company in terms of impairment in accordance with the International Accounting Standard 36 <i>Impairment of assets</i> and International accounting Standard 39 <i>Financial Instruments</i>.</li> </ul>
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*Opinion*

In our opinion accompanying financial statements:

- give a true and fair view of the financial position of the Company 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,
- have been prepared based on properly maintained accounting records, in accordance with chapter 2 of Accounting Act,
- are in respect of the form and content in accordance with legal regulations governing the Company and the Company's Statute.

## **Report on other legal and regulatory requirements**

### *Opinion on the Directors' Report*

Our opinion on the 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 paragraph 'Statement on non-financial information', was prepared in accordance with relevant laws and that it is consistent with the information contained in the accompanying 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 accompanying 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 accompanying 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 accompanying 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 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 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.

*Other information, including compliance with obligations arising from the law*

We have concluded that the presented in note 44 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 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 44 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.

Warsaw, 16 March 2018

Key certified Auditor

Wojciech Świgoń  
Certified auditor no 11621

on behalf of:  
Ernst & Young Audyt Polska  
spółka z ograniczoną odpowiedzialnością sp. k.

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