

# Report of the independent auditor

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

## Report on the audit of the annual consolidated financial statement

### Opinion

We have audited the annual consolidated financial statements of the Group ("the Group"), in Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. is the parent company. ("Parent Company"), which comprise the consolidated statement of financial position as of 31 December 2020 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and notes comprising a description of the adopted accounting policies and other explanatory information ("the consolidated financial statement").

In our opinion, the consolidated financial statement:

- gives a true and fair view of the Group's financial position as of 31 December 2020 and its financial performance and its financial flows for the year then ended, in accordance with applicable International Financial Reporting Standards as adopted by the European Union and with adopted accounting policies;
- is consistent in form and content with the Group's legal regulations and the Parent's Articles of Association.

Our opinion is consistent with the Additional Report to the Audit Committee, which we issued on 22 March 2021.

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### 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 2020, item 1415) as well as EU Regulation No 537/2014 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 (including the international standards of independence) ("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. 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.

## 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 financial year. 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 issue of the audit

#### **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 2020 was PLN 1,193 million.

As at 31 December 2020 the Management Board analyzed indications of impairment of those assets.

This analysis included:

- financial plan,
- investment plan,
- power and gas prices,
- assumptions about so-called Power Market, support of highly-efficient cogeneration
- estimations of margins for electricity generation and sales in future periods, taking into account the projections for power and coal prices and CO2 emission allowances.

The analysis of indications showed that production units reach positive flows in the financial plan of 2021-2022, and as a result the Company has not identified any indications for impairment of property, plant and equipment.

Impairment of those assets was considered the key issue of the audit based on their value demonstrated in the financial statements, and based on important and complex estimations stipulated in the prepared analysis of indications of impairment of the assets.

Company's disclosures regarding impairment tests performed are presented in Note 12 "Impairment tests of assets". Disclosures regarding material estimates are presented in Note 5 "Professional judgement and the uncertainty of estimations and assumptions".

### How our investigation related to this case

During the audit we documented our understanding of the process and identified control mechanisms regarding identification of impairment indications as well as evaluating the approach to identification of cash generating units. We designed and carried out audit procedures regarding the performed impairment tests.

These procedures included i.a.:

- assessment of financial projections adopted by the Management Board in the form of comparison of the actual performance to former projections;
- analysis of change in expectations regarding main macroeconomic factors impacting the Company' results;
- comparison of the applied discount rates to market data;
- evaluation of the adequacy of disclosures.

**Loss of goodwill**

The net value of intangible assets of the Capital Group Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. presented in the consolidated financial statement as of December 31, 2020 amounted to PLN 42.5 million, of which goodwill PLN 41.5 million.

According to IAS 36 Impairment of Assets, the Management Board of the Parent Company carried out an annual test to check whether the goodwill was impaired. These tests were performed on the basis of discounted cash flow forecasts generated by cash-generating units to which goodwill was assigned.

These tests were prepared on the basis of the estimates adopted by the Management Board of the Parent Company – estimates prepared on the basis of, inter alia, forecasts of electricity and gas prices, greenhouse gas emission allowances, taking into account other key assumptions regarding operating parameters, as well as weighted average cost of capital ("WACC").

The loss of goodwill was considered a key audit matter due to the value of these assets shown in the consolidated financial statements, as well as due to significant and complex estimates included in the prepared impairment test.

Disclosures of the Group regarding the conducted tests for the loss of goodwill are included in note 8 "Intangible assets".

As part of the audit, we documented the understanding of the process and identified control mechanisms for carrying out impairment tests and assessed the method of identifying cash-generating units.

We designed and performed audit procedures in relation to the performed impairment tests.

These procedures included the assessment of the impairment model and its assumptions, including, but not limited to:

- assessment of the financial forecasts adopted by the Management Board of the Parent by comparing the current results with previous forecasts;
- comparison of the assumptions in the model (including future revenues, costs and margins achieved) with the market data presented by the Management Board of the Company;
- comparison of the applied discount rates with market data;
- analysis of the arithmetic correctness of the discounted cash flow model and reconciliation of the source data with the financial forecasts presented by the Management Board;
- assessing the adequacy of disclosures in terms of impairment tests.

**Compensation for termination of long-term power and electricity sales contracts (LTCs)**

The Subsidiary - Elektrociepłownia "Zielona Góra" S.A. ("EC Zielona Góra") - participates in the cost coverage system, regulated by the Act of June 29, 2007 on the principles of covering costs incurred by producers in connection with the early termination of long-term power and electricity sales contracts ("stranded costs;" "Act on stranded costs.") According to the provisions of the Act, EC Zielona Góra receives compensation for stranded costs due to termination of long-term power and electricity sales contracts (LTC) in the form of quarterly advances with appropriate annual corrections. After the end of the full period for which the LTC agreement was concluded, a final adjustment is made. The amount of LTC compensations of EC Zielona Góra included in the consolidated statement of comprehensive income of the Group for the year ended 31 December 2020 amounted to 30 MPLN. The value of revenues from annual adjustments and the expected final adjustment are quantified on the basis of a comprehensive financial model prepared by the Management Board of EC Zielona Góra; the model is based on estimates of the operating results of EC Zielona Góra in the period of participation in the stranded costs coverage system, i.e. up until 2025. The issue of compensation for termination of long-term contracts was recognized as a key audit matter due to the scale of the transactions and the fact that they are an area of significant estimates made by the Management Board. Disclosures regarding LTC compensation costs are included in note 2 "Compensations to cover stranded costs in the EC Zielona Góra S.A. subsidiary - additional information to the consolidated financial statement." Disclosures related to significant estimates are presented in note 5 "Professional judgment and uncertainty of estimates and assumptions".

As part of the audit, we analyzed and assessed the accounting policy in the field of recognizing revenues from compensations and the methodology implemented by the Management Board of the Parent Company for determining and recognizing these revenues. In addition, we documented an understanding of the process and related controls for the accounting treatment of compensation, including annual compensation, final adjustment and reimbursement of compensation payments made in previous years. Our procedures also included, inter alia: ]

- assessment of the assumptions adopted for the preparation of the financial model used to calculate the final adjustment;
- assessment of the arithmetic correctness of the model indicated above;
- assessment of the adequacy of disclosures concerning compensation revenues in the consolidated financial statement

## Responsibility of the Management Board and Supervisory Board of the Parent Company for the consolidated financial statements

The Management Board of the Parent Company is responsible for the preparation of consolidated financial statements that give a true and fair view of the financial position and financial performance of the Group in accordance with applicable International Financial Reporting Standards as adopted by the European Union, the accounting principles (policy) adopted and the laws and regulations applicable to the Group and the Group's Articles of Association, and for such internal control as the Management Board of the Parent Company deems necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or

error.

When preparing the consolidated financial statements, the Management Board of the Parent Company is responsible for assessing the Group's ability to continue as a going concern, disclosing, if applicable, matters related to the going concern and adopting the going concern principle as the basis of accounting, except when the Management Board of the Parent Company either intends to liquidate the Group or to discontinue operations, or has no realistic alternative to do so.

The Management Board of the Parent Company and members of the Supervisory Board of the Parent Company are obliged to ensure that the consolidated financial statements meet the requirements provided for in the Accounting Act of 29 September 1994 ("the Accounting Act" - Journal of Laws of 2020, item 217). Members of the Supervisory Board of the parent company are responsible for supervising the financial reporting process.

### Auditor's responsibility for auditing the consolidated financial statements

Our objectives are to obtain reasonable assurance that the consolidated financial statements as a whole do not contain any material misstatement due to fraud or error and to issue an audit report containing our opinion. Rational certainty is a high level of certainty, but does not guarantee that a KSB test always detects an existing significant distortion. Distortions may arise from fraud or error and are considered material if it can be reasonably expected that, either individually or in combination, they would influence the economic decisions of users taken on the basis of these consolidated financial statements.

The scope of the audit does not include assurance as to the future profitability of the Group or the efficiency or effectiveness of the management of its affairs by the Management Board of the Parent Company at present or in the future.

During the examination in accordance with KSB we apply professional judgment and maintain professional skepticism, as well:

- we identify and assess risks of material misstatement of the consolidated financial statements due to fraud or error, design and perform audit procedures appropriate to those risks, and obtain audit evidence that is sufficient and appropriate to support our opinion. The risk of failure to detect material misstatement due to fraud is greater than that due to error because fraud may involve collusion, misrepresentation, intentional omissions, introduction of misrepresentation or circumvention of internal control;
- we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the Group's internal control;
- we assess the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by the Management Board of the parent company;
- we conclude that the Management Board of the Parent Company has applied the going concern principle as the basis of accounting and, based on the audit evidence obtained, whether there is any material uncertainty related to events or conditions that could cast significant doubt on the Group's ability to continue operations. If we conclude that there is a material uncertainty, we are required to

draw attention in our audit 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 audit evidence obtained up to the date of our auditor's report, however, future events or conditions may cause the Group to discontinue its operations;

- we evaluate the overall presentation, structure and content of the consolidated financial statements, including disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that ensures a fair presentation;
- we obtain sufficient appropriate audit evidence about the financial information of the entities or intra-group operations to express an opinion on the consolidated financial statements. We are responsible for directing, supervising and conducting the Group audit and remain solely responsible for our audit opinion.

We provide the Supervisory Board of the Parent Company with information on, i.a., the planned scope and time of the audit and significant findings of the audit, including any significant weaknesses in internal control that we identify during the audit.

We submit a statement to the Supervisory Board of the Parent Company that we have complied with the relevant ethical requirements for independence and that we will inform it of all relationships and other matters that could reasonably be considered a threat to our independence, and, where applicable, we will inform it of the safeguards applied.

Of the matters submitted to the Supervisory Board of the Parent Company, we identified those matters which were most significant during the audit of the consolidated financial statements for the current financial year and therefore we considered them to be the key matters of the audit. We shall describe these matters in our auditor's report unless laws or regulations prohibit their public disclosure or where, in exceptional circumstances, we determine that an issue should not be presented in our report because the negative consequences could reasonably be expected to outweigh the public interest benefits of such information.

## Other information, including the Activity Report

Other information includes the Group's report on its operations for the financial year ended 31 December 2020. ("Report on operations") together with a statement on the application of corporate governance and a statement on non-financial information referred to in Article 49b(1) of the Accounting Act, which are separate parts of this Report (together "Other information").

## **Responsibility of the Management Board and Supervisory Board**

The Management Board of the Parent Company is responsible for the preparation of Other information in accordance with legal regulations.

The Management Board of the Parent Company and members of the Supervisory Board of the Parent Company are obliged to ensure that the Report on operations together with the separated parts meet the requirements provided for in the Accounting Act.

## **Auditor's responsibility**

Our audit opinion on the consolidated financial statements does not include any other information. In connection with the audit of the consolidated financial statements, it is our responsibility to review the Other Information, and in doing so, to consider whether the Other Information is not materially inconsistent with the consolidated financial statements or with our audit knowledge or otherwise appears to be materially distorted. If, based on the work performed, we become aware of material misstatements in Other Information, we are required to disclose them in our audit report. As required under the Act on Auditors, we are also required to issue an opinion on whether the Report on the Company's activities are in compliance with the regulations and whether they are consistent with the consolidated financial statements. In addition, we are required to state whether the Group has prepared a statement of non-financial information and to issue an opinion on whether the Group has included the required information in its corporate governance statement.

### Opinion on the Activity Report

Based on the work carried out in the course of the audit, in our opinion, the Activity Report:

- has been prepared in accordance with Article 49 of the Accounting Act and paragraph 71 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information to be published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state ("Regulation on current information" - Journal of Laws of 2018, item 757 as amended),
  - is consistent with the information contained in the consolidated financial statements
- Furthermore, in the light of our knowledge of the Group and its environment during our audit, we declare that we have not found any material misstatements in the Business Report.

### Opinion on the corporate governance statement

In our opinion, in its statement on the application of corporate governance, the Group included the information specified in paragraph 70.6.5 of the Regulation on current information. In addition, in our opinion, the information specified in paragraph 70.6(5)(c-f), (h) and that Regulation contained in the corporate governance statement is consistent with the applicable regulations and information contained in the consolidated financial statements.

### Information on non-financial information

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

We have not performed any attestation work on the non-financial information statement and do not express any assurance about it.

### Report on other legal and regulatory requirements

#### **Object of the service**

In connection with the audit of the consolidated financial statements, we conducted an attestation service providing reasonable assurance, the subject of which was the assessment of whether the Group's consolidated financial statement for the year that ended on 31 December 2020 were prepared in accordance with the requirements set out in Commission Delegated Regulation (EU) 2019/815 from 17 December 2018 that supplements Directive 2004/109 / EC of the European Parliament and of the Council with regard to regulatory technical standards concerning the specification of a single electronic reporting format ("ESEF Regulation").

### **Criteria identification**

The ESEF regulation specifies that issuers preparing their consolidated financial statements in accordance with IFRS prepare them in the uniform electronic reporting format XHTML and mark the information contained the statements in accordance with the IFRS taxonomy, with the use of the Inline XBRL standard ("ESEF format").

### **Responsibility of the Management Board and Supervisory Board of the parent company**

The Management Board is responsible for the preparation of the consolidated financial statement in the ESEF format. This responsibility includes selection and application of appropriate XBRL tags using the taxonomy specified in the ESEF Regulation.

The responsibility of the Management Board also includes the design, implementation and maintenance of the internal control ensuring the preparation of consolidated financial statement in the ESEF format that is free from significant inconsistencies with the requirements of the ESEF Regulation. Members of the parent company's Supervisory Board are responsible for overseeing the financial reporting process that also includes the preparation of consolidated financial statements in accordance with the ESEF format.

### **Responsibility of the statutory auditor**

Our goal was to express a conclusion, based on the performed attestation service, giving reasonable assurance whether the Group's consolidated financial statements for the year ended 31 December 2020 were prepared in accordance with the requirements specified in the ESEF Regulation.

We conducted the service in accordance with the National Standard on Attestation Services Other than Audit and Review 3000 (Z) in the wording of International Standard on Assurance Engagements 3000 (amended) - "Assurance services other than audits or reviews of historical financial information" adopted by the National Council of Statutory Auditors (hereinafter: "KSUA 3000 (Z)").

This standard requires the statutory auditor to plan and perform procedures in such a way as to gather the information and explanations we consider necessary to obtain reasonable assurance that the consolidated financial statements have been prepared in accordance with the ESEF format.

Reasonable certainty is a high level of certainty, but it does not guarantee that the service performed in accordance with KSUA 3000 (Z) will always detect the existing material misstatement. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement resulting from

either fraud or error. In making those risk assessments, the auditor considers the internal control related to the preparation of the consolidated financial statement in the ESEF format in order to design appropriate procedures to provide them with sufficient evidence appropriate to the circumstances, and not to express a conclusion on the effectiveness of said internal control.

### **Quality control requirements**

We apply the National Standards of Quality Control adopted by the National Council of Statutory Auditors in the wording of the International Standard for Quality Control 1 - "Quality control of companies conducting audits and reviews of financial statements and performing other assurance and related services"; in accordance with these standards, we maintain a comprehensive quality control system, including documented policies and procedures for compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

### **Ethical and independence requirements**

We comply with the independence requirements and other ethical requirements set out in the International Code of Ethics for Professional Accountants (including the International Standards of Independence) adopted by the National Council of Statutory Auditors, developed and approved by the International Ethical Standards Board for Accountants.

### **Summary of the procedures performed**

The procedures planned and carried out by us included, among others:

- gaining an understanding of the process of selecting and applying XBRL markers by the company and ensuring compliance with the ESEF format, including an understanding of the mechanisms of the internal control system related to this process,
- assessment of compliance with technical standards regarding the ESEF format specifications, including the use of the XHTML format, with the use of specialized IT software,
- testing the correctness of mathematical calculations for individual items marked with iXBRL tags,
- reconciliation of the tagged information contained in the files containing the consolidated financial statement to the audited consolidated financial statement,
- assessment of the completeness of labeling information in the consolidated financial statements with XBRL tags,
- assessment of whether the applied iXBRL tags from the taxonomy specified in the ESEF Regulation have been properly applied and whether extensions of the taxonomy have been used in situations where no relevant elements have been identified in the basic taxonomy specified in the ESEF Regulation,
- assessment of the correctness of anchoring of the applied taxonomy extensions in the basic taxonomy specified in the ESEF Regulation.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion on the performance of the attestation service.



## Conclusion

In our opinion, the consolidated financial statement has been prepared in accordance with the requirements of the ESEF Regulation in all relevant respects.

### Statement concerning non-audit services

To the best of our knowledge and belief, we declare that the non-audit services provided to the Parent Company and its subsidiaries are not prohibited under Art. 5 sec. 1 of the EU Regulation and art. 136 of the Act on statutory auditors. The non-audit services that we provided to the Parent Company and its subsidiaries in the audited period are listed in the "Agreement concluded with an entity authorized to audit financial statements," section "Reports on activities."

### Selection of an auditing firm

We were selected to audit the consolidated financial statements of the Group by Resolution of the Parent Company (Resolution of the Supervisory Board No. 1/700/2019, 22 January 2019.) We audit the consolidated financial statement of the Group continuously, starting from the financial year ended on 31 December 2019, i.e. for two fiscal years.

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 office in Warsaw, entered on the list of audit companies under number 73, on behalf of which the key statutory auditor audited the consolidated financial statements:

Adrian Karaś  
Register no. 12194  
Warsaw, 22 March 2021 r.

Full review and report can be downloaded in the



**Report of the independent author**

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