# REPORT ON THE REVIEW OF FINANCIAL STATEMENTS BY ISSUERS OF SECURITIES IN THE CONTEXT OF THEIR COMPLIANCE WITH IFRSs

## THE REVIEW CARRIED OUT IN 2015

POLISH FINANCIAL SUPERVISION AUTHORITY
WARSAW, FEBRUARY 2016

ACCOUNTING DIVISION, PUBLIC OFFERINGS AND FINANCIAL INFORMATION DEPARTMENT

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KEYWORDS: FINANCIAL STATEMENTS, ISSUERS OF SECURITIES, IFRS, DISCLOSURE REQUIREMENTS, INDEPENDENT AUDITORS' QUALIFICATIONS, ENFORCEMENT

## SYNTHESIS

This Report summarises the review, carried out by the Accounting Division of the Public Offerings and Financial Information Department of the Polish Financial Supervision Authority (PFSA), of the compliance of the financial statements of security issuers other than investment funds with the applicable reporting framework, particularly with the requirements of IFRSs. The review focused on annual consolidated financial statements / financial statements prepared for the financial year 2014. It also covered interim consolidated financial statements / financial statements prepared for the periods of the financial year 2015 and 2014, respectively, as well as historical financial information of entities applying for approval of a prospectus, taking into consideration the methods of selecting financial statements for the review. In connection with the conducted enforcement activities, there were also cases of review of consolidated financial statements / financial statements for earlier periods than the above-mentioned ones.

In selecting financial statements of issuers for the periodic review conducted in 2015, high priority was given, as in previous years, to the following criteria: a qualified opinion on the audited financial statements, a disclaimer of opinion or an adverse opinion. Another adopted criterion was a qualified report on the review of half-yearly financial statements or a disclaimer of report. Furthermore, in selecting financial statements for review, the cases of going concern threats were also taken into account.

The review of financial statements of issuers resulted in a report that presents the most common areas of non-compliance with the applicable reporting framework, in particular with IFRSs, including non-disclosures or partial disclosures. The review revealed a need for improvement in the quality of financial statements, in particular in the areas related to financial instruments and risks arising from financial instruments, consolidation and business combinations, going concern, impairment of non-financial assets, fair value and deferred tax.

We also want to highlight the need to ensure completeness and high quality of disclosures made in financial statements, as required by the applicable regulations. In our opinion, the financial statements of issuers cannot be considered complete if they lack material disclosures required under applicable accounting standards. It is also important to take account of the ESMA Public Statement on improving the quality of disclosures, underlining the need for placing concise and clear disclosures relating to material, specific facts which are relevant to understanding the financial position and performance of issuers and their groups.

The cyclical publication of review reports aims at contributing to a consistent application of the applicable financial reporting framework and a higher level of issuers' compliance with reporting requirements, particularly with the requirements of IFRSs. The improved quality of issuers' financial statements will contribute to improving the transparency of financial information useful for the decision making process of investors and other users of these statements and thus facilitate the assessment of the financial position and performance of issuers and their groups, as well as enhance investor confidence in financial reporting. It is expected that the improvement in the quality of financial statements would also be reflected in a reduced number of qualified opinions on the audited financial statements / qualified reports on the reviewed financial statements, as well as in a reduced number of a disclaimer of opinion / report issued by an auditing or reviewing entity authorised to audit financial statements.

This year and in subsequent years, in order to meet enforcement objectives, the periodic review of compliance of issuers' financial reporting with the applicable reporting framework will be continued. In the selection of issuers' financial statements for review, the following will continue to be used as the criteria: a qualified opinion on the audited financial statements, a disclaimer of opinion or an adverse opinion, as well as a qualified report on the review of half-yearly financial statements or a disclaimer of report. The review will also cover, as in previous years, the cases of going concern threats. Furthermore, the assessment of compliance of issuers' financial statements with the applicable reporting framework will take into account the European common enforcement priorities identified by ESMA in order to promote transparency as well as the correct and consistent application of IFRSs. The priority topics currently include: the impact of financial market conditions on financial statements, statements of cash flows and related disclosures, as well as the fair value measurement and related disclosures. The topics specified in the European common enforcement priorities identified by ESMA, as published in 2014-2012, concerning, *inter alia*, the preparation and presentation of consolidated financial statements, financial reporting by entities which have joint arrangements, and the recognition and measurement of deferred tax assets, as well as related disclosures, impairment of non-financial assets, fair value, financial instruments, accounting policies and provisions, remain still valid.

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# 1 OBJECTIVE OF THE REPORT AND PRINCIPLES OF THE PERIODIC REVIEW

## 1.1 Objective of the Report

This Report summarises the review, carried out by the Accounting Division of the Public Offerings and Financial Information Department of the Polish Financial Supervision Authority (PFSA), of annual consolidated financial statements prepared for the financial year 2014 by security issuers other than investment funds, in the context of their compliance with the applicable reporting framework, particularly with the requirements of IAS[1], i.e. International Accounting Standards, International Financial Reporting Standards and related interpretations, issued in the form of regulations of the European Commission. Given that the commonly used abbreviation is "IFRS" and the fact that the European Commission (EC) recommended that issuers whose securities are traded on the EU regulated markets apply the following clause adopted by the European Commission and ARC[2]: "in accordance with International Financial Reporting Standards as adopted by the EU" or "in accordance with IFRSs as adopted by the EU", the abbreviation "IFRS(s)" is used for the purposes of this Report.

This Report also takes account of the results of the 2015 review of interim financial statements prepared for the periods of financial years 2015 and 2014, respectively. Additionally, the Report reflects the results of the reviews of financial statements / historical financial information of entities applying for approval of a prospectus. In connection with the conducted enforcement activities, there were also cases of review of consolidated financial statements / financial statements for earlier periods than the above-mentioned ones.

The Report on the review was prepared and published on the PFSA's website to provide users of financial statements, as well as issuers and auditors, with the results of the periodic review, including the most common deficiencies and cases of non-compliance in the application of the accounting policies, and in financial statements' disclosures, which should help issuers achieve a higher level of compliance with the reporting requirements, particularly with the requirements of IFRSs.

The improved quality of issuers' financial statements will contribute to improving the transparency of financial information useful for the decision making process of investors and other users of these statements and thus facilitate the assessment of the financial position and performance of issuers and their groups, as well as enhance investor confidence in financial reporting.

Due to the objective of its preparation, this Report contains a summary of selected information on the provisions of IFRSs only. The full range of requirements is included in the applicable IFRSs.

In order to improve the quality of financial statements presented by issuers, we also recommend familiarising with the documents published on ESMA's[3] website and described in this Report in Chapter 3.5 "Statements, reports and other documents of ESMA, including European common enforcement priorities".

## 1.2 The PFSA's supervision of compliance of financial statements with the reporting framework

### 1.2.1 Legal basis for enforcement

Pursuant to Article 7(1)(2) of the Act on Capital Market Supervision[4], the PFSA shall exercise supervision over the activities of the supervised entities and the performance by such entities of the obligations related to their participation in trading on the capital market, to the extent defined in legal regulations.

[1] Within the meaning of Article 2(3) of the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2013, item 330, as amended) and § 2(1)(12) of the Regulation of the Minister of Finance of 19 February 2009 on the current and periodic information provided by security issuers and on the conditions for recognizing information required by the law of a non-member state as equivalent information (consolidated text: Journal of Laws of 2014, item 133)

[2] ARC – *Accounting Regulatory Committee*

[3] ESMA – *European Securities and Markets Authority; prior to 1 January 2011 – Committee of European Securities Regulators* (CESR); www.esma.europa.eu

[4] The Act on Capital Market Supervision of 29 July 2005 (consolidated text: Journal of Laws of 2014, item 1537, as amended)

According to the provisions of Article 24(4)(h) of the Transparency Directive[5], the competent authority shall be empowered, *inter alia*, to examine that information referred to in this Directive is drawn up in accordance with the relevant reporting framework and take appropriate measures in case of discovered infringements.

As mentioned in recital 16 of Regulation 1606/2002[6], Member States are required to take appropriate measures to ensure compliance with international accounting standards.

ESMA Guidelines on enforcement of financial information (ESMA/2014/1293en, 28 October 2014[7]) (hereinafter referred to as "ESMA Enforcement Guidelines") entered into force on 29 December 2014. The document contains guidelines, issued under Article 16 of the ESMA Regulation[8], addressed to competent enforcers. According to Article 16(3) of the above-mentioned Regulation, the competent authorities shall make every effort to comply with those guidelines. After a thorough analysis concerning the application of the Enforcement Guidelines, the PFSA informed ESMA of its intention to apply the Guidelines. For this purpose, the activities of, in particular, legislative nature are performed to make it possible to fully apply all the Guidelines specified in ESMA's document.

In accordance with the ESMA Enforcement Guidelines (par. 17), the objective of enforcement of financial information is to contribute to a consistent application of the applicable financial reporting framework and, thereby, to the transparency of financial information relevant to the decision making process of investors and other users of documents subject to the publication requirement in accordance with the Transparency Directive. Through enforcement of financial information, enforcers contribute to the protection of investors and the promotion of market confidence as well as to the avoidance of regulatory arbitrage. Enforcement of financial information, in accordance with par. 21 of the ESMA Enforcement Guidelines, covers examining the compliance of financial information with the applicable financial reporting framework, taking appropriate measures where infringements are discovered during the enforcement process in accordance with the regulations implementing the provisions of the Transparency Directive and taking other measures relevant for the purpose of enforcement.

In the period covered by this Report, the Accounting Division of the Public Offerings and Financial Information Department of the PFSA conducted a periodic review of compliance of the issuers' financial reporting with the applicable reporting framework, taking into account Guideline 5 and Guideline 6 of the ESMA Enforcement Guidelines indicating that enforcement should be based on selection, applying a mixed model taking account of a risk analysis and sampling or a rotation approach, and that an enforcer may, as part of its activities, apply a full review or a full review combined with a thematic review. The periodic review encompasses the analysis of the selected financial statements as well as an on-demand analysis (issuers' financial statements contained in the interim information, prospectuses or information memoranda), especially when another organisational unit of the PFSA requests an opinion in the course of its proceedings.

In the years 2005-2014, the Accounting Division of the Public Offerings and Financial Information Department of the PFSA applied the principles of enforcement of standards on financial information, as applicable in that period and presented in CESR Standard No 1[9] on Financial Information.

[5] Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (OJ EU L 390, 31.12.2004, p. 38), as amended

[6] Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (OJ EC L 243, 11.9.2002, p. 1; OJ EU Special edition in Polish: Chapter 13, Volume 29, p. 609), as amended

[7] The document (in Polish) is available on the following website: http://www.esma.europa.eu/sites/default/files/library/2015/11/2014-esma-1293pl.pdf

[8] Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ EU L 331, 15.12.2010, p. 84), as amended

[9] *CESR Standard No 1 on Financial Information. Enforcement of Standards on Financial Information in Europe* (Ref.: CESR/03-073, March 2003), website: www.esma.europa.eu/sites/default/files/library/2015/11/03_073.pdf

### 1.2.2 Selection of financial statements for review

In 2015, the Accounting Division of the Public Offerings and Financial Information Department of the PFSA based the methods of selecting financial statements for the review on the ESMA Enforcement Guidelines and the CESR guidelines on the application of selection methods.

According to Guideline 5 of the ESMA Enforcement Guidelines, enforcement normally uses selection. The selection model should be based on a mixed model whereby a risk-based approach is combined with a sampling or rotation approach. A risk-based approach should consider the risk of a misstatement as well as the impact of a misstatement on the financial markets.

Within the enforcement activities of the PFSA, in selecting financial statements of issuers for the periodic review, high priority was given to the following criteria: a qualified opinion on the audited financial statements, a disclaimer of opinion or an adverse opinion. In addition, the cases of a qualified report on the review of half-yearly financial statements or a disclaimer of report were taken into account. The PFSA stresses the importance of the audit / review of financial statements by entities authorised to audit financial statements whom it treats as a first external line of ensuring the correct application of the reporting framework.

Moreover, in selecting financial statements of issuers for the periodic review conducted in 2015, the issuers whose ability to continue as a going concern was at risk were also taken into account (in particular those who had been declared bankrupt or filed for bankruptcy, or if the threat to the entity's ability to continue as a going concern was reflected in a qualified opinion on the audit / report on the review, in a disclaimer of opinion / report). According to data as at the end of 2015, 11 issuers from the regulated market, for which Poland is the home state, were declared bankrupt or were the subject of a petition for bankruptcy examined by a court, and for 2 issuers, the court dismissed the petition for bankruptcy due to the fact that the issuer's assets were insufficient to cover the costs of the proceedings, and for one issuer, reorganisation proceedings were instituted (*Source: CEDULA, the Warsaw Stock Exchange Official Bulletin of 30.12.2015*).

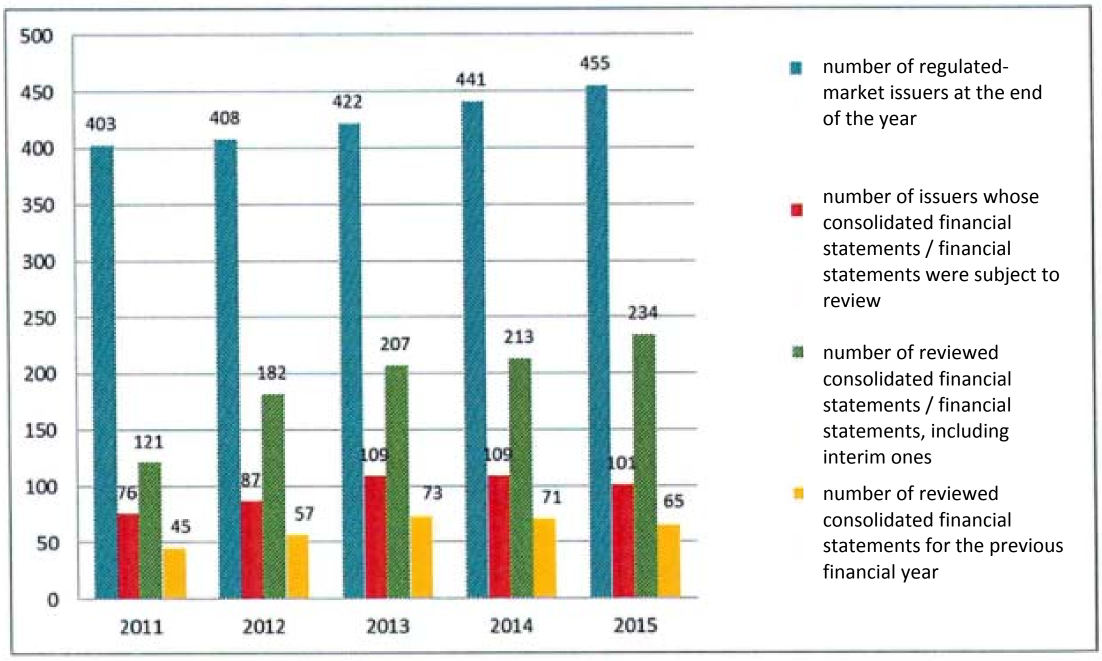
In connection with the review of financial statements in respect of their compliance with the financial reporting framework applicable to issuers, in particular with IFRSs, 234 annual and interim financial statements of 101 issuers were subject to review in 2015, including 65 consolidated financial statements prepared for the financial year 2014.

***Table 1. Number of issuers whose consolidated financial statements / financial statements were subject to the periodic review in 2015***

| | **Number of regulated-market issuers (Warsaw Stock Exchange and Bondspot)*** | **Number of issuers whose financial statements were subject to review in 2014** | **Share in the total number of regulated-market issuers*** |
|---|---|---|---|
| **As at 31.12.2014** | 441 | 101 | 22.9% |
| **As at 31.12.2015** | 455 | | 22.2% |

* the number does not include closed-end investment funds listed on the regulated market and issuers to which the Republic of Poland is a host state. Data on previous years – cf. previous Reports on the Review. Links to previous Reports on the Review are presented on page 31 of this Report

***Figure 1. Number of issuers and consolidated financial statements / financial statements subject to the periodic review in the years 2011-2015***




This year and in subsequent years, the ESMA Enforcement Guidelines will be applied in determining the methods of selecting financial statements for review. In accordance with Guideline 5, enforcement normally uses selection. The selection model should be based on a mixed model whereby a risk-based approach is combined with a sampling or rotation approach. A risk-based approach should consider the risk of a misstatement as well as the impact of a misstatement on the financial markets.

In view of the foregoing, the following will continue to be used as the priority criteria: a qualified opinion on the audited financial statements, a disclaimer of opinion or an adverse opinion, as well as a qualified report on the review of half-yearly financial statements or a disclaimer of report. The review will also encompass, as in previous years, the cases of going concern risks.

Furthermore, the assessment of compliance of issuers' financial statements with the applicable reporting framework will take into account the European common enforcement priorities identified by ESMA in order to promote transparency as well as the correct and consistent application of IFRSs. The priority topics currently include: the impact of financial market conditions on financial statements, statements of cash flows and related disclosures, as well as the fair value measurement and related disclosures. Note that the topics specified in the European common enforcement priorities identified by ESMA, as published in 2014-2012, concerning, *inter alia*, the preparation and presentation of consolidated financial statements, financial reporting by entities which have joint arrangements, and the recognition and measurement of deferred tax assets, as well as related disclosures, impairment of non-financial assets, fair value, financial instruments, accounting policies and provisions, remain still valid.

#### 1.2.3 Enforcement activities related to the review of the compliance of financial statements with the reporting framework

The PFSA pays special attention to the review of the financial statements of issuers who were given a qualified opinion / report on the financial statements, an adverse opinion / report or if the auditor issued a disclaimer of opinion / report – in order to take appropriate measures under the applicable law. The PFSA treats the audit / review of financial statements by the entities authorised to audit financial statements as a first external line of ensuring the correct application of financial reporting standards.

If it is necessary to obtain explanations regarding any non-compliance, an authorised representative of the PFSA requests issuers (both management as well as supervisory boards), pursuant to Article 68 of the Act on Public Offering[10], to explain the reasons for not complying with the applicable reporting framework and to assess the impact of irregularities covered by the qualifications on the financial statements. In justified cases, a request for clarification is also directed to the entity authorised to audit / review the financial statements.

We draw attention to the responsibility of management and supervisory boards (cf. Article 4a of the Accounting Act[11]) for ensuring that the financial statements and the management report on operations meet the requirements provided for in the Accounting Act (and, consequently, the requirements for the preparation of specific financial statements in accordance with the applicable IFRSs, taking into account the concept of materiality), and for ensuring their compliance with other financial reporting regulations.

Audit committees, which are set up under the Act on Auditors[12], or supervisory boards, which carry out the tasks of these committees, play an important role in ensuring high quality of financial statements.

In addition, in our view, if the auditor expresses, in its opinion on the audited financial statements, a qualification on a matter affecting the profit or loss of the issuer, the issuer's management should take the qualification into account when formulating a proposal, for the approving body, for the allocation or coverage of profit or loss. We would like to note that pursuant to Article 53(3) of the Accounting Act, the allocation or coverage of net profit or loss of the entities required to have their annual financial statements audited may only be made after the financial statements' approval by the approving body, preceded by an unqualified or qualified opinion on these financial statements expressed by an auditor. If this condition is not met, the allocation or coverage of net profit or loss is void under the law.

If there is a need for the issuer to make a correction in the consolidated interim report or the interim report in connection with the occurrence of misstatements, including non-compliance with IFRSs, the mode of correction is specified in par. 6(4) and (5) of the Regulation on the current and periodic information[13].

In case of material infringements of the reporting framework, the PFSA takes appropriate actions in accordance with the applicable law.

In connection with the review of financial statements / historical financial information of entities applying for approval of their prospectus (the results of this review have also been included in the Report), the issuers are presented with comments and requested to provide explanations or to correct the financial information in the prospectus.

This Report presents the summary of the review of consolidated financial statements / financial statements of security issuers other than investment funds, in respect of the assessment of compliance of these financial statements with the applicable reporting framework, in particular with IFRSs.

For educational purposes, the Report has been published on the PFSA's website. The issues referred to in the qualifications made by auditors and in disclaimers of opinion / report, and the most common cases of non-compliance and failure to make disclosures as required by IFRSs are also presented at the seminar for financial market participants, which is organised annually by the PFSA,

[10] The Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to the organised trading system and on public companies, as well as on amendments to other acts (consolidated text: Journal of Laws of 2013, item 1382, as amended)

[11] The Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2013, item 330, as amended)

[12] The Act of 7 May 2009 on auditors and their self-government, entities authorised to audit financial statements and public supervision (Journal of Laws No 77, item 649, as amended)

[13] The Regulation of the Minister of Finance of 19 February 2009 on the current and periodic information published by issuers of securities and on the conditions for regarding information required by the law of a non-member state as equivalent (consolidated text: Journal of Laws of 2014, item 133)

usually in the fourth quarter of a year, as part of the CEDUR (Education Centre for Market Participants) initiative[14].

In subsequent years, in order to meet enforcement objectives, the periodic review of compliance of issuers' financial reporting with the applicable reporting framework will be continued.

[14] Information about CEDUR is available on the following website: http://www.knf.gov.pl/en/About_us/cedur/index.html

# 2 AREAS OF NON-COMPLIANCES WITH IFRSs – BASED ON THE REVIEW OF FINANCIAL STATEMENTS AS WELL AS OPINIONS AND REVIEW REPORTS, RESPECTIVELY, ISSUED BY ENTITIES AUTHORISED TO AUDIT FINANCIAL STATEMENTS

## 2.1 Review of the financial statements for the financial year 2014 in the light of opinions issued by entities authorised to audit financial statements – a list of areas of non-compliance with the applicable reporting framework, in particular with IFRSs

When reviewing annual financial statements of issuers of securities other than investment funds, the Accounting Division of the Public Offerings and Financial Information Department of the PFSA observed that after two years (2010-2011) of decreases in the number of issuers with a qualified opinion, an adverse opinion or a disclaimer of opinion (with respect to issuers' financial statements for the financial year 2009, the number amounted to 56 issuers, for the financial year 2010 – 36, and for the financial year 2011 – 30 issuers), the number for the financial year 2012 was 41, i.e. a 37% increase compared to the previous year. This growth resulted particularly from an increase in the number of disclaimers of opinion related to going concern threats, which was mainly due to a significant deterioration in the position and liquidity of issuers in some sectors. Subsequently, the number of issuers with a qualified opinion or a disclaimer of opinion in the financial year 2013 decreased by three to 38 issuers (a decrease of 7% compared to 2012), while in the financial year 2014 – by eight to 30 issuers (a decrease of 21% compared to 2013). Nevertheless, it should be noted that, as at the date of this Report, 6 issuers did not make their annual reports for 2014 and / or opinions / statements of auditors public which may have an impact on the data referred to above.

In relation to financial statements for the financial year 2014, there were 20 qualified opinions on the audit of financial statements of issuers, while in the case of 10 issuers, auditors issued a disclaimer of opinion. The largest number of issuers with qualifications in opinions on the audited financial statements for the financial year 2014 came from the following sectors: other services (4 issuers), pharmaceutical industry (2), metal industry (2) and capital market (2), whereas disclaimers of opinion on the financial statements for the above-mentioned period concerned most frequently issuers from the following sectors: wholesale trade (2), IT (2) and other finance (2).

Furthermore, a special purpose auditor's report on the review of financial data was issued in relation to financial statements for 2014 of one issuer.

***Table 2. Number of issuers with a qualified opinion, a disclaimer of opinion or an adverse opinion with respect to annual consolidated financial statements / financial statements for financial years 2009-2014***

| Number of issuers | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| Qualified opinions | 54 | 35 | 25 | 29 | 24 | 20 |
| Disclaimers of opinion | 2 | 1 | 4 | 12 | 14 | 10 |
| Adverse opinions | 0 | 0 | 1 | 0 | 0 | 0 |
| **TOTAL** | **56** | **36** | **30** | **41** | **38** | **30** |
| Number of issuers at the end of the financial year* | 368 | 386 | 403 | 408 | 422 | 441 |
| **Share in the number of issuers at the end of the financial year** | **15%** | **9%** | **7%** | **10%** | **9%** | **7%** |

* the number does not include closed-end investment funds listed on the regulated market and issuers to which the Republic of Poland is a host state

In order to ensure that issuers pay special attention to the need to comply with the applicable reporting framework, particularly with the requirements of IFRSs, the following are issues which relate to disclaimers of opinion and qualifications contained in the opinions on the audit of financial statements of issuers for the financial year 2014, respectively. The issues to which the above-mentioned disclaimers of opinion and qualifications referred have been grouped in a manner that makes finding a specific topic easier.

### 2.1.1 Disclaimers of opinion regarding going concern

Disclaimers of opinion were issued due to, *inter alia*, the following circumstances:

- A bankruptcy order with a possibility of arrangement was issued in relation to the Company; the existence of a significant risk to going concern due to uncertainty of the approval of the arrangement with creditors; the Company is obtaining revenues from property rentals which, however, are not enough to settle its current liabilities in full; property as collateral for receivables under the arrangement; the Company gradually sells its investment properties; no proven strategy and financial plan which would guarantee positive operational cash flows; the auditor did not obtain evidence to eliminate uncertainties as to the survival of the Company in the foreseeable future; the fulfillment of the subject matter of the presented letter of intent of March 2015 depends on numerous factors and circumstances whose fulfillment is significantly uncertain;
- The existence of a serious threat to the entity's ability to continue as a going concern; the termination of an investment contract; as at the date of the statement, the objectives referred to in the letter of intent were not fulfilled; in 2014, limiting the operations of companies of the group; the parent company and its subsidiaries are not bound by any commercial contracts; after the balance sheet date, the group did not generate significant revenue which would allow for further financing its activities; banks terminated credit contracts; operating loss; the auditor's inability to clearly assess the appropriateness of the going concern assumption; the auditor did not obtain sufficient information and explanations regarding certain assets and liabilities; the auditor's inability to assess the completeness and correctness of calculations and estimates of IAS restatement; the subsidiary's financial statements of a significant impact on the financial data presented in the consolidated financial statements was not audited by the auditor;
- The existence of serious threats to the entity's ability to continue as a going concern in the foreseeable future (*inter alia*, poor financial standing, a significant decline in product sales revenue, significant operating loss, generating negative cash flows from operating activities, non-occurrence of events that would unequivocally confirm that the objectives of the strategy adopted were implemented); by the day on which the audit was completed, no sufficient information and explanations regarding certain items in the financial statements were obtained, primarily the auditor could not assess sales revenue, sales loss, fixed assets, inventories, receivables, provisions for liabilities, credits and loans as well as accruals;
- Failure to redeem bonds – the issuer does not hold funds to pay the liability; the issuer filed for bankruptcy with a possibility of arrangement and, therefore, there is uncertainty as to its ability to continue as a going concern; the total amount of proceeds from the issue of shares and bonds is insufficient to pay all the current liabilities, the issue may be unsuccessful; the adopted resolution on the liquidation of the subsidiary – the Management Board takes the view that the fund will generate negative cash flows and negative profitability; no impairment loss on receivables was recognised (the creditor's financial standing indicates permanent impairment of the receivable) – overstatement of profit or loss; the management of the issuer did not make it probable that receivables from an unrelated investment fund would be recovered; stocktaking of receivables was not carried out as required pursuant to Article 26(1)(2) of the Accounting Act and an impairment loss on receivables past due over 270 days was not recognised; lack of a list of lawsuits signed by a lawyer; the issuer's equity – negative; unpaid losses exceeding the amount of shareholders' capital, share capital and share premium – in accordance with Article 397 of the Code of Commercial Companies and Partnerships (hereinafter referred to as the "CCC"), the Management Board shall convene the General Meeting to pass a resolution on continuing as going concern;
- Creditors filed a petition for the entity's bankruptcy; the company holds unredeemed bonds whose redemption date was the end of 2013; the bank terminated a credit contract with the

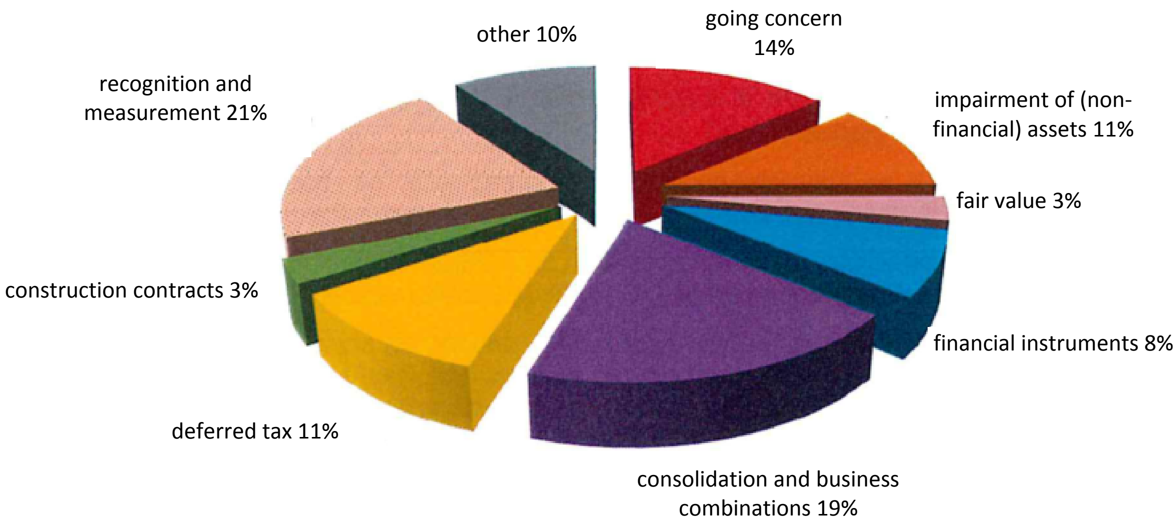
Company and the credit is due in full; the Company's books of accounts have not been closed in accordance with Article 12 of the Accounting Act since 2009. The Company failed to present its accounting policy, the books are kept based on the accounting principles presented in the financial statements. Negative equity necessitating that the Management Board convenes the General Meeting in accordance with Article 397 of the CCC;

- The existence of significant uncertainty regarding going concern: the Management Board filed a petition for bankruptcy with a possibility of arrangement by reason of having credit contracts terminated by banks and making credits, whose timely repayment was impossible, due in full; uncertainty regarding the extent to which the economic benefits of the deferred tax asset will be realised associated with dependence on the extent to which tax profits will be realised in the future;
- Failure to comply with own arrangement liabilities in full or on time; the company submitted a proposal for arrangement changes, involving the deferral of one of the arrangement installments and the conversion of other liabilities to the company's shares, to the court; the Management Board of the parent company adopted the non-going concern assumption, indicating that liquidation may take place within 12 months following the date of the financial statements. Any further activity will depend on a positive vote by creditors and entry into other industries; due to late payments, the preliminary property sales contract may be terminated, thus making it necessary to recognise approx. PLN 14 million, settled as capital expenditure (prepayment for the purchase of property), as costs at the time of payment of compensation for a breach of the leasing contract for the property at issue. The auditor is unable to determine whether the group will derive expected economic benefits on that account; the group and the parent company reported gross operating loss;
- The auditor's inability to state whether the going concern assumption is justified – the Company is negotiating with creditors to sign a restructuring contract and determine the arrangement conditions in connection with the declaration of bankruptcy with a possibility of arrangement; the amounts of reported liabilities and provisions may change due to the ongoing update of receivables; the auditor's inability to determine what portion of the liabilities related to the granted warranties, guarantees and joint and several liability is to be paid by the Company to subcontractors; lack of sufficient audit evidence that would allow comment on the presented goodwill and the value of any adjustments related to the final settlement of acquisition / on the value of an impairment loss on investments; failure to recognise impairment losses on investment properties recognised at book value to fair value measurements – to be used in the ordinary course of activity; the inability to comment on the amount of an impairment loss on non-renewable natural resources held by subsidiaries – insufficient recoverable value analyses, despite the existence of indicators of possible impairment; the inability to comment on what portion of impairment losses on loans should be recognised in profit or loss for 2014; failure to obtain sufficient audit evidence that would allow to assess the correctness of financial data of the Ukrainian company at the end of last year and at the date when control was lost; the inability to comment on the amount of an impairment loss on investment certificates issued by the fund under Ukrainian law, given the uncertain political and economic situation in Ukraine; the inability to comment on the value of final settlements related to investments due to uncertainties regarding dispute settlement; the inability to assess what impact the consolidation of subsidiaries would have on comparative amounts; the inability to assess the impact of the non-consolidation of the company in previous years and at present reporting period.
- No impairment loss on receivables in the subsidiary was recognised; the occurrence of events in the months to come, the results of which cannot be predicted, may lead to a change in the fair value of the loans granted and financial assets held for trading; the existence of significant uncertainty regarding the use of the deferred tax asset, taking account of circumstances indicating a threat to the entity's ability to continue as a going concern; the existence of significant uncertainty regarding the fulfillment of obligations concerning, *inter alia*, the

redemption of bonds and the payment of interest for the last interest period – the auditor's inability to assess the impact of these occurrences on the financial statements;

- As at the date of the statement, the auditor was not provided with information confirming that external funding, which would allow to continue as a going concern and fulfill license obligations, may be obtained. Without additional external funding sources and the final agreement with the financing banks, the ability to continue as a going concern is significantly limited; the group's funds are not enough to repay the credit taken by the subsidiary; by the date of the report, the auditor did not obtain evidence to confirm that the amounts involved in the loan granted would be returned and thus the auditor cannot confirm the existence and correctness of the measurement of the loan granted presented in the balance sheet; following the provisions of Article 397 of the Code of Commercial Companies and Partnerships, the General Assembly adopted a resolution on further existence of the parent company; the financial statements were prepared on a going concern basis; the existence of significant uncertainty regarding the company's ability to continue as a going concern in the foreseeable future.

***Figure 2. Topics of qualifications contained in opinions on the audit of consolidated financial statements / financial statements of issuers for the financial year 2014***




*<u>Comment:</u> If a qualification occurred in the opinion on the audit of the consolidated financial statements and in the opinion on the audit of the financial statements of an issuer, the figure reflects such qualification only once. The figure does not take into account disclaimers of opinion. The percentage share depends on the frequency of occurrence of an issue in qualified opinions, whereas in the following description of issues to which qualifications were related, individual topics are presented only once.*

### 2.1.2 Qualifications regarding going concern

The qualifications in audit opinions issued by auditors referred to the following issues related to going concern:

- The inability to predict the final outcome of the pending tax and audit proceedings regarding the correctness of VAT settlements, involving the parent company; the parent company appealed against the decisions issued; if there is any need for paying liabilities on that account, the auditor takes the view that there would be a serious threat to entity's ability to continue as a going concern;
- As at the date of the opinion, the Court did not approve the list of claims of the issuer and that is why the balance of liabilities in principal and interest part as well as certain receivables may

change, therefore the auditor cannot determine what impact these adjustments will have on the audited financial statements;

- Possible changes in the balance of liabilities shown in the books at the balance sheet date in connection with failure to complete the work on the list of claims of the parent company, which was declared bankrupt with a possibility of arrangement, by the date of the opinion;
- As at the date of the opinion, the Company did not hold sufficient funds to repay its liabilities (repayment of the sum received in advance in connection with the preliminary sales contract for an organised part of the enterprise, which was not effected);
- As at the balance sheet date, the prevalence of indications of a threat to the entity's ability to continue as a going concern in the near future (further decline in sales revenue, incurred net loss, negative equity and net working capital as well as lack of liquidity, debt due to the terminated investment credit contract and difficulties in the timely repayment of budget and trade liabilities); to enable the group to continue as a going concern, the parent company must be further restructured in the area of its property, which would involve sale of real estate property, the inability to do so may lead to the institution of bankruptcy proceedings.

### 2.1.3 Qualifications concerning impairment of (non-financial) assets

The qualifications in audit opinions issued by auditors related to the following issues concerning impairment of assets other than financial assets:

- Impairment of the subsidiary's shares presented in the financial statements due to its poor financial standing (cf. IAS 36 "Impairment of assets");
- The existence of significant uncertainty regarding the VAT refund which is evidence of impairment of investment in the subsidiary and loan granted to this subsidiary, therefore the auditor was unable to estimate the impact of this issue on the recoverable value of these assets (cf. IAS 36 and accordingly IAS 39 "Financial Instruments: recognition and measurement");
- The auditor's inability to assess whether the assumptions adopted for testing the impairment of investment in the subsidiary are correct and realisable and, consequently, whether the result of testing is correct and whether there was actually no impairment of these assets, given that historical forecasts were not confirmed by the actual results of the company (cf. IAS 36);
- Recognising an impairment loss on the subsidiary's shares, including the recognition of revaluation effects on deferred tax and uncertainty, as a result of the testing performed, whether the revaluation should apply to the current year in full or rather to previous years.

### 2.1.4 Qualifications concerning fair value

The qualifications in audit opinions issued by auditors related to the following issues concerning fair value:

- The auditor's inability to comment on the fair value of past due liabilities or other liabilities whose maturity and purpose were not specified (cf. IAS 39).

### 2.1.5 Qualifications concerning financial instruments

The qualifications in audit opinions issued by auditors related to the following issues concerning financial instruments:

- The auditor's inability to assess whether past due and unsettled, as at the completion date of the audit, receivables of the parent company, which were confirmed by debtors, will bring economic benefits in the future (as there is no access to information on the debtors' financial standing) (cf. IAS 39);

- Failure to provide the auditor with sufficient documentation confirming the correctness of the measurement of receivables from a related party in respect of which there are indicators of impairment due to its financial position which resulted in the inability to assess the impact of the above issue on the financial statements in question (cf. IAS 39);
- Failure to recognise an impairment loss on a past due receivable (cf. IAS 39).

### 2.1.6 Qualifications concerning consolidation and business combinations

The qualifications in audit opinions issued by auditors related to the following issues concerning consolidation and business combinations:

- The inability to confirm the result of loss of control of the subsidiary due to the inability to audit the financial statements of the entity for the period from the beginning of the year to the date of loss of control and failure to receive the confirmation of balances and turnover between the entity and other entities of the group;
- Lack of information on whether the financial statements of the subsidiary, as at the end of the reporting period, were audited by the auditor;
- Lack of information on whether the financial statements of the subsidiary in liquidation bankruptcy, as at the date of loss of control, were audited by the auditor;
- Lack of sufficient degree of certainty as to the carrying amount of assets and liabilities as well as profit or loss for the previous year presented as discontinued operations as a result of refusing access to the books of accounts of the sold subsidiary in the previous year; the issue does not affect the period considered, however, it affects the comparability of data for the current and comparative period;
- Uncertainty as to whether the adjustments of the financial statements of subsidiaries made by the parent company in the form of e.g. an impairment loss are not understated or overstated because, by the date of the opinion, the audit of individual financial statements of foreign subsidiaries was not completed or was not initiated yet, therefore the measurement of fair value and value in use of the investments held was based on estimates of management;
- The auditor's inability to obtain assurance relating to the existence of inventories in foreign subsidiaries whose value accounted for 6.6% of the consolidated balance sheet total (including lack of information on whether local auditors participated in stocktaking);
- As at the date of the opinion, reveal of the subsidiary's contract on sale of another company' shares (excluded from consolidation due to immateriality), therefore the auditor was unable to obtain adequate and appropriate audit evidence to confirm that accounting and tax effects of the transaction are properly recognised in the consolidated financial statements and the amount due on this account is exercisable.

### 2.1.7 Qualifications concerning deferred tax

The qualifications in audit opinions issued by auditors related to the following issues concerning deferred tax:

- Failure to estimate and recognise deferred tax assets which should be recognised in the amount of probable public aid utilisable in future periods (cf. IAS 12 "Income taxes");
- The auditor's inability to confirm that deferred tax assets may be settled due to the group's uncertain future income as a result of tax proceedings (cf. IAS 12);
- Overstatement of deferred tax assets and net profit or loss in the previous year due to lack of sufficient evidence to recognise an asset; at present, the Company holds sufficient evidence; this issue affects the comparability of data for the current and comparative period (cf. IAS 12);

- The auditor's inability to refer to the correctness of recognition of the deferred tax asset regarding a tax benefit in connection with pursuing activity in the Special Economic Zone, recognised against the corresponding income tax item in the income statement for the current year; due to the inability to determine how this issue will affect profits or losses from previous years, the auditor was unable to determine whether the recognition of the tax amount in the income statement for the current year is correct (cf. IAS 12).

### 2.1.8 Qualifications concerning other issues relating to construction contracts

The qualifications in audit opinions issued by auditors related to the following issues concerning construction contracts:

- In previous years, recognising claims against customers under some construction contracts as revenue, even though the legal proceedings and negotiations with customers have not reached an advanced stage yet; impact on net profit or loss from previous years and recognised gross amounts due from customers; a qualified opinion for previous year (cf. IAS 11 "Construction contracts").

### 2.1.9 Qualifications concerning other recognition and measurement issues

The qualifications in audit opinions issued by auditors related to the following issues concerning recognition and measurement:

- The auditor's inability to receive documents based on which fixed remuneration for fund management is calculated and to have the balance of receivables from funds confirmed as at the balance sheet date;
- The inability to confirm the correctness of the measurement of development activities carried out by the subsidiary and related assets due to the fact that the effect of the Management Board's operations to commercialise these assets is difficult to predict;
- The inability to confirm the correctness of the measurement of assets in the form of shares and the loan regarding the wholly owned subsidiary, in which development activities are an important asset, due to the fact that the effect of the Management Board's operations to commercialise these activities is difficult to predict;
- Recognition, by the subsidiary, of receivables for the reimbursement of VAT in dispute, despite failure to fulfill the condition set out in par. 33 of IAS 37, according to which an asset is recognised in the balance sheet if the realisation of income is virtually certain (cf. IAS 37 "Provisions, contingent liabilities and contingent assets");
- Recognition, by the entity, in the balance sheet, of rights to perpetual usufruct of land which were obtained free of charge as property, plant and equipment, investment properties or assets classified as held for sale and not as off-balance-sheet items; in the auditor’s opinion, those rights are operating leases in accordance with IAS 17 (cf. IAS 17);
- Recognition of acquired rights to perpetual usufruct of land as non-current assets and not as an operating lease in accordance with IAS 17 (cf. IAS 17);
- Reclassification of a grant related to current liabilities as at the balance sheet date due to the fact that production at a new production plant cannot be started by the end of 2015 which may thus necessitate the reimbursement of the grant obtained and interest, partly from own resources;
- Failure to recognise an impairment loss on non-moving inventories (cf. IAS 2 "Inventories").

### 2.1.10 Qualifications concerning other issues

The qualifications in audit opinions issued by auditors concerned also the following issues:

- Distribution of supplementary capital not in accordance with the purpose set out in Article 396(5) of the Code of Commercial Companies and Partnerships, as a result of which it requires supplementation;
- Audit limitation due to the auditor's inability to participate in the stocktaking of significant assets of the parent company and to use alternative audit methods to confirm the existence and balance of all the significant assets due to the date of conclusion of the audit contract;
- The auditor's inability to predict all potential legal and financial implications of terminating the contract for general contracting of the production plant by the issuer (being the principal) and uncertainty as to whether the terms and conditions of the agreement governing mutual settlements will be met by the parties to the agreement.

### 2.1.11 Special purpose auditor's report on the review of annual financial data

- The preparation of the annual financial data on the assumption that entity will not continue as a going concern; an order to change the bankruptcy proceedings into liquidation proceedings was issued; the Company appealed against the order of the court the result of which was unknown as at the date of this Report; the company did not operate in 2014; assets of the entity (excluding property held for sale) were not recognised in the net sales price, since the value cannot be estimated at present; failure to recognise provisions related to liquidation costs, because their complete and reliable estimate was impossible; by the date of the Report, the auditor did not obtain evidence to justify the retention of shares held at demonstrated value and, according to a property valuer, these assets equal PLN 0; the auditor's inability to confirm that the value and description of the receivables presented are correct due to failure to confirm balances of trade receivables and failure to confirm by the banks that contingent balances exist or do not exist; the company does not make any provisions for covering potential liabilities and does not recognise impairment losses on receivables in dispute which may arise if the court renders judgments against the parent company related to legal proceedings to which it is a party; by the date of the Report, the company did not receive financial data of its subsidiaries subject to consolidation, therefore the parent company did not prepare the consolidated financial statements for 2014 as stated in the general information to the financial statements.

### 2.1.12 Emphasis of matter paragraphs

Additionally, we would like to present the topics covered by the emphasis of matter paragraphs contained in opinions issued by auditors. The emphasis of matter paragraphs related to, *inter alia*, the following issues:

- Net loss generated in 2014.; this was the second year in a row ended with a loss;
- The company filed for bankruptcy with a possibility of arrangement due to its serious liquidity problems; the Court issued an order – not final as at the date of the opinion;
- The need to convene the General Meeting due to the amount of equity;
- The existence of significant uncertainty regarding the measurement of certain current financial assets at fair value through profit or loss in accordance with IAS 39 and the possible realisation of contingent liabilities;
- The subsidiary's failure to recognise provisions for employee benefits at the end of the year and thus failure to maintain continuity of the accounting principles applied in this regard;
- Uncertainty regarding the implementation of the terms and conditions as a result of signing an annex to the credit contract to prolong financing for another year in which the bank entered into numerous covenants that constitute breaches of the contract; due to uncertainty regarding the fulfillment of terms and conditions under the credit contract, the possibility of breaches of credit

contract in the future and, consequently, the need to repay the credit (the credit is collateralised by mortgages on property and registered pledge on inventories);

- Loss of control of the subsidiary that will affect the shape of the consolidated financial statements in the future; the company, which used to be a subsidiary, became an associate and is to be recognised in subsequent periods using the equity method, excluding all the previously consolidated direct subsidiaries of that company;
- In the reporting period, changes in the principles set out in accounting policy and significant corrections of prior period errors as well as changes in presentation;
- Dependence of further activity on the approval of arrangement with creditors and the ability to generate surpluses in the coming years to discharge liabilities;
- The Management Board's activities to remedy the financial position;
- Failure to audit financial statements of subsidiaries;
- Not recognising, as a result of the testing performed, any impairment of intangible assets with indefinite useful lives (trademarks); preservation of the value of these assets in the coming years depends on revenue generated by these trademarks.

## 2.2 Review of financial statements for the first half of the financial year 2015 in the light of the reports on the review and statements on disclaimer of report, respectively – a list of areas of non-compliance with the applicable reporting framework, in particular with IFRSs

Taking into account the reports on the review of half-yearly consolidated financial statements / financial statements of security issuers other than investment funds, the analysis of the number of issuers with a qualified review report or a disclaimer of review report indicates that the number increased in the first half of 2012 by 54% compared to the first half of 2011 (28 issuers) and amounted to 43 issuers, while in the first half of 2013, the number of issuers with a qualified report or a disclaimer of report on the review decreased by 21% compared to the first half of 2012 and amounted to 34. In the first half of 2014, this number amounted to 36 issuers, which represents an increase of 6% compared to the first half of 2013, while in the first half of 2015 – dropped by 11% (by 4 issuers) to 32 issuers, while the drop occurred in case of qualified reports (21 issuers), whereas the number of disclaimer of review report remained at the same level as in the first half of 2014 (11 issuers). As in the case of annual reports for 2014, it should be noted that, by the date of this Report, 6 issuers did not make their annual reports for the first half of 2015 publicly available.

The largest number of issuers with qualifications in reports on the review of the financial statements for the first half of the financial year 2015 came from the following sectors: other finance (3), other services (3), metal industry (2), pharmaceutical industry (2), IT (2) and telecommunication (2), whereas a disclaimer of report on the review of the financial statements for the above-mentioned period most frequently concerned issuers from the sector of other finance (3).

***Table 3. Number of issuers with a qualified report or a disclaimer of report on the review with respect to consolidated financial statements / financial statements for the first half of financial years 2011-2015***

| Number of issuers | First half of 2011 | First half of 2012 | First half of 2013 | First half of 2014 | First half of 2015 |
|---|---|---|---|---|---|
| Qualified reports | 27 | 34 | 27 | 25 | 21 |
| Disclaimers of report | 1 | 9 | 7 | 11 | 11 |
| **TOTAL** | **28** | **43** | **34** | **36** | **32** |
| Number of issuers at the | 386 | 403 | 408 | 422 | 441 |

| | | | | | |
|---|---|---|---|---|---|
| end of the previous financial year* | | | | | |
| **Share in the number of issuers at the end of the previous financial year** | **7%** | **11%** | **8%** | **9%** | **7%** |

* the number does not include closed-end investment funds listed on the regulated market and issuers to which the Republic of Poland is a host state

The following are issues covered by disclaimers of report and qualifications expressed in reports on the review of half-yearly consolidated financial statements / financial statements of issuers of securities, other than investment funds, for the first half of the financial year 2015, respectively. The issues were grouped in a manner that makes finding a specific topic easier. The references made to IFRSs should be considered taking into account IAS 34 "Interim financial reporting".

### 2.2.1 Disclaimers of report regarding going concern

Disclaimers of opinion were issued due to, *inter alia*, the following circumstances:

- Proceedings with a possibility of arrangement changed into liquidation proceedings; the financial statements prepared on the assumption that entity will not continue as a going concern; failure to develop the list of claims by the date of the statement, the balance of liabilities and provisions for liabilities may change; the inability to assess what impact disputes, which involve the company, will have on the financial statements; pointing out that the Company forms a group, but does not prepare the consolidated financial statements;
- Gradual deterioration of the group's financial position; negative equity and thus a threat to the entity's ability to continue as a going concern; the auditor did not obtain sufficient information and evidence (lack of information on pending lawsuits, lack of sufficient information to assess transactions recognised in the company's books of accounts regarding receivables and liabilities); the financial statements of the subsidiary, based on which the condensed consolidated financial statements were prepared, were not reviewed;
- A threat to the company's ability to continue as a going concern (gradual deterioration of the financial position; negative equity); by the completion date of the audit, failure to receive sufficient information and evidence in the following areas: a) fixed assets (the company did not recognise impairment losses, the auditor did not receive complete and consistent information which would confirm the existence and correctness of their measurement); b) bank credits and loans (the auditor cannot comment on maturity of liabilities due to lack of information); c) provisions (the auditor did not receive information on lawsuits involving the company); d) the auditor's inability to find evidence that arrangement with creditors is implemented; a serious risk to the ability of financing the repayment of arrangement liabilities from the company's principal activity ; e) receivables and liabilities (the auditor did not receive sufficient information to assess transactions recognised in the books of accounts); f) inventories (the auditor did not receive information to confirm that transactions related to materials management and inventories are recognised correctly and completely);
- The court issued a liquidation bankruptcy order against the Issuer; negative equity; the company's credit contracts were terminated, thus making credits due; unredeemed bonds; the Issuer's books of accounts have not been closed since 2009 to 2013, therefore changes may be introduced; despite the assessment of the inability to continue as a going concern, the financial statements were prepared on a going concern basis and did not include adjustments in accordance with Article 29 of the Accounting Act;
- Failure to recognise financial data of two subsidiaries of the group; the auditor's inability to confirm the correctness and completeness of assets and liabilities as well as profit or loss; failure

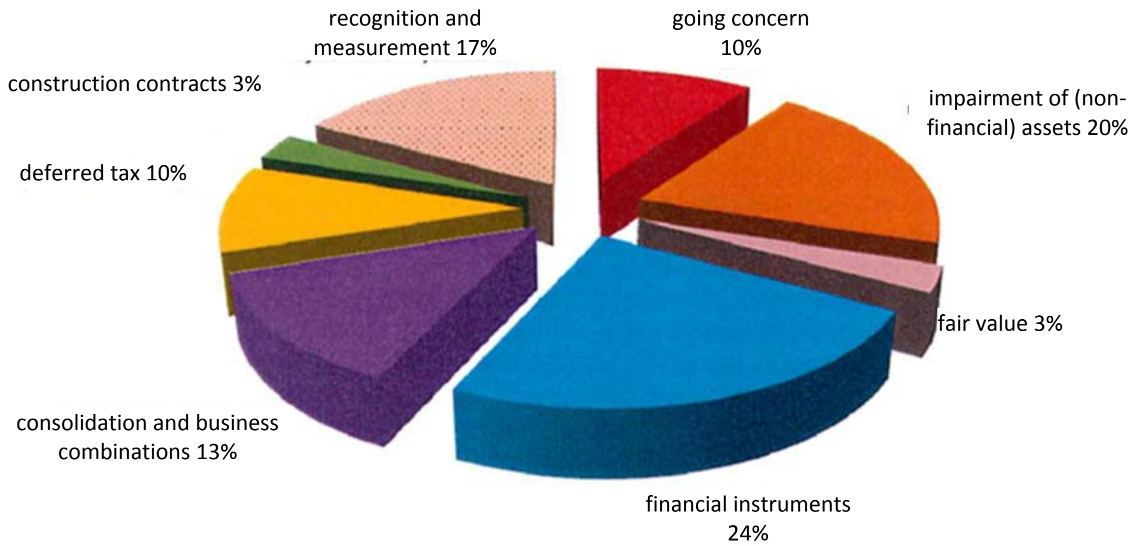
to recognise a consolidation adjustment which resulted in an understatement of consolidated profit or loss and assets; the financial statements prepared on a going concern basis, at the same time, notification of changing bankruptcy proceedings into liquidation proceedings; failure to recognise adjustments pursuant to Article 29 of the Accounting Act as a result of the change in the form of proceedings; an overstatement of profit and loss due to failure to recognise capital expenditure as costs in view of liquidation proceedings and lack of reasonableness of further investment; the auditor's inability to comment on the correctness of the measurement of a portfolio of receivables; an adjustment of the measurement of the portfolio of receivables to fair value based on the offer for 2014 should adjust retained earnings rather than current costs; the inability to confirm the correctness of the measurement of investment certificates due to lack of access to documents; lack of a list of lawsuits signed by law firms – the inability to assess the completeness and value of liabilities and provisions in the financial statements; failure to present the current measurement of bond liabilities for audit purposes; the inability to confirm the correctness of the recognition of sales revenue in an appropriate period and their completeness; the inability to assess the correctness of an asset and a provision for deferred tax due to failure to obtain information on titles of deductible and taxable temporary differences; in the statement of cash flows, total cash flows from operating, investment and financial activity adjusted for the value of cash at the start of the period do not comply with the value of cash at the end of the period; using the parent company's obsolete name (the change in the form of bankruptcy proceedings was not taken account of);

- The existence of significant uncertainty regarding going concern, the financial statements prepared on a going concern basis; as part of bankruptcy proceedings with a possibility of arrangement, execution proceedings are pending; off-arrangement creditors applied for changing the form of bankruptcy proceedings from proceedings with a possibility of arrangement into liquidation proceedings; probable failure to realise the deferred tax asset in the form of economic benefits, the extent to which the asset will be realised depends on future taxable profit; the parent company does not hold financial statements of subsidiaries subject to consolidation; the auditor's inability to assess what impact financial data of these subsidiaries will have on interim consolidated financial statements.
- Failure to comply with arrangement liabilities in full or on time; the company submitted to the court a proposal for arrangement changes, involving the deferral of one of the arrangement installments and the conversion of other liabilities to the company's shares; if the preliminary property sales contract is terminated due to late payments, it will be necessary to recognise the amount of capital expenditure (prepayment for the purchase of property) as costs at the time of payment of compensation for a breach of the leasing contract for the property at issue; the group and the parent company reported operating loss;
- Failure of the arrangement with creditors under the signed restructuring contract to come into effect; the inability to assess the correctness of the value of liabilities and provisions due to failure of the arrangement with creditors to come into effect; the inability to comment on the correctness of the provision for consequences of any liability of the group due to the granted warranties, guarantees and joint and several liability to subcontractors as a result of the inability to determine what portion of the liabilities is to be paid by the Company; lack of sufficient audit evidence that would allow comment on the presented goodwill and the value of any adjustments related to the final settlement of the acquisition price; failure to recognise impairment losses on the value of buildings and structures – the Management Board assumes that these assets are to be used in the ordinary course of activity; the inability to comment on the amount of an impairment loss on investment certificates issued by the fund under Ukrainian law, given the uncertain situation in Ukraine; the inability to comment on the value of final settlements related to investments; failure to comment on balance sheet items and result items related to the fulfillment of the contract due to lack of update of budget assumptions; failure to obtain

sufficient audit evidence that would allow to assess the correctness of financial data of the Ukrainian company at the reporting date and at the date when control was lost – the inability to assess what impact change in the method of consolidation would have on comparative amounts; the inability to comment on the amount of an impairment loss on non-renewable natural resources held by subsidiaries – insufficient recoverable value analyses, despite the existence of indicators of possible impairment;

- The inability to determine the real repayment value of receivables from the loan granted to subsidiary which is to be repaid by 2019; at present, the search for an investor, which will repay the loan, is ongoing; the auditor's inability to estimate whether the company should recognise impairment losses on other receivables which mostly comprise deposits pledged as collateral for works of good quality (some of them are not due yet, some other are a matter of dispute) and, if so, what their amount should be; liabilities proposed for the list of claims are much higher than presented in the balance sheet; determining their real amount will depend on the court's decision, hence the auditor's inability to determine it;
- As at the date of the statement, the auditor was not provided with information confirming that external funding, which would allow to continue as a going concern and fulfill license obligations, may be obtained; without additional external funding sources and the final agreement with the financing banks, the ability to continue as a going concern is significantly limited; the group's funds are not enough to repay the credit taken by the subsidiary; by the date of the report, the auditor did not obtain evidence to confirm that the amounts involved in the loan granted would be returned and thus the auditor cannot confirm the existence and correctness of the measurement of the loan granted presented in the balance sheet; the existence of significant uncertainty regarding the company's ability to continue as a going concern in the foreseeable future.
- A threat to the entity’s ability to continue as a going concern, further activity depends primarily on the successful issue of shares; loss exceeding the sum of supplementary capital, capital reserve and 1/3 of share capital; credits account for 44% of the balance sheet total; failure to repay long- and short-term credits on time; failure to make timely payments of interest coupons on the bonds issued and being in default with bond redemption; failure to settle trade, outstanding and budget liabilities on time and, at the same time, failure to recognise statutory interest on these liabilities in the financial statements; the company's assets are significantly encumbered with the capped mortgages established; the auditor's inability to assess the completeness and value of liabilities and provisions; the Management Board informed that a petition for liquidation banruptcy was filed with the court by the bondholder in relation to the issuer.

***Figure 3. Topics of qualifications contained in reports on the review of consolidated financial statements / financial statements of issuers for the first half of the financial year 2015***




*<u>Comment:</u> If a qualification occurred in the report on the review of the consolidated financial statements and in the report on the review of the financial statements of an issuer, the figure reflects such qualification only once. The figure does not take into account disclaimers of report. The percentage share depends on the frequency of occurrence of an issue in qualified opinions, whereas in the following description of issues to which qualifications were related, individual topics are presented only once.*

### 2.2.2 Qualifications regarding going concern

The qualifications in review reports referred to the following issues related to going concern:

- The inability to predict the final outcome of the pending tax and audit proceedings regarding the correctness of VAT settlements, involving the parent company; the parent company appealed against the decisions issued; if there is any need for paying liabilities on that account, the auditor takes the view that there would be a serious threat to the entity's ability to continue as a going concern;
- Failure to complete the work on the list of claims in bankruptcy proceedings by the date of the report, therefore the balance of liabilities recognised in the books of accounts at the end of the half of the year may change;
- As at the balance sheet date, the prevalence of indications of a threat to the entity's ability to continue as a going concern in the near future (debt due to the terminated investment credit contract and difficulties in the timely repayment of budget and trade liabilities); to enable the group to continue as a going concern, property must be sold, but – despite the actions undertaken – this requirement remains unfulfilled, the Management Board of the parent company informed that the inability to sell the property may lead to the institution of bankruptcy proceedings; the circumstances referred to in Article 397 of the Code of Commercial Companies and Partnerships occurred and thus the General Assembly adopted a resolution on further existence and continuance as a going concern.

### 2.2.3 Qualifications concerning impairment of (non-financial) assets

The qualifications in review reports related to the following issues concerning impairment of assets other than financial assets:

- The inability to confirm the correctness of the measurement of development activities carried out by the subsidiary and related assets due to the fact that the effect of the Management Board's operations to commercialise these assets is difficult to predict;
- Impairment of the subsidiary's shares presented in the financial statements due to its poor financial standing (cf. IAS 36 "Impairment of assets");
- At the end of last year, recognition of impairment losses on shares of subsidiaries registered in Ukraine and failure to recognise impairment losses on these assets at the end of the half of the preceding year, despite the existence of indicators of impairment already on this day, hence the auditor's inability to comment on the amount of a potential impairment loss to be recognised in comparative amounts for 6 years of last financial year (cf. IAS 36);
- Recognition of an impairment loss on the goodwill assigned to a cash-generating unit only, but failure to allocate the remaining amount of the impairment loss for assets; the auditor takes the view that taking full account of the provisions of par. 104 of IAS 36 would result in a decrease in the value of other assets and thus decrease the balance sheet total and profit or loss (cf. IAS 36);
- Failure to allocate an impairment loss for assets of a specific cash-generating unit (subsidiary), given the revaluation of shares in this unit in the separate half-yearly financial statements to make the value more realistic in relation to the current market conditions (cf. IAS 36);
- The existence of significant uncertainty regarding the VAT refund, which is evidence of impairment of investment in the subsidiary and its loan receivables, therefore the auditor was unable to estimate the impact of this issue on the recoverable value of these assets.

### 2.2.4 Qualifications concerning fair value

The qualifications in review reports referred to the following issues related to fair value:

- The auditor's failure to obtain adequate documentation proving the fair value at the balance sheet date of the land acquired, presented as investment properties, due to the group's failure to carry out the fair value measurement at the end of the half of the year and due to information, which was obtained during the review, indicating that the fair value and carrying amount of the land may differ.

### 2.2.5 Qualifications concerning financial instruments

The qualifications in review reports related to the following issues concerning financial instruments:

- The auditor's inability to assess whether past due and unsettled, as at the completion date of the audit, receivables of the parent company, which were confirmed by debtors, will bring economic benefits in the future (as there is no access to information on the debtors' financial standing) (cf. IAS 39);
- The auditor's inability to perform relevant procedures to verify whether the amount of an impairment loss on the loans granted to the subsidiary was correctly determined; due to failure to obtain adequate documentation to verify whether the fair value of the land acquired was correctly determined (the subsidiary did not carry out the fair value measurement at the end of the half of the year), the auditor was unable to assess whether an impairment loss recognised in previous years was partially reversed;

- The auditor's inability to objectively assess whether some funds invested in financial assets, which are held to maturity in the form of bonds and the loans granted, may be recovered in the future due to failure to receive information on the financial position of some debtors (cf. IAS 39);
- The need, in the opinion of the auditor, for recognising an impairment loss on a receivable due to unfavourable litigation settlement which would decrease the result and equity of the group (IAS 39);
- Failure to provide the auditor with sufficient documentation confirming the correctness of the measurement of receivables from a related party in respect of which there are indicators of impairment due to its financial position, which resulted in the inability to assess the impact of the above issue on the financial statements in question (cf. IAS 39);
- The auditor's inability to objectively assess whether the receivables and financial assets recognised may be settled in the future due to failure to obtain information on the financial position of creditors (cf. IAS 39);
- Failure to present testing for impairment of assets: bonds, shares and loans, as well as failure to provide the auditor with sufficient information and evidence to confirm that investment will bring expected economic benefits and that the value presented in the consolidated financial statement is correct.

### 2.2.6 Qualifications concerning consolidation and business combinations

The qualifications in review reports referred to the following issues related to consolidation and business combinations:

- Possible misstatement of the group's profit or loss due to the fact that subsidiaries' profit or loss for the previous year may be misstated (subsidiaries' financial statements for last year were not audited by the date of the review report, therefore the loss of control of the foreign subsidiary was settled in the half of the next year, taking account of further estimates and adjustments made by management last year);
- The inability to assess the correctness of the measurement of the subsidiary's remaining shareholding made using the equity method and the amount of potential misstatement of consolidated profit or loss, because the subsidiary's financial statements for last year remain unaudited, and the financial statements for the half of the current year are unreviewed;
- Failure to make the necessary consolidation adjustment which should involve excluding the subsidiary's dividend to the parent company from financial revenue; if the adjustment was made, the consolidated statement of comprehensive income would show negative total comprehensive income;
- Failure to consolidate the company acquired by one of the subsidiaries of the parent company and the auditor's inability to determine what impact the consolidation of the acquired company would have on the consolidated financial statements due to lack of access to its financial statements.

### 2.2.7 Qualifications concerning deferred tax

The qualifications in review reports referred to the following issues related to deferred tax:

- The subsidiary’s failure to estimate and recognise deferred tax assets in relation to the unutilised amount of State aid (cf. IAS 12);
- The auditor’s inability to confirm the utilisability of deferred tax assets due to uncertainties as to the company’s future income in connection with tax proceedings (cf. IAS 12);

- The need, in the opinion of the auditor, for reducing the value of the deferred tax asset to the amount of the deferred tax provision due to the fact that, given the current scale of activity, achieving sufficient taxable profit to offset deductible temporary differences is rather unlikely (cf. IAS 12).

### 2.2.8 Qualifications in connection with issues concerning construction contracts

The qualifications in review reports related to the following issues concerning construction contracts:

- In previous years, recognising claims against customers under some construction contracts as revenue, even though the legal proceedings and negotiations with customers have not reached an advanced stage yet; impact on net profit or loss from previous years and recognised gross amounts due from customers (cf. IAS 11 "Construction contracts").

### 2.2.9 Qualifications in connection with other recognition and measurement issues

The qualifications in review reports related to the following issues concerning recognition and measurement:

- The inability to confirm the correctness of the measurement of assets in the form of shares and the loan regarding the wholly owned subsidiary, in which development activities are an important asset, due to the fact that the effect of the Management Board's operations to commercialise these activities is difficult to predict;
- Recognition, by the entity, in the balance sheet, of rights to perpetual usufruct of land which were obtained free of charge, as property, plant and equipment, investment properties or assets classified as held for sale, and not as off-balance-sheet items; in the auditor’s opinion, those rights are operating leases in accordance with IAS 17 (cf. IAS 17);
- Recognition of acquired rights to perpetual usufruct of land as non-current assets, and not as an operating lease in accordance with IAS 17 (cf. IAS 17);
- Recognition, by the subsidiary, of receivables for the reimbursement of VAT in dispute, despite failure to meet the condition set out in par. 33 of IAS 37, according to which an asset is recognised in the balance sheet if the realisation of income is virtually certain (cf. IAS 37);
- Failure to justify the influence of the expenditure incurred on a useful life, productivity, quality of products manufactured with the use of an improved item of fixed asset, operating expenses, etc. of improved equipment due to which the auditor was unable to state whether and to what extent the expenditure incurred should be recognised as overhaul and ongoing operation of an item of fixed assets costs (cf. Article 31(1) of the Accounting Act).

### 2.2.10 Emphasis of matter paragraphs

Additionally, we would like to present the topics covered by the emphasis of matter paragraphs contained in review reports. The emphasis of matter paragraphs related to, *inter alia*, the following issues:

- The existence of significant uncertainties which may cause a serious threat to the Company’s and the Group’s ability to continue as a going concern;
- Failure to redeem shares and, consequently, generating a significant risk of enforcement of the amounts due by creditors, which may cause problems with maintaining current liquidity, as well as the existence of a threat to the entity’s ability to continue as a going concern due to failure to reach relevant agreements with creditors by the date of the report;

- Dependence of the entity's ability to continue as a going concern on the implementation of reorganisation processes carried out as part of bankruptcy proceedings with a possibility of arrangement;
- Failure to generate any revenue by the entity / group and making itself totally dependent in terms of finance on its parent company, thus generating a risk related to maintaining current liquidity by the entity / group due to the situation of its parent company;
- Risks relating to VAT settlements for previous periods;
- Presentation of cash inflows and outflows from financial assets used to pursue principal activity in the statement of cash flows in investing activities instead of in operating activities, whereas in the statement of profit or loss and other comprehensive income – presentation of revenues from those assets in principal activity, because they are used to run statutory activity; a similar rule was applied in previous years;
- Having material liabilities, which fall due within 12 months following the end of the reporting period, including particularly: a highly probable liability to refund the grant, the short-term credit and the prepayment from the former subsidiary;
- Making a significant part of the entity's property collaterals for credits incurred by the group's entities.

## 2.3 The review of financial statements – a list of areas of non-compliance with the applicable reporting framework, in particular with IFRSs

In this section of the Report, we present the areas of non-compliance with the applicable reporting framework, particularly with the requirements of IFRSs, including non-disclosures and incomplete disclosures, which areas were identified as a result of the 2015 review of consolidated financial statements / financial statements prepared by issuers of securities other than investment funds. The review focused on annual consolidated financial statements / financial statements prepared for the financial year 2014. It also encompassed interim consolidated financial statements / financial statements prepared for the periods of the financial year 2015 and 2014, respectively, as well as historical financial information of entities applying for approval of a prospectus, taking into consideration the methods of selecting financial statements for the review. In connection with the conducted enforcement activities, there were also cases of review of consolidated financial statements / financial statements for earlier periods than those referred to above.

Some of the presented cases of non-compliance with IFRSs occurred in single cases only. On the other hand, there were relatively numerous cases where issuers made disclosures in a manner that could give rise to doubts about their completeness and usefulness.

We would like to draw issuers' and, respectively, auditors' attention to the fact that if financial information is to be useful, it must be relevant and faithfully represent what it purports to represent, and to be a perfectly faithful representation, a depiction should be complete. A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations. For some items, a complete depiction may entail explanations of significant facts about the quality and nature of the items, factors and circumstances that might affect their quality and nature, and the process used to determine the numerical depiction (cf. par. QC4-QC34 *of the Conceptual Framework for IFRSs*[15] on qualitative characteristics of useful financial information).

[15] "Conceptual Framework for Financial Reporting" referred to in the Report as "Conceptual Framework for IFRSs" – as adopted by the International Accounting Standards Board (*IASB*), is not subject to the adoption in the form of a Regulation of the European Commission for the application within the EU

In our opinion, it is reasonable that auditors, when issuing their opinions on the audited financial statements, also take into account the completeness and usefulness of the disclosures required in accordance with the applicable framework. Pursuant to par. 69 of the Polish Standard on Auditing No 1 "General principles of auditing financial statements": "(...) Significant departure shall also include the presentation of incomplete financial statements. (...)". In our opinion, the financial statements of issuers cannot be considered complete if they lack material disclosures required under applicable accounting standards.

Moreover, please note that the list of the areas of non-compliance with the requirements of IFRSs, including non-disclosure or partial disclosures, has also been presented in previous reports prepared by the Accounting Division of the Public Offerings and Financial Information Department of the PFSA:

- *Report on the review of financial statements by issuers of securities in the context of their compliance with IFRSs. The review carried out in 2014*[16];
- *Report on the review of financial statements by issuers of securities in the context of their compliance with IFRSs. The review carried out in 2013*[17];
- *Report on the review of financial statements by issuers of securities in the context of their compliance with IFRSs. The review carried out in 2012*[18];
- *Report on the review of financial statements by issuers of securities in the context of their compliance with IFRSs. The review carried out in 2011*[19];
- *Report on the review of financial statements by issuers of securities in the context of their compliance with IFRSs. The review carried out in 2010*[20];
- *Report on the review of financial statements by issuers of securities in the context of their compliance with IFRSs. The review carried out in 2009*[21];
- *Report on the review of annual consolidated financial statements for the accounting year 2007 by issuers of securities in the context of their compliance with IASs*[22].

The issues to which the identified cases of non-compliance or non-disclosure related have been grouped in a manner that facilitates finding the specific topic. The provisions of IFRSs referred to in discussing specific areas of non-compliance are presented in the wording applicable to the financial statements prepared for the financial year 2014 or for the first half of the financial year 2015, respectively.

[16] http://www.knf.gov.pl/en/Images/RAPORT_MSSF_2014_tcm81-41164.pdf

[17] http://www.knf.gov.pl/en/Images/Raport_MSSF_2013_tcm81-37593.pdf

[18] http://www.knf.gov.pl/en/Images/Raport_MSSF_2012%20do%20publikacji_EN_tcm81-34334.pdf

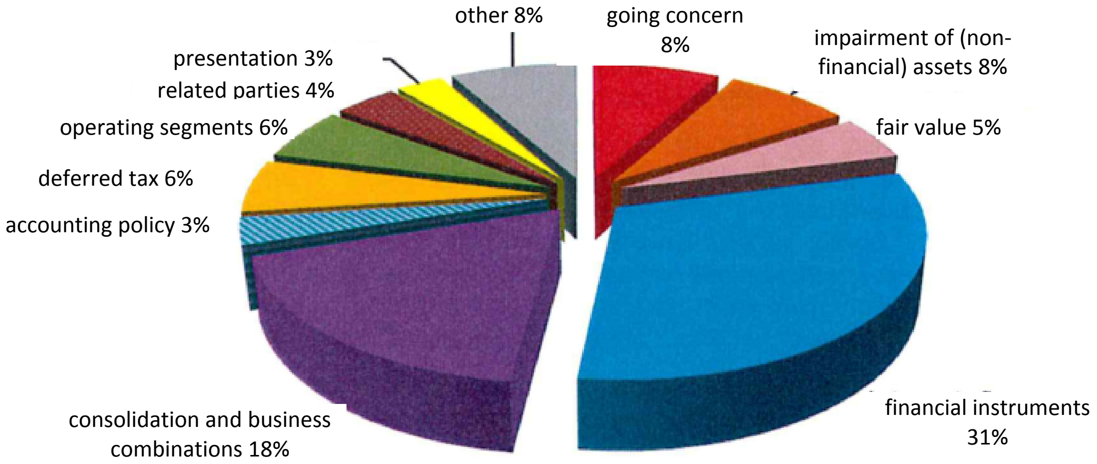
[19] http://www.knf.gov.pl/en/Images/Report_on_the_review_of_the_financial_statements_by_issuers_of_securities_in_the_context_of_their_compliance_with_IFRSs_2011_tcm81-30256.pdf

[20] http://www.knf.gov.pl/en/Images/Raport_z_analizy_sprawozdan_emitentow_2010_ang_tcm81-30099.pdf

[21] http://www.knf.gov.pl/en/Images/Raport_z_analizy_2009_wer_ang_tcm81-30100.pdf

[22] http://www.knf.gov.pl/en/Images/Report_en_IAIS_2007_publ_tcm81-30102.pdf

***Figure 4. Areas of non-compliance identified as a result of the review conducted in 2015 – annual consolidated financial statements / financial statements of issuers for the financial year 2014 and 2013, respectively***




<u>Comment:</u> *If a non-compliance occurred in the consolidated financial statements and in the financial statements of an issuer, the figure reflects such non-compliance only once. The percentage share depends on the frequency of occurrence of an issue in the identified non-compliances, whereas in the following description of issues to which non-compliances were related, individual topics are presented only once.*

### 2.3.1 Non-compliances and deficiencies in disclosures regarding going concern

- Doubts as to the fairness of the assessment of the entity's ability to continue as a going concern and the appropriateness of the going concern assumption adopted by the entity (cf. par. 25-26 of IAS 1) (e.g. failure to refer to the issue raised in the explanation concerning the fulfillment of the conditions set out in Article 397 of the CCC);
- Failure to provide clear information about material uncertainties as to the entity's ability to continue as a going concern (cf. par. 25 of IAS 1);
- Doubts as to the fairness of the assessment of the entity's ability to continue as a going concern and the appropriateness of the going concern assumption adopted by the entity as well as the fairness and completeness of disclosures about the existence of significant doubt as to the entity's ability to continue as a going concern (cf. par. 25-26 of IAS 1);
- No / incomplete disclosures about the existence of material uncertainties related to events or conditions that may cast significant doubts upon the entity's ability to continue as a going concern (cf. par. 25 of IAS 1);
- Failure to disclose or doubts as to the fulfillment of provisions in relation to the existence of circumstances which indicate a threat to the entity's ability to continue as a going concern (cf. par. 6(1)(8) and par. 19 of Section B. Additional Explanatory Notes, Appendix No 1 to the Regulation on financial statements according to the Polish Accounting Principles[23]);
- Doubts as to the appropriateness of the going concern assumption as well as the fairness and completeness of disclosures about the existence of circumstances which indicate a threat to the

[23] Regulation of the Minister of Finance of 18 October 2005 on the scope of information disclosed in financial statements and consolidated financial statements, as required in the issue prospectus for issuers having their registered offices in the Republic of Poland and to which the Polish accounting principles apply (consolidated text: Journal of Laws of 2014, item 300)

entity's ability to continue as a going concern (cf. par. 6(1)(8) and par. 19 of Section B. Additional Explanatory Notes, Appendix No 1 to the Regulation on financial statements according to the Polish Accounting Principles);

- No / incomplete disclosures in the management report on the issuer's operations and in the management report on the Group's operations about the assessment of the financial resources management, taking into account in particular the entity's ability to meet the obligations incurred (cf. par. 91(6)(11) and par. 92(3), respectively, of the Regulation on the current and periodic information[24]).

### 2.3.2 Non-compliance and deficiencies in disclosures regarding impairment of (non-financial) assets

- Doubts as to the reasonableness (rationality) of the assumptions on which current cash flow projections are based (cf. par. 33(a) and par. 34 of IAS 36 "Impairment of assets");
- Failure to allocate the value of intangible assets with indefinite useful life to a cash-generating unit (cf. par. 80 and par. 134(b) of IAS 36);
- Failure to disclose the events and circumstances that led to the recognition or reversal of the impairment loss (cf. par. 130(a) of IAS 36);
- Failure to disclose whether the measurement of the recoverable amount of assets in the form of shares in the subsidiary reflects fair value less costs of disposal or their value in use (cf. par. 130(e) of IAS 36);
- Failure to disclose the events and circumstances that led to the recognition of impairment losses (cf. par. 131(b) of IAS 36);
- No / incomplete disclosures about estimates used to measure recoverable amounts for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the total carrying amount of these assets, as required by par. 134 of IAS 36;
- No disclosure about the recoverable amount of a cash-generating unit and the basis on which the unit's (group of units') recoverable amount has been determined, i.e. whether it is value in use or fair value less costs of disposal (cf. par. 134(c) of IAS 36);
- No disclosures required if the unit's (group of units') recoverable amount is based on value in use (cf. par. 134(d) of IAS 36), in particular disclosures concerning:
  - each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts;
  - a description of the adopted approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or are consistent with external sources of information;
  - the period over which management has projected cash flows based on financial budgets/forecasts approved by management;
  - the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts; and
  - the discount rate(s) applied to the cash flow projections;

[24] Regulation of the Minister of Finance of 19 February 2009 on the current and periodic information published by issuers of securities and on the conditions for regarding information required by the law of a non-member state as equivalent (consolidated text: Journal of Laws of 2014, item 133)

- No disclosures required if the unit's (group of units') recoverable amount is based on fair value less costs of disposal (cf. par. 134(e) of IAS 36), in particular disclosures concerning:

  *if fair value less costs of disposal is not measured using a quoted price for an identical unit (group of units):*

  - each key assumption on which management has based its determination of fair value less costs of disposal;
  - a description of management's approach to determining one value (or several values) and whether those value(s) reflect past experience or how and why they differ from past experience or external sources of information;
  - the level of the fair value hierarchy within which the fair value measurement is categorised in its entirety;
  - if there has been a change in valuation technique, the change and the reason(s) for making it;

  *if fair value less costs of disposal is measured using discounted cash flow projections:*

  - the period over which management has projected cash flows;
  - the growth rate used to extrapolate cash flow projections;
  - the discount rate(s) applied to the cash flow projections;
- No disclosure of the sensitivity analysis of the key assumption adopted to determine the unit's (group of units') recoverable amount (cf. par. 134(f) of IAS 36), including concerning:
  - the amount by which the unit's (group of units') recoverable amount exceeds its carrying amount;
  - the value assigned to the key assumption (i.e. growth rate, discount rate and operating margin – cf. ESMA/2012/725);
  - the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount.

### 2.3.3 Non-compliances and deficiencies in disclosures regarding fair value

- Classification of assets in the form of unquoted shares classified as available-for-sale financial assets within Level 2 of the fair value hierarchy instead of Level 3 (cf. par. 72-75 and 81-90 of IFRS 13 "Fair value measurement");
- No / incomplete disclosures of information (cf. par. 91 of IFRS 13 "Fair value measurement") that helps users of the financial statements assess:
  - for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements; and
  - for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period;
- No / incomplete / boilerplate disclosures of information for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition (cf. par. 93 of IFRS 13):
- Doubts whether the investment property was measured at fair value at the end of the reporting period (cf. par. 33 IAS 40 "Investment property").

### 2.3.4 Non-compliance and deficiencies in disclosures regarding financial instruments

- Failure to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments (cf. par. 6 of IFRS 7 and par. B1 and B2 of Appendix B "Application guidance" to IFRS 7 "Financial instruments: disclosures");
- Failure to disclose, in relation to liabilities measured at fair value through profit or loss, the amount of change in the fair value of the liability that is attributable to changes in the credit risk and the difference between the financial liability's carrying amount and the amount to be paid at maturity (cf. par. 10 of IFRS 7);
- Deficiencies in disclosures about defaults and breaches of a credit contract (cf. par. 18-19 of IFRS 7);
- Failure to disclose net gains or net losses for each class of financial instruments (cf. par. 20(a) of IFRS 7);
- Failure to disclose, for each class of financial assets and financial liabilities, fair value in a way that permits it to be compared with its carrying amount (cf. par. 25 of IFRS 7);
- No / incomplete disclosures of quantitative and qualitative information that enables users of the financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed (cf. par. 31-42 of IFRS 7 and par. B6-B28 of Appendix B to IFRS 7);
- No disclosure of qualitative information for each type of risk arising from financial instruments including the exposures to risk and how they arise and the objectives, policies and processes for managing the risk (cf. par. 33(a) and (b) of IFRS 7);
- Deficiencies in disclosures about credit risk, by class of financial instrument, including disclosures of the amount of the maximum exposure to credit risk at the end of the reporting period and information about the credit quality of financial assets that are neither past due nor impaired (cf. par. 36(a) and (c) of IFRS 7);
- Failure to disclose, by class of financial instrument, an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired; and an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired (cf. par. 37 of IFRS 7);
- Failure to disclose an analysis of the age of portfolios of receivables (cf. par. 37(a) of IFRS 7 in conjunction with par. 39(c) of IFRS 7 and par. B11E of Appendix B to IFRS 7);
- Insufficient, boilerplate disclosures about the criteria the entity uses to determine that there is objective evidence that an impairment loss has occurred (cf. par. B5(f) of Appendix B to IFRS 7);
- No / incomplete disclosures about liquidity risk, including lack of a maturity analysis for non-derivative financial liabilities which analysis shows the remaining contractual maturities or presenting a maturity analysis for financial liabilities broken down into excessively aggregate time bands, in a manner inappropriate for the entity's position (cf. par. 39(a) of IFRS 7 and par. B11 of Appendix B to IFRS 7);
- No or boilerplate or inappropriate disclosures for the entity's position of how the entity manages the liquidity risk and lack of a maturity analysis of financial assets held for managing liquidity risk (cf. par. 39(c) of IFRS 7 and par. B11E-F of Appendix B to IFRS 7);
- Failure to disclose a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date (currency risk, interest rate risk and other market risk), showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were

reasonably possible at that date; failure to disclose the methods and assumptions used in preparing the sensitivity analysis and changes from the previous period in the methods and assumptions used, and the reasons for such changes (cf. par. 40 of IFRS 7);

- Failure to disclose information in relation to forbearance practices: details about the use of forbearance practices, a description of risk and its management, a description of accounting policy, quantitative data (cf. IFRS 7, ESMA Public Statement on forbearance practices[25]);
- Incorrect presentation of impairment losses on receivables measured at amortised cost as "non-financial asset revaluation" (cf. par. 2 IFRS 7 "Financial instruments: disclosures", definitions par. 9 of IAS 39 "Financial instruments: recognition and measurement");
- No disclosures about the recognition / reversal of impairment losses on long-term investments, including: the main events and circumstances that led to the recognition or reversal of impairment losses as well as the amount of impairment losses recognised for each of the specified groups of assets, including the one recognised directly in equity or the amount of impairment losses reversed, including the one recognised directly in equity (cf. Note 12(b) and (c) of Section A. Explanatory Notes, Appendix No 1 to the Regulation on financial statements according to the Polish Accounting Principles).

### 2.3.5 Non-compliances and deficiencies in disclosures concerning consolidation and business combinations

- Failure to consolidate the controlled company (cf. par. 5-18 and par. 20 of IFRS 10 "Consolidated financial statements");
- Failure to disclose information about significant judgments and assumptions (and changes to those judgments and assumptions) made in determining whether the entity has control of another entity, i.e. an investee (cf. par. 7(a) of IFRS 12 "Disclosure of interests in other entities");
- Failure to disclose information about significant judgments and assumptions made in determining whether the entity has control of or influence over another entity, including the judgments and assumptions referred to in par. 7-9 of IFRS 12 (cf. par. 122-124 of IAS 1 "Presentation of financial statements");
- Failure to disclose information about significant judgments and assumptions made by the entity in determining that it is an investment entity (cf. par. 9A of IFRS 12);
- Doubts as to the correctness of the assessment performed in relation to control of entities due to relying on obsolete provisions (IAS 27 "Consolidated and separate financial statements", SIC-12 "Consolidation – special purpose entities") / indicating an obsolete definition of "control" (cf. par. 5-9 of IFRS 10);
- Incomplete disclosures related to the change of parent company status into investment entity status, including failure to disclose:
  - the reasons for the change (cf. the introductory sentence of par. 9B of IFRS 12);
  - the total fair value, as of the date of change of status, of the subsidiaries that cease to be consolidated (cf. par. 9B(a) of IFRS 12);
  - the total gain or loss, if any, calculated in accordance with par. B101 of IFRS 10 (cf. par. 9B(b) of IFRS 12);

[25] *Public Statement. Treatment of Forbearance Practices in IFRS Financial Statements of Financial Institutions* (ESMA/2012/853, 20 December 2012); the document is described in more detail in Chapter 3.5 of this Report

  - the line item(s) in profit or loss in which the gain or loss is recognised (if not presented separately) (cf. par. 9B(c) of IFRS 12);

- Failure to disclose information that enables to evaluate the nature of significant restrictions to the entity's ability to access or use assets and settle liabilities of the group (cf. par. 10(b)(i) and par. 13 of IFRS 12);
- Failure to disclose summarised financial information about the subsidiary that has non-controlling interests that are material to the reporting entity (cf. par. 12(g) and par. B10 of Annex B "Application guidance" to IFRS 12);
- Failure to disclose the gain or loss due to the loss of control of the subsidiary (cf. par. 19 of IFRS 12);
- No / insufficient disclosures about financial effects of interests in joint arrangements (joint actions) (cf. par. 20(a) of IFRS 12);
- Failure to disclose information whether the investment in the associate is measured using the equity method or at fair value (cf. par. 21(b)(i) of IFRS 12);
- Failure to disclose summarised financial information about the associate (cf. par. 21(b)(ii) and B12 and B14-B16 of Appendix B to IFRS 12);
- Failure to disclose information relating to the acquisition of the subsidiary during the current reporting period, enabling users of the consolidated financial statements to evaluate the nature and financial effect of the business combination (cf. par. 59(a) of IFRS 3), including:
  - a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors (cf. par. B64(e) of Appendix B to IFRS 3);
  - the acquisition-date fair value of each major class of consideration (cf. par. B64(f) of Appendix B to IFRS 3);
  - for acquired receivables: the fair value of the receivables (i), the gross contractual amounts receivable (ii) and the best estimate at the acquisition date of the contractual cash flows not expected to be collected (iii) (cf. par. B64(h) of Appendix B to IFRS 3);
  - the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed (cf. par. B64(i) of Appendix B to IFRS 3);
  - the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period, and the revenues and profit or loss of the combined entity for the current reporting period, as though the acquisition date for all business combinations that occurred during the period had been as of the beginning of the annual reporting period (cf. par. B64(q) of Appendix B to IFRS 3);
- Failure to disclose the management's comment on the amount of significant cash balances held by the entity that are not available for use by the group due to the presentation of restricted cash items and the fact that the subsidiary has non-controlling interests that are material to the reporting entity (cf. par. 48 of IAS 7 "Statements of cash flows");
- Failure to disclose the total amount of the assets and liabilities other than cash or cash equivalents in the subsidiary over which the control was lost, summarised by each major category (cf. par. 40(d) of IAS 7 "Statements of cash flows");

- Failure to disclose information on how it is determined whether non-controlling interests are relevant to the reporting entity (cf. 2014/ESMA/1309 of 28 October 2014 and par. 10(a)(ii) of IFRS 12).

### 2.3.6 Non-compliances and deficiencies in disclosures regarding accounting policies

- Failure to disclose, in the summary of significant accounting policies, a description of accounting policies used for business combinations / acquisitions (cf. par. 17(b), par. 117(b) of IAS 1 "Presentation of financial statements");
- Failure to disclose, in the summary of significant accounting policies, a description of significant accounting policies used for business combinations under common control to which IFRS 3 does not apply (cf. par. 10 of IAS 8 and par. 17 and par. 117(b) of IAS 1);
- Failure to disclose information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year (cf. par. 125-131 of IAS 1);
- Failure to disclose, for each class of property, plant and equipment, the depreciation rates used (cf. par. 73(c) of IAS 16 "Property, plant and equipment");
- Failure to describe accounting policies used for impairment of long-term investments (cf. par. 6(1)(11) of the Regulation on financial statements according to the Polish Accounting Principles).

### 2.3.7 Non-compliances and deficiencies in disclosures regarding deferred tax

- Doubt as to the reasonableness of recognition of the deferred tax asset (cf. par. 24, 27-31, 34-36 of IAS 12 "Income taxes");
- Failure to explain the relationship between tax expense (income) and accounting profit (cf. par. 81(c) of IAS 12);
- Failure to disclose the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the statement of financial position (cf. par. 81(e) of IAS 12);
- Failure to disclose, in respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits: the amount of the deferred tax assets and liabilities recognised in the statement of financial position for each period presented, the amount of the deferred tax income or expense recognised in the income statement, if this is not apparent from the changes in the amounts recognised in the statement of financial position (cf. par. 81(g) of IAS 12);
- Failure to disclose the nature of the evidence supporting the recognition of the deferred tax assets (cf. par. 82 of IAS 12);
- Failure to disclose judgments made to determine the period in which the deferred tax asset will be recovered (cf. 2014/ESMA/1309 of 28 October 2014).

### 2.3.8 Non-compliances and deficiencies in disclosures regarding reporting by segments

- Failure to report a measure of profit or loss for each reportable segment (cf. par. 23 of IFRS 8 "Operating segments");
- Failure to disclose interest expense as well as depreciation and amortisation for each reportable segment if such amounts are regularly presented to the chief operating decision maker (cf. par. 23(d) and (e) of IFRS 8);

- Failure to explain the way segment profit or loss is measured (cf. par. 27 of IFRS 8);
- Failure to disclose information about the revenues from external customers for each product and service, or each group of similar products and services or information that the necessary information is not available and the cost to develop it would be excessive (cf. par. 32 of IFRS 8);
- No / incomplete disclosure of geographical information or no information that the necessary information is not available and the cost to develop it would be excessive (cf. par. 33 of IFRS 8), including about:
  - revenues from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues;
  - non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts (i) located in the entity's country of domicile and (ii) located in all foreign countries in total in which the entity holds assets;
- Failure to disclose information about the extent of the entity's reliance on its major customers (cf. par. 34 of IFRS 8).

### 2.3.9 Non-compliances and deficiencies in disclosures regarding related parties

- Failure to disclose information about the nature of the relationship with a related party which the entity has had related party transactions with (cf. par. 18 of IAS 24 "Related party disclosures");
- Failure to disclose information about key management personnel compensation for each of the following categories: (a) short-term employee benefits, (b) post-employment benefits, (c) other long-term benefits, (d) termination benefits, and (e) share-based payment (cf. par. 17 of IAS 24);
- Failure to disclose information about related party transactions (cf. par. 18 (b)-(d) of IAS 24), in the following scope:
  - the amount of outstanding balances, including liabilities, and whether they are secured, and the nature of the consideration to be provided in settlement;
  - provisions for doubtful debts related to the amount of outstanding balances; and
  - the expense recognised during the period in respect of bad or doubtful debts due from related parties.

### 2.3.10 Non-compliances and deficiencies in disclosures regarding presentation

- Failure to disclose additional line items, headings and subtotals regarding an asset of the highest value which accounts for over 74% of total assets (cf. par. 55 and 114(c) of IAS 1 "Presentation of financial statements");
- Failure to classify and present non-current assets of the subsidiary, as held for sale separately from other assets, despite the intention of selling that subsidiary (cf. par. 38 of IFRS 5 "Non-current assets held for sale and discontinued operations").

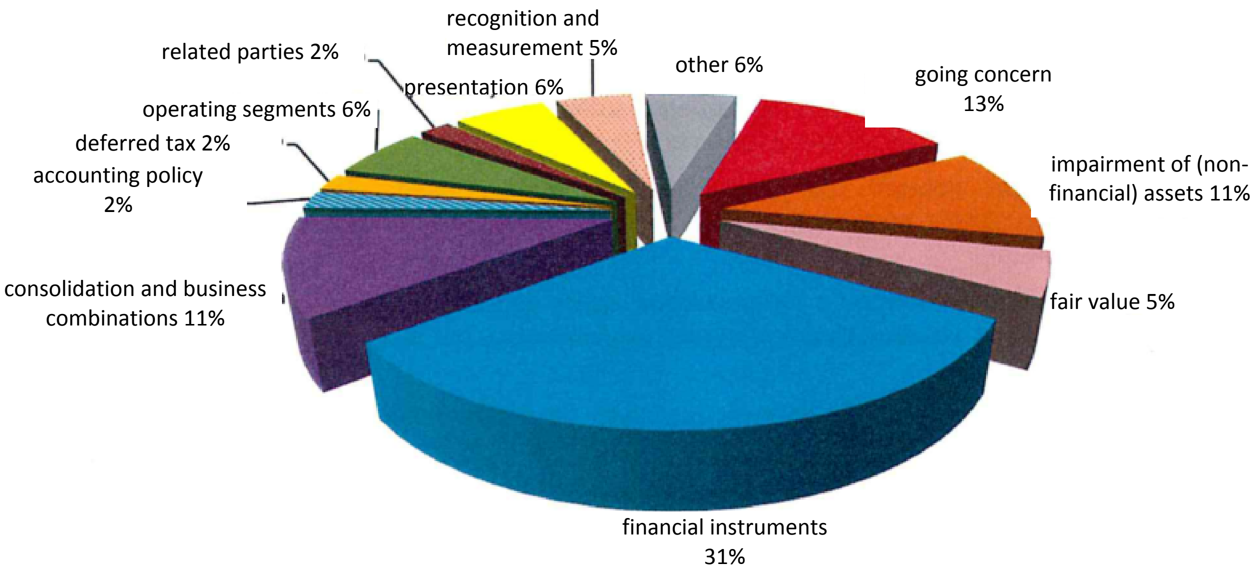
### 2.3.11 Other inconsistencies and deficiencies in disclosures

- Failure to disclose information about the amount of inventories recognised as an expense during the period (cf. par. 36(d) of IAS 2 "Inventories");
- Failure to disclose additional information on expenses classified by nature, including depreciation and amortisation expense and employee benefits expense (cf. par. 104 of IAS 1 "Presentation of financial statements");

- Failure to disclose the date when the financial statements were authorised for issue (cf. par. 17 of IAS 10 "Events after the reporting period");
- Failure to disclose, in relation to the land stated at revalued amounts, information whether an independent valuer was involved, the carrying amount that would have been recognised had the assets been carried under the cost model, and information about the revaluation surplus, indicating the change for the period (cf. par. 77(b), (e), (f) of IAS 16 "Property, plant and equipment");
- Failure to present an opening balance at the date of transition to IFRSs (cf. par. 21 of IFRS 1 "First-time adoption of International Financial Reporting Standards");
- Corrections related to changes in estimates recognised in the financial statements retrospectively, i.e. as corrections of errors (cf. par. 5, 34, 36-38 of IAS 8 "Accounting policies, changes in accounting estimates and errors");
- Contradictory information about the nature of the corrections made, i.e. whether the corrections resulted from changes in accounting policies or error correction (cf. IAS 8);
- Lack of information to be disclosed in explanatory notes (about, *inter alia*: supplementary capital, revaluation surplus, reserves, the currency structure of current credit and loan liabilities), additional explanatory notes (about financial instruments, discontinued operations and a threat to the entity’s ability to continue as a going concern). Lack of certain items in the income statement relevant to classification of expenses by function (cf. Regulation on financial statements according to the Polish Accounting Principles).

### 2.3.12 Non-compliances and deficiencies in disclosures regarding interim reporting

***Figure 5. Areas of non-compliance identified as a result of the review conducted in 2015 – interim consolidated financial statements / financial statements of issuers for the periods of the financial year 2015 and 2014, respectively***




*Comment: If a non-compliance occurred in the consolidated interim financial statements and in the interim financial statements of an issuer, such non-compliance was taken into account in the figure only once. The percentage share depends on the frequency of occurrence of an issue in the identified non-compliances, whereas in the following description of issues to which non-compliances were related, individual topics are presented only once.*

The identified non-compliances and deficiencies in disclosures regarding interim consolidated financial statements / interim financial statements of issuers related to the following issues concerning, *inter alia*, financial instruments, going concern, impairment of non-financial assets, consolidation and business combinations, operating segments, fair value, recognition and measurement, deferred tax, related parties as well as presentation and accounting policy:

- No / incomplete disclosures about the existence of significant uncertainties related to events and circumstances that might cast serious doubt upon the entity's ability to continue as a going concern (cf. par. 25 of IAS 1 "Presentation of financial statements");
- Adoption of the going concern assumption, despite the initiation of liquidation bankruptcy proceedings and lack of related adjustments (cf. par. 25 and 26 of IAS 1 and par. 14 of IAS 10 "Events after the reporting period");
- Failure to recognise the required adjustments set out in Article 29 of the Accounting Act, despite the inability to continue as a going concern (cf. Article 29 of the Accounting Act);
- Failure to disclose the information which is relevant for the assessment of the ability to fulfill obligations by the issuer (cf. par. 87(7)(10) in conjunction with par. 89(1)(3) and par. 90(1)(3) of the Regulation on the current and periodic information);
- Failure to reflect the extent to which the entity is exposed to liquidity risk related to financial instruments (cf. par. 31, 32A and 33 of IFRS 7 in conjunction with par. 15 of IAS 34);
- Failure to disclose a maturity analysis for non-derivative financial liabilities, taking account of time bands (cf. par. 39(a) of IFRS 7 and par. B11 of Appendix B to IFRS 7 in conjunction with par. 15 of IAS 34);

- Inappropriate, to the company's position, disclosures of a maturity analysis for non-derivative financial liabilities, taking account of time bands, e.g. excessively aggregate presentation of the maturity analysis for financial liabilities (up to one year) (cf. par. 39(a) of IFRS 7 and par. B11 of Appendix B to IFRS 7 in conjunction with par. 15 of IAS 34);
- Boilerplate disclosures about a description of liquidity risk management (cf. par. 39(c) of IFRS 7 in conjunction with par. 15 of IAS 34);
- Failure to disclose a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date (cf. par. 40 of IFRS 7 in conjunction with par. 15 of IAS 34);
- Failure to recognise penalty default interest at the end of the reporting period (the credit incurred by the subsidiary) (cf. par. 47 in conjunction par. 9 of IAS 39 and par. 28 of IAS 34);
- Doubts as to whether the assessment that there may be any indications that an asset may be impaired is correct (cf. par. 9, 12-14 of IAS 36 "Impairment of assets");
- Doubts as to whether the assumptions made to estimate the recoverable amount of property, plant and equipment are correct (cf. par. 33(a) and par. 39 of IAS 36);
- Failure to disclose circumstances which led to the reversal of an impairment loss on a trademark (cf. par. 15B(b) of IAS 34 in conjunction with par. 130(a) of IAS 36 and par. 15 and 15C of IAS 36);
- Failure to disclose explanations for using a period, for which cash flows were projected in testing an asset for impairment, greater than five years (cf. par. 134(d)(iii) of IAS 36 in conjunction with par. 15 and 15C of IAS 34);
- Doubts as to whether the recognition of subsidiaries in the consolidated financial statements is complete (cf. par. 20 of IFRS 10 "Consolidated financial statements");
- Doubts as to whether the assessment of control of, joint control of or a significant impact on entities is correct due to the indication of an obsolete definition of "control" in a description of accounting policies (cf. par. 5-18 of IFRS 10);
- Doubt as to whether the assessment of control of the Closed-End Investment Fund held is correct due to reliance on the inapplicable interpretation of SIC-12 "Consolidation – special purpose entities" and IAS 27 "Consolidated and separate financial statements" (cf. par. 5-18 of IFRS 10);
- Incomplete disclosure of information relating to the acquisition of subsidiaries in the current reporting period, enabling users of the financial statements to evaluate the nature and financial effects of the business combination (cf. par. B64(i) and (q) of Appendix B to IFRS 3 in conjunction with par. 16A(i) of IAS 34), including failure to disclose:
  - the amount recognised as of the acquisition date for each major class of assets acquired and liabilities assumed and the amount of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income (subpar. (i)) and
  - the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period (subpar. (q));
- Failure to disclose information on fair value, as required by par. 91 and 93 of IFRS 13 "Fair value measurement" in conjunction with par. 16A(j) of IAS 34, including relating to: the levels of fair value hierarchy (cf. par. 93(b) of IFRS 13), the valuation techniques and inputs used to develop those measurements, the effect of the measurements on profit or loss or other comprehensive income for the period (cf. par. 91 of IFRS 13);
- Failure to measure fair value of the investment property at the end of the reporting period (cf. par. 33 of IAS 40 "Investment property");
- No or incomplete disclosures about related party transactions (cf. par. 15B(j) and 15C of IAS 34);

- Doubts as to whether the recognition of the deferred tax asset is reasonable (cf. par. 24 of IAS 12 "Income taxes");
- Failure to disclose operating segment information, including on revenues from external customers (cf. par. 16A(g) of IAS 34 and par. 34 of IFRS 8 "Operating segments") and geographical areas (cf. par. 33 of IFRS 8 in conjunction with par. 15 of IAS 34);
- Failure to reconcile the carrying amount at the beginning and end of the period for each class of intangible assets (cf. par. 118(e) of IAS 38 in conjunction with par. 15 of IAS 34);
- Failure to disclose a reconciliation of the amounts in the statement of cash flow with the equivalent items reported in the statement of financial position (cf. par. 45 of IAS 7 "Statement of cash flows");
- Failure to disclose information on events and transactions that are significant to an understanding of the changes in financial position and performance due to the recognition of impairment losses on receivables (cf. par. 15, 15B(b) and par. 15C of IAS 34);
- Recognition of cash payments for and cash receipts from financial assets used to pursue principal (operating) activities as cash flows from investing activities instead of cash flows from operating activities in the statement of cash flows (cf. par. 14 of IAS 7);
- Failure to disclose diluted earnings per share (cf. par. 11 of IAS 34);
- Incomplete disclosures of a description of accounting policies in terms of revenue recognition (cf. par. 17(b) of IAS 1).

# 3 SELECTED ISSUES THAT REQUIRE SPECIAL ATTENTION IN THE PREPARATION OF FINANCIAL STATEMENTS

The purpose of this Chapter is to present the selected issues related to the reporting framework, which are useful both in the preparation of the financial statements and in using the information contained therein.

## 3.1 Issues relating to the ability to continue as a going concern

Once again, we would like to emphasise that pursuant to § 3(1) of the Regulation on the current and periodic information, annual reports should contain information reflecting the specific nature of the situation described and should be prepared in a true, fair and complete manner. If the specific nature of the event covered by the annual report requires additional disclosures to ensure its true, fair and complete view, the issuer is required to make such disclosures in the annual report in accordance with par. 3(2) of the above-mentioned Regulation. Furthermore, par. 3(3) of the above-mentioned Regulation stipulates that periodic reports presented by an issuer should be prepared in a manner that allows investors to assess the impact of the information presented on the issuer's economic and financial position.

Moreover, it should be noted that, pursuant to par. 15 of IAS 1 "Presentation of financial statements", financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenues and expenses set out in the *Framework.* The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

Due to the fact that there are cases of a threat to the entity's ability to continue as a going concern among issuers, the going concern-related issues, which we emphasised in the *Report on the review of financial statements by issuers of securities in the context of their compliance with IFRSs. The review carried out in 2014*[26], the *Report on the review of financial statements by issuers of securities in the context of their compliance with IFRSs. The review carried out in 2013*[27] and the *Report on the review of financial statements by issuers of securities in the context of their compliance with IFRSs. The review carried out in 2012*[28], are still valid.

The continuing economic conditions, in which enterprises operate, cause the risk of omissions in, incompleteness or unfairness of the financial statements of issuers in the areas relating to, *inter alia*, going concern, impairment of assets, risks arising from financial instruments, deferred tax, provisions. We would like to emphasise again the importance of application of the provisions of the following standards, as mentioned in the previous review reports: IAS 1 "Presentation of financial statements", IAS 36 "Impairment of assets", IAS 37 "Provisions, contingent liabilities and contingent assets", IAS 39 "Financial instruments: recognition and measurement", IFRS 7 "Financial instruments: disclosures", as well as of the provisions of IFRS 13 "Fair value measurement".

Moreover, as regards financial instruments, issues related to the occurrence of impairment losses on financial assets should also be taken into account. We would like to emphasise the importance of meeting the requirement, which is set out in par. B5(f) of Appendix B, being an integral part of IFRS 7, to disclose the criteria the entity uses to determine that there is objective evidence that an impairment loss has occurred.

Furthermore, we would like to emphasise the restrictions to the recognition of deferred tax assets when showing tax losses and when deductible temporary differences occurred. Special attention should be paid when recognising deferred tax assets arising from the carry forward of unused tax

[26] Cf. Chapter 3.1, p. 45 of the report available on the following website: http://www.knf.gov.pl/en/Images/RAPORT_MSSF_2014_tcm81-41164.pdf

[27] Cf. Chapter 3.1, p. 35 of the report available on the following website: http://www.knf.gov.pl/en/Images/Raport_MSSF_2013_tcm81-37593.pdf

[28] Cf. Chapter 3.1, p. 26 of the report available on the following website: http://www.knf.gov.pl/en/Images/Raport_MSSF_2012%20do%20publikacji_EN_tcm81-34334.pdf

losses to be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised (cf. par. 29 and 34-36 IAS 12 "Income taxes"). Therefore, diligence is expected when disclosing judgments made in recognising deferred tax assets.

We would like to emphasise the importance of meeting the requirement, which is set out in par. 82 of IAS 12, to disclose the nature of the evidence supporting the recognition of deferred tax assets, when: (a) the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences and (b) the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

As regards disclosures related to the going concern-related issues, we would like to emphasise the importance of the ESMA Public Statement on improving the quality of disclosures presented in Chapter 3.5 of this Report.

ESMA as well, in its public statements on the European common enforcement priorities for 2014, 2013 and 2012 financial statements, stresses the issues related to, *inter alia*, recognition and measurement of deferred tax assets and related disclosures, impairment of non-financial assets, fair value measurement and disclosure, measurement of financial instruments, disclosure of related risks, and provisions. It should be noted that the above-mentioned issues are still relevant. Thus, the application of IFRSs by issuers in the above scope, in addition to the topics of the European common enforcement priorities specified in relation to 2015 financial statements, will continue to be the subject of our review. ESMA public statements on the European common enforcement priorities for 2015-2012 financial statements have been described in more detail in Chapter 3.5 of this Report.

## 3.2 Issues relating to consolidation and business combinations as well as the estimate of the recoverable amount

*Goodwill*

The 2015 review showed the need for drawing attention to issues related to identifying and recognising goodwill. In accordance with the definition included in Appendix A, being an integral part of IFRS 3 "Business combinations", "goodwill" is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

It should be noted that, pursuant to par. B64(e) of Appendix B, being an integral part of IFRS 3, one should disclose a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition and other factors. Therefore, in particular when goodwill recognised as a result of the performed business combination transaction is significant from the point of view of the entity, its financial position and performance, failure to disclose information on the recognition of this goodwill may be a significant omission, thus making the presented financial statements incomplete. We would like to draw attention to the ESMA Public Statement on improving the quality of disclosures which has been described in more detail in Chapter 3.5 of this Report.

*Estimate of the recoverable amount*

In accordance with par. 134 of IAS 36 "Impairment of assets", the entity is required to disclose information on estimates used to measure the recoverable amount for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives.

Pursuant to par. 134 of IAS 36, if the recoverable amount is based on its value in use, one should, *inter alia*, disclose key assumptions on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts (cf. par. 134(d)(i) of IAS 36), but – if the recoverable amount is based on its fair value less costs of disposal – one should disclose key assumptions on which management has based its determination of fair value less costs of disposal (cf. par. 134(e)(i) of IAS 36). In both cases, key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.

Given the foregoing, we would like to draw attention to the provisions of par. 33 of IAS 36 stipulating that, in measuring value in use, the entity shall:

(a) base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence;

(b) base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified;

(c) estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

It should also be noted that, pursuant to par. 34 of IAS 36, management assesses the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows as well as it ensures that the assumptions on which its current cash flow projections are based are consistent with past actual outcomes, provided the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated make this appropriate.

It is also indicated in par. 35 of IAS 36 that detailed, explicit and reliable financial budgets/forecasts of future cash flows for periods longer than five years are generally not available and, for this reason, management's estimates of future cash flows are based on the most recent budgets/forecasts for a maximum of five years. Management may use cash flow projections based on financial budgets/forecasts over a period longer than five years if it is confident that these projections are reliable and it can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period.

In accordance with par. 38 of IAS 36, in using information from financial budgets/forecasts, the entity considers whether the information reflects reasonable and supportable assumptions and represents management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset.

### 3.3 Requirements resulting from the so-called "consolidation package"

The review indicated that more attention must be paid to meeting requirements for assessing control and joint control which arise from the so-called "consolidation package". In particular, we would like to draw attention to the need for greater diligence in fulfilling obligations in terms of presenting the required disclosures about significant judgments and assumptions made in determining whether control is exercised and what is the nature of and risk related to interests in other entities as well as their impact on the financial statements (e.g. non-controlling interests). ESMA as well, in its Public Statement on the European common enforcement priorities for 2015 financial statements, once again stresses requirements arising from the so-called "consolidation package".

The "consolidation package" covers the following standards: IFRS 10 "Consolidated financial statements", IFRS 11 "Joint arrangements", IFRS 12 "Disclosure of interests in other entities", amended IAS 27 "Separate financial statements" and IAS 28 "Investments in associates and joint ventures".

In this regard, we would also like to draw attention to the ESMA Public Statement on improving the quality of disclosures presented in Chapter 3.5 of this Report.

## 3.4 Issues relating to the limitation on the scope of the audit

The review of opinions on the audited financial statements, review reports and disclaimers of opinion / review report, respectively, as carried out by the PFSA, shows that issues relating to the limitation on the scope of audit are still valid. The auditor's inability to obtain reasonable assurance that material items of the audited financial statements are reliable, including due to limitations on the scope of audit, may form a basis for a disclaimer of opinion on audit or a disclaimer of report on review.

In order to enhance the confidence of users, including investors, in financial reporting and facilitate the assessment of the financial position and performance of issuers and their groups, opinions on the audited financial statements, review reports and disclaimers of opinion / review report, respectively, must be drawn up in accordance with requirements arising from the applicable financial revision standards. Auditors should pay special attention to ensuring that the above-mentioned opinions, review reports and statements, respectively, are clear and precise. In particular, clear and precise statements are relevant when the scope of audit is limited, possibly due to the entity's failure to present evidence it holds, the entity's failure to prepare / obtain evidence it should have held, but also the issue in question may depend on future events independent of the entity. Given the foregoing, the Report's authors take the view that the content of opinions and statements developed by auditors should make it clear which situation occurs in a given case.

Issues relating to the limitation on the scope of audit, including also due to failure to audit subsidiaries' financial statements, which were discussed in more detail in the *Report on the review of financial statements by issuers of securities in the context of their compliance with IFRSs. The review carried out in 2014*, are still valid.

Given numerous cases indicating auditors' inability to obtain reasonable assurance that material items of the audited financial statements are reliable, we would like to once again stress that issuers should make every effort to provide the auditor auditing / reviewing the financial statements with access to books of accounts and documents as well as provide the auditor with comprehensive information, explanations and statements required for the auditor to use relevant audit / review procedures and, consequently, obtain sufficient and relevant evidence considered by the auditor as indispensable to issue a reliable opinion on the audited financial statements or a report on the review of the financial statements, respectively.

## 3.5 Statements, reports and other documents of ESMA, including European common enforcement priorities

According to Regulation No 1095/2010 establishing the European Securities and Markets Authority ("ESMA")[29], ESMA shall, *inter alia*, act in the field of financial reporting to ensure the effective and consistent application of the EU legislation on the transparency of information about issuers whose securities are admitted to trading on a regulated market. According to Article 16(3) of the above-mentioned Regulation, the competent authorities and financial market participants shall make every effort to comply with the guidelines and recommendations issued by ESMA. The PFSA is a member of ESMA.

[29] Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ EU L 331, 15.12.2010, p. 84), as amended

The Corporate Reporting Standing Committee (CRSC), which operates within ESMA, deals with issues relating to, *inter alia*, financial reporting and accounting. One of the tasks of the CRSC is to coordinate the activities of competent national enforcers from the European Economic Area (EEA) relating to the enforcement of compliance of financial information with the IFRSs to ensure their consistent application within the EEA. This area is the subject of activities of the EECS (*European Enforcers Coordination Sessions*), which has been established as a standing working group under the auspices of the CRSC. The EECS is a forum to exchange information about the decisions and the adopted enforcement practice relating to financial information of the regulated-market issuers. An important aspect of the activities of the EECS is its database to which enforcers provide information on decisions taken to enforce compliance of issuers' financial statements with IFRSs. To ensure the convergence of the application of IFRSs within the EEA, ESMA publishes extracts, which contain selected decisions from the EECS database, on its website.

ESMA acknowledges that it is the role of the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) to develop accounting standards and to provide authoritative guidance on how IFRSs should be applied.

ESMA published, *inter alia*, the following documents on its website (http://www.esma.europa.eu/):

- **Public Statement. European common enforcement priorities for 2015 financial statements**[30] (2015/ESMA/1608, 27 October 2015) (www.esma.europa.eu, tab: Databases & Library / ESMA Library)

  As in previous years, ESMA, together with European national enforcers, identified financial reporting topics, which issuers and their auditors should particularly consider when preparing and auditing, respectively, the IFRS financial statements for the year ending 31 December 2015**.**

  ESMA, together with the European national enforcers, will pay particular attention to these common enforcement priorities when monitoring and assessing the application of relevant IFRS requirements.

  The common enforcement priorities for 2015 financial statements cover the following topics:

  - impact of financial market conditions on financial statements (IAS 1 "Presentation of financial statements", "IAS 36 "Impairment of assets", IAS 19 "Employee benefits", IAS 37 "Provisions, contingent liabilities and contingent assets", IFRS 7 "Financial instruments: disclosures", IFRS 12 "Disclosure of interests in other entities");
  - the statement of cash flows and related disclosures (IAS 7 "Statement of cash flows"); and
  - fair value measurement and related disclosures (IFRS 13 "Fair value measurement", IFRS 3 "Business combinations", IAS 40 "Investment property", IFRS 5 "Non-current assets held for sale and discontinued operations").

  ESMA and national enforcers selected the above-mentioned common priorities for 2015 due to the recurrence of issues relating to the application of certain IFRS requirements set out as part of the review of the financial statements and the economic environment which is a particular challenge to issuers.

  ESMA draws attention to, *inter alia*, high interest rate volatility, their low or negative values which should be reflected in inputs used in valuation models, including the discount rate applied in accordance with par. 55 of IAS 36, par. 47 of IAS 37 and par. 83 of IAS 19. Moreover, the risk of high volatility and low commodity prices as well as foreign exchange risk and country risk may be of particular importance to the measurement of some assets.

[30] ESMA Public Statement translated into Polish is available on the following website: http://www.knf.gov.pl/Images/wersja_polska_2015_ESMA1608_tcm75-43665.pdf

Particular attention was given to the key importance of the statement of cash flows to the understanding and analysing of financial information of issuers. ESMA stresses the importance of issues related to the classification of cash flows and the obligation of disclosures, including disclosures about judgments applied to this classification. Attention was also drawn to the proper application of the definition of "cash equivalents" in accordance with par. 6-8 of IAS 7.

ESMA identified the need for improving the fair value measurement of assets and liabilities and related disclosures, including in view of IFRS 3, IAS 40 and IFRS 5. Furthermore, ESMA expects that issuers provide relevant information also when fair value is determined by third parties, including disclosures about measurement techniques and inputs in accordance with par. 93(d) of IFRS 13.

Additionally, besides common priorities for 2015, the ESMA Public Statement included specific references to common priorities for 2014 (application of the so-called "consolidation package", in particular IFRS 10, IFRS 11, and IFRS 12) and to disclosures about a possible impact of new standards on issuers' financial statements, mostly IFRS 9 "Financial instruments" and IFRS 15 "Revenue from contracts with customers" (IAS 8 "Accounting policies, changes in accounting estimates and errors").

ESMA calls on issuers developing annual financial statements and auditors auditing them to take account of the ESMA Public Statement on common enforcement priorities together with the ESMA Public Statement on improving the quality of disclosures[31].

- **Public Statement. Improving the quality of disclosures in the financial statements[32]** (2015/ESMA/1608, 27 October 2015) (www.esma.europa.eu, tab: Databases & Library / ESMA Library)

  ESMA issued the Public Statement to promote improving the quality of disclosures in the financial statements prepared in accordance with IFRSs. ESMA stresses the need for:

  - presenting concise and clear disclosures based on material facts, entity-specific , which are necessary to understand its financial performance and position;
  - avoiding boilerplate disclosures and language;
  - encouraging best practices by European enforces among issuers and taking account of the provisions of the above-mentioned ESMA Public Statement in enforcement practice.

  Furthermore, ESMA encourages issuers to consider how disclosures can be improved by focusing on material and relevant disclosures as well as by improving their readability and consistency.

- ESMA Guidelines on Alternative Performance Measures[33] (ESMA/2015/1415en, 5 October 2015); effective date: 3 July 2016 – they are also available in Polish (www.esma.europa.eu, tab: Databases & Library / ESMA Library)

  The ESMA Guidelines relate to alternative performance measures in prospectuses and regulated information. They are addressed to:

  - regulated-market issuers of securities who are required to publish regulated information; in accordance with the Transparency Directive;

[31] Public Statement on improving the quality of disclosures in the financial statements, 2015/ESMA/1608, 27 October 2015
[32] ESMA Public Statement is available on the following website: https://www.esma.europa.eu/sites/default/files/library/2015/11/2015-esma-1609_esma_public_statement_-_improving_disclosures.pdf
[33] ESMA Guidelines translated into Polish are available on the following website: https://www.esma.europa.eu/system/files_force/library/2015/10/2015-esma-1415pl.pdf

- ➢ persons responsible for a prospectus;
- ➢ regulated-market enforcers.

After a thorough analysis concerning the application of the Guidelines on Alternative Performance Measures, the PFSA informed ESMA of its intention to apply them.

Information about the ESMA Guidelines on Alternative Performance Measures was published on the PFSA's website – in the News tab on the home page and in the tab: O NAS / Współpraca międzynarodowa / Europejski System Nadzoru Finansowego, as well as in the tab: Regulacje / Praktyka / Dokumenty ESMA.

- Opinion. Application of IFRS requirements in relations to the recognition of contributions to Deposit Guarantee Schemes in IFRS accounts[34] (2015/ESMA/1462, 25 September 2015) (www.esma.europa.eu, tab: Databases & Library / ESMA Library)

  The ESMA Opinion relates to the recognition of contributions to Deposit Guarantee Schemes in view of IFRS requirements.

  Information about the ESMA Opinion was published on the PFSA's website – in the News tab on the home page and in the tab: O NAS / Współpraca międzynarodowa / Europejski System Nadzoru Finansowego, as well as in the tab: Regulacje / Praktyka / Dokumenty ESMA.

- Consultation Paper. Consultation Paper on the Regulatory Technical Standards on the European Single Electronic Format (ESEF) (2015/ESMA/1463, 25 September 2015) (www.esma.europa.eu, tab: Databases & Library / ESMA Library)
- Final Report. Draft Regulatory Technical Standards on European Electronic Access Point (EEAP) (ESMA/2015/1460, 25 September 2015) (www.esma.europa.eu, tab: Databases & Library / ESMA Library)
- Report. ESMA Report on Enforcement and Regulatory Activities of Accounting Enforcers in 2014 (ESMA/2015/659, 31 March 2015) (www.esma.europa.eu, tab: Databases & Library / ESMA Library)
- **Public Statement. European common enforcement priorities for 2014 financial statements**[35] (ESMA/2014/1309, 28 October 2014) (www.esma.europa.eu, tab: Databases & Library / ESMA Library)

  The European common enforcement priorities for 2014 financial statements, as presented in the ESMA Public Statement, cover the following topics:

  - ➢ preparation and presentation of consolidated financial statements and related disclosures (IFRS 10) – *issuers are expected to carefully explain the judgments made about the existence of control;*
  - ➢ nature of risks associated with the entity's interests in structured entities and disclosures (IFRS 12);
  - ➢ financial reporting by entities which have joint arrangements and related disclosures (IFRS 11);
  - ➢ recognition and measurement of deferred tax assets (IAS 12);

[34] ESMA Opinion is available on the following website: https://www.esma.europa.eu/sites/default/files/library/2015/11/2015-1462_esma_opinion_on_accounting_for_deposit_guarantee_scheme.pdf

[35] ESMA Public Statement translated into Polish is available on the following website: http://www.knf.gov.pl/Images/ESMA_priorytety_nadzorcze_A_tcm75-40191.pdf

- disclosures of accounting policies related to material uncertain tax positions in accordance with par. 117 and 122 of IAS 1.

Additional areas indicated in the ESMA Statement, which should be taken into account, are as follows:

- specific consideration relevant to the banking sector (in the light of the European Central Bank's Comprehensive Assessment, including the Asset Quality Review) – explanation of material impacts of the Asset Quality Review on financial statements;
- findings of ESMA's Report (ESMA/2013/1664, 18 November 2013): Comparability of Financial Statements of Financial Institutions in Europe (*see the description below*);
- disclosures in financial statements – they should not be boilerplate; they should describe relevant facts that are specific to the entity; they should be clear and complete.

When presenting the above European priority enforcement areas, it should also be taken into account that, in selecting issuers' financial statements for the periodic review conducted by the PFSA, a high priority was given, except for the above-indicated areas, to the cases of a qualified or adverse opinion on the audited financial statements or a disclaimer of opinion, as well as the cases of going concern risks.

- **ESMA Guidelines on enforcement of financial information** (ESMA/2014/1293en, 28 October 2014); effective date: 29 December 2014 – they are also available in Polish (www.esma.europa.eu, tab: Databases & Library / ESMA Library)

  The ESMA Guidelines relate to the scope of enforcement, the methods of selecting financial statements of issuers for the review, analytical procedures, enforcement actions, European coordination and reporting on enforcement activities.

  After a thorough analysis concerning the application of the Enforcement Guidelines, the PFSA informed ESMA of its intention to apply them. For this purpose, the activities of, in particular, legislative nature are performed to make it possible to fully apply all the Guidelines.

  A draft law including provisions, which make it possible to fully apply all the Guidelines, was filed with the Parliament. The PFSA once again informed ESMA of its intention to apply the Enforcement Guidelines.

  Information about the ESMA Guidelines on enforcement of financial information was published on the PFSA's website – in the News tab on the home page and in the tab: O NAS / Współpraca międzynarodowa / Europejski System Nadzoru Finansowego, as well as in the tab: Regulacje / Praktyka / Dokumenty ESMA.

- **ESMA Report. Review on the application of accounting requirements for business combinations in IFRS financial statements** (ESMA/2014/643, 16 June 2014) (www.esma.europa.eu, tab: Databases & Library / ESMA Library)

  Information about the ESMA Review on the application of accounting requirements for business combinations in IFRS financial statements was published on the PFSA's website – in the News tab on the home page and in the tab: O NAS / Współpraca międzynarodowa / Europejski System Nadzoru Finansowego, as well as in the tab: Regulacje / Praktyka / Dokumenty ESMA.

- **Review of Accounting Practices. Comparability of IFRS Financial Statements of Financial Institutions in Europe** (ESMA/2013/1664, 18 November 2013) (www.esma.europa.eu, tab: Databases & Library / ESMA Library);

  The Report provides an overview of accounting practices of financial institutions in Europe in selected areas related to financial instruments. It evaluates the level of comparability and quality of the disclosures in the 2012 IFRS financial statements of a sample of 39 major European financial institutions and includes recommendations to enhance the transparency of financial information through the application of the IFRS provisions. The areas selected for review included: structure and content of the income statement, liquidity and funding including the effects of asset encumbrance, hedging and the use of derivatives, credit risk with a focus on credit risk management, forbearance practices (e.g. restructuring debt, renegotiating loan terms, refraining from action, etc.), non-performing loans and country concentration risk, criteria used to assess impairment of equity securities classified as available for sale.

Information about ESMA's Report Comparability of IFRS Financial Statements of Financial Institutions in Europe was published on the PFSA's website – in the News tab on the home page and in the tab: O NAS / Współpraca międzynarodowa / Europejski System Nadzoru Finansowego, as well as in the tab: Regulacje / Praktyka / Dokumenty ESMA.

- **ESMA Public Statement. European common enforcement priorities for 2013 financial statements**[36] (ESMA/2013/1634, 11 November 2013) (www.esma.europa.eu, tab: Databases & Library / ESMA Library);

  The European common priorities for 2013 financial statements, as presented in the ESMA Public Statement, cover the following topics:

  - impairment of non-financial assets;

    ESMA included the topic of impairment of non-financial assets in the European common enforcement priorities for 2013 financial statements, with a view to focus on some specific areas:

    - cash flow projections: As pointed out in par. 33(a) of IAS 36, greater weight should be given to external evidence when management determines its best estimate of cash flow projections. Par. 34 of IAS 36 states that management should assess the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows and ensure consistency of the current cash flow projections with past actual outcomes, provided the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated make this appropriate.

    - key assumptions: For value in use, par. 134(d)(ii) of IAS 36 requires management to explain its approach in determining the values assigned to each key assumption by allowing users to understand whether these values are consistent with external sources of information, or how and why they differ from past experience or external sources of information. ESMA is of the view that it is particularly important for users of the financial statements to be provided with an appropriate level of disaggregated entity-specific disclosures and prompts issuers to consider whether they can improve the quality of their disclosure in this area. ESMA also notes that such assumptions should extend beyond the long-term growth rates and discount rates applied.

    - sensitivity analysis: Par. 134(f) of IAS 36 calls for disclosures aimed at helping users in assessing the safety margin and evaluating how sensitive the assessment is to a change in one or several of the key assumptions used when determining the recoverable amount. ESMA reminds issuers that disaggregated disclosures by significant cost-generating units (CGUs) or a group of CGUs should be provided in the financial statements in relation to the long-term growth rate, the discount rate and the key operational assumptions applied (e.g. revenue growth).

  - measurement and disclosure of post-employment benefit obligations;

[36] ESMA Public Statement translated into Polis is available on the following website: http://www.knf.gov.pl/Images/tlumaczenie_ESMA_2013_1634_tcm75-36608.pdf

ESMA reminds issuers of the importance of disclosing significant actuarial assumptions used to determine the present value of the defined benefit obligation and related sensitivity analysis as required by par. 144-145 of IAS 19 "Employee benefits". As the discount rate is usually considered a significant actuarial assumption, ESMA expects issuers to disclose any significant judgments that management has made in its determination in accordance with par. 122 of IAS 1. In addition, issuers should provide disaggregation information on plans and fair value of the plan assets when the level of risk of those plans is deemed to be different as required by par. 138 and 142 of IAS 19.

- fair value measurement and disclosure;

Issuers should assess the impact of any changes to their fair value measurement practice based on the requirements of IFRS 13, defining fair value, clarifying and refining the principles for its determination as well as setting out its measurement framework. Appendix B of IFRS 13 provides detailed explanations and indicators that should be taken into account when assessing whether a market is active and the consequences for classification of fair value measurement within the fair value hierarchy. ESMA draws issuers' attention to the following specific elements related to fair value measurement: non-performance risk, unit of account, disclosures.

- disclosures related to significant accounting policies, judgments and estimates;

ESMA draws issuer's attention to the following IFRS disclosure requirements where, according to ESMA, quality could be improved:

- Par. 117 of IAS 1 requires disclosure of a summary of significant accounting policies. ESMA notes that significant accounting policies could be included in the financial statements in the most appropriate order for the issuer, starting with those policies considered most material and relevant as well as highlighting any options chosen in their application, when allowed.

- ESMA expects issuers to disclose the judgments made by management that have the most significant effect on the amounts recognised in the financial statements as required by par. 122 of IAS 1.

- Par. 125 of IAS 1 requires disclosure of sources of estimation uncertainties that have a significant risk of resulting in material adjustments in the next financial period. ESMA reminds issuers that these should be reviewed regularly to ensure that they are relevant for each set of financial statements.

- ESMA reminds issuers of the requirements of par. 25 of IAS 1 related to disclosure of uncertainties related to events and circumstances that might cast doubt upon the entity’s ability to continue as a going concern.

- In line with the examples provided in par. 129 of IAS 1, ESMA expects issuers to provide the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including reasons for that sensitivity.

- ESMA emphasises that disclosure of new standards issued but not yet effective as required by par. 30 of IAS 8 is relevant when the new standard might have a material impact on the financial statements (as might be the case in 2013 for many issuers in relation to IFRS 10 "Consolidated financial statements" and/or IFRS 11 "Joint arrangements") or if that impact is not known (as required by par. 31 of IAS 8).

- measurement of financial instruments and disclosure of related risks, particularly relevant for financial institutions.

The following aspects are particularly relevant to financial statements for the year ending 31 December 2013: general disclosures, impairment of financial assets, forbearance practices and credit risk as well as liquidity risk. ESMA expects issuers to provide liquidity risk disclosures with a granularity that corresponds to their risk profile in order to enable users to get a comprehensive picture of liquidity risk and funding needs of the entity and their evolution over time as required by par. 39 of IFRS 7. In particular, issuers should disclose an appropriate number of time bands in the maturity analysis as suggested by par. B11 of IFRS 7 and include maturity analysis of financial assets held for managing liquidity risk as required by par. B11E of IFRS 7.

- Feedback Statement. Considerations of materiality in financial reporting (ESMA/2013/218, 14 February 2013) (www.esma.europa.eu, tab: Databases & Library / ESMA Library);
- **ESMA Report. European enforcers review of impairment of goodwill and other intangible assets in the IFRS financial statements** (ESMA/2013/2, 7 January 2013) (www.esma.europa.eu, tab: Databases & Library / ESMA Library);

The Report provides an overview of accounting practices related to impairment testing of goodwill and other intangible assets with indefinite useful lives. It also evaluates the appropriateness of disclosures in the 2011 IFRS financial statements of a sample of issuers and includes recommendations to enhance the application of the requirements of IAS 36. The reviewed financial statements of issuers included significant amounts of goodwill. As a result of the review, the Report presents five areas of concern:

- key assumptions of management: ESMA urges issuers to disclose all key assumptions and discuss the approach management has adopted in determining them for impairment testing;

- sensitivity analysis: for issuers where the carrying amount of their net assets exceeded their market capitalisation, only half presented a sensitivity analysis. In accordance with ESMA, this figure appears low since this is an indication that impairment might have occurred. ESMA would expect those issuers to be more transparent and disclose the sensitivity of the impairment calculation to changes in key assumptions. ESMA urges issuers to make realistic estimates in determining possible changes in key assumptions that would cause the carrying amount of the cash generating unit to exceed its recoverable amount;

- recoverable amount measurement: ESMA would expect more weight to be given to external sources of information rather than entity-specific assumptions when determining fair value less costs to sell using discounted cash flows;

- growth rate determination: ESMA urges issuers to provide realistic estimates of future growth rates that correspond to forecasts of economic development;

- discount rate disclosures: because of the impact of the applied discount rate on determining value in use and fair value less costs to sell if a discounted cash-flows model has been used, ESMA urges issuers to use and disclose separate discount rates for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant when the risk profile of the identified cash-generating units differs. By disclosing a single average discount rate, issuers potentially obscure information that may be relevant to financial statement users.

Information about ESMA's Report on the review of impairment of goodwill and intangible assets with indefinite lives was published on the PFSA's website – in the News tab on the home page and in the tab: O NAS / Współpraca międzynarodowa / Europejski System Nadzoru Finansowego, as well as in the tab: Regulacje / Praktyka / Dokumenty ESMA.

- **Public Statement. Treatment of Forbearance[37] Practices in IFRS Financial Statements of Financial Institutions** (ESMA/2012/853, 20 December 2012) (www.esma.europa.eu, tab: Databases & Library / ESMA Library);

  The statement concentrates on three areas:

  - forbearance and objective evidence of impairment: ESMA is of the view that the indicators of objective evidence of impairment in IAS 39 cover forbearance measures, even though IFRSs do not use the term "forbearance". The practice of extending forbearance measures constitutes an objective indicator that requires assessing whether an impairment is needed. Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Based on these difficulties, the issuer decides to modify the terms and conditions of the contract to allow the borrower sufficient ability to service the debt or refinance the contract, either totally or partially;

  - assessment of impairment of assets subject to forbearance practices: as forbearance measure is objective evidence of impairment, once such a measure has been identified, in accordance with par. 59(c) of IAS 39, the issuer shall evaluate whether this loss event has had an impact on the estimated future cash flows of the financial asset. Given that forbearance measures are extended to borrowers with financial difficulties, ESMA considers that issuers should apply a heightened level of scepticism when estimating the future cash flows, collateral values as well as other parameters used in calculating impairment of forborn financial assets;

  - disclosures in the IFRS financial statements: ESMA recommends a wide scope of quantitative and qualitative disclosures which should provide users of financial statements with sufficient information on, *inter alia*, forbearance practices and their impact on the financial position and performance, as well as disclosures enabling users to evaluate the impact of forbearance practices on the credit risk profile of credit portfolios and their impairment.

  In connection with the engagement in assets to which forbearance relates and the results of such engagement, financial institutions (as well as other entities affected by forbearance practices) and their auditors should take this ESMA Public Statement into due consideration when preparing and auditing, respectively, IFRS financial statements for the year ending 31 December 2012.

  A link to the ESMA Public Statement on forbearance was published on the PFSA's website – in the News tab on the home page and in the tab: O NAS / Współpraca międzynarodowa / Europejski System Nadzoru Finansowego, as well as in the tab: Regulacje / Praktyka / Dokumenty ESMA.

- **Public Statement. European common enforcement priorities for 2012 financial statements[38]** (ESMA/2012/725, 12 November 2012) (www.esma.europa.eu, tab: Databases & Library / ESMA Library);

  The European common enforcement priority areas for 2012 annual financial statements:

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[37] For more information about forbearance, cf.:
- *Reports of the Advisory Scientific Committee of the European Systemic Risk Board "Forbearance, resolution and deposit insurance"*, July 2012,
http://www.esrb.europa.eu/pub/pdf/asc/Reports_ASC_1_1207.pdf?73e625e8c964c70654f862e73ccc983b;
- *EBA FINAL draft Implementing Technical Standards On Supervisory reporting on forbearance and non-performing exposures under Article 99(4) of Regulation (EU) No 575/2013* (EBA/ITS/2013/03/rev1), 24 July 2014,
http://www.eba.europa.eu/documents/10180/449824/EBA-ITS-2013-03+Final+draft+ITS+on+Forbearance+and+Non-performing+exposures.pdf

[38] For more information about the ESMA Public Statement, cf. the Report on the review carried out in 2012:
http://www.knf.gov.pl/Images/Raport_MSSF_2012_tcm75-33561.pdf
ESMA Public Statement translated into Polish is available on the following website:
http://www.knf.gov.pl/Images/Priorytety_nadzorcze_ESMA_tlumaczenie_09_01_2013_tcm75-33028.pdf

- financial instruments: financial instruments subject to risk, sovereign debt, impairment of financial assets, disclosures concerning a renegotiated debt (IAS 39, IFRS 7, IAS 1);
- impairment of non-financial assets (IAS 36);
- measurement of post-employment benefits obligations (IAS 19);
- provisions (IAS 37).

- Summary of Responses. Considerations of materiality in financial reporting (ESMA/2012/525, 16 August 2012) (www.esma.europa.eu, tab: Databases & Library / ESMA Library);
- Review of Greek Government Bonds accounting practices in the IFRS Financial Statements for the year ended 31 December 2011 (ESMA/2012/482, 26 July 2012) (www.esma.europa.eu, tab: Databases & Library / ESMA Library);
- Public Statement. Sovereign Debt In IFRS Financial Statements (ESMA/2011/397, 25 November 2011) (www.esma.europa.eu, tab: Databases & Library / ESMA Library);
- Review of European enforcers on the implementation of IFRS 8 – Operating Segments (ESMA/2011/372, 9 November 2011) (www.esma.europa.eu, tab: Databases & Library / ESMA Library);
- Public Statement. ESMA Statement on Disclosures related to sovereign debt to be included in IFRS financial statements (ESMA/2011/226, 28 July 2011) (www.esma.europa.eu, tab: Databases & Library / ESMA Library);
- **Eighteen extracts from the EECS's Database of Enforcement** containing decisions of EEA enforcers in connection with the enforcement of IFRSs (www.esma.europa.eu, tab: Databases & Library / ESMA Library); extracts will be further published.

## 3.6 The most recent changes related to the application of IFRSs and announced in 2015

According to Article 3(1) of the Regulation (EC) No 1606/2002[39], the Commission shall decide on the applicability within the Community of international accounting standards. Article 3(4) of the above-mentioned Regulation stipulates that adopted international accounting standards shall be published in full in each of the official languages of the Community, as a Commission Regulation, in the Official Journal of the European Communities.

According to the requirements of par. 10-12 of IAS 8 "Accounting policies, changes in accounting estimates and errors" in the absence of a standard or an interpretation that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy (...).

In making the judgment, management shall refer to, and consider the applicability of, the sources listed in par. 11 of IAS 8, in the order determined in par. 11 of IAS 8. Management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in par. 11 of IAS 8 (cf. par. 12 of IAS 8).

[39] Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (OJ EC L 243, 11.9.2002, p. 1; OJ EU Special edition in Polish: Chapter 13, Volume 29, p. 609);
Corrigendum to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (OJ EC L 216, 21.08.2007, p. 32);
Regulation (EC) No 297/2008 of the European Parliament and of the Council of 11 March 2008 amending Regulation (EC) No 1606/2002 on the application of international accounting standards, as regards the implementing powers conferred on the Commission (OJ EU L 97, 9.4.2008, p. 62).

We would like to note that, when making the judgment, management may take into account the provisions of the Accounting Act and national accounting standards issued by the Accounting Standards Committee, but only if the conditions of IAS 8 are met.

We would also like to remind that, when initial application of an IFRS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose the information required by par. 28 of IAS 8. In addition, when an entity has not applied a new standard or interpretation that has been issued but is not yet effective, the entity shall make the disclosures required by par. 30 of IAS 8 (cf. also par. 31 of IAS 8).

In its Public Statement on the European common enforcement priorities for 2015 financial statements, ESMA draws issuers' attention to a possible impact of new standards on their financial statements, in particular the impact of IFRS 9 "Financial instruments" and IFRS 15 "Revenue from contracts with customers".

<u>In 2015, eight regulations of the European Commission adopting amendments to IFRSs were issued:</u>

1) Commission Regulation (EU) No 2015/2441 of 18 December 2014 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 27

   Each entity shall apply the amendments to IAS 27, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2016.

2) Commission Regulation (EU) No 2015/2406 of 18 December 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 1

   Each entity shall apply the amendments to IAS 1, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2016.

3) Commission Regulation (EU) No 2015/2343 of 15 December 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standards 5 and 7 and International Accounting Standards 19 and 34

   Each entity shall apply the amendments to IFRS 5 and 7 as well as IAS 19 and 34, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2016.

4) Commission Regulation (EU) 2015/2231 of 2 December 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standards 16 and 38

   Each entity shall apply the amendments to IAS 16 and 38, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2016.

5) Commission Regulation (EU) 2015/2173 of 24 November 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 11

   Each entity shall apply the amendments to IFRS 11, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2016.

6) Commission Regulation (EU) 2015/2113 of 23 November 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standards 16 and 41

   Each entity shall apply the amendments to IAS 16 and 41, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2016.

7) Commission Regulation (EU) 2015/29 of 17 December 2014 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 19

   Each entity shall apply the amendments to IAS 19, at the latest, as from the commencement date of its first financial year starting on or after 1 February 2015.

8) Commission Regulation (EU) 2015/28 of 17 December 2014 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standards 2, 3 and 8 and International Accounting Standards 16, 24 and 38

   Each entity shall apply the amendments to IFRS 2, 3 and 8 as well as IAS 16, 24 and 38, at the latest, as from the commencement date of its first financial year starting on or after 1 February 2015.

The full list of the regulations of the European Commission on IFRSs is available on the following websites:

- http://ec.europa.eu/finance/accounting/legal_framework/regulations_adopting_ias/original_text_en.htm
- http://eur-lex.europa.eu/homepage.html

or through the PFSA's website: (www.knf.gov.pl, tab: Regulacje / Regulacje UE / Międzynarodowe standardy rachunkowości i sprawozdawczości finansowej (IAS, IFRS) / Regulations adopting IAS /IFRS financial statements

or through the website of the Ministry of Finance (www.mf.gov.pl, tab: Działalność / Rachunkowość / Międzynarodowe Standardy Rachunkowości / Rozporządzenia Komisji Europejskiej przyjmujące określone międzynarodowe standardy rachunkowości).

# 4 CONCLUSIONS

This Report identifies the areas of non-compliance with the applicable reporting framework, in particular with IFRSs, occurring in the financial statements of issuers. Although the review indicates some improvement, there are still areas requiring improvement, such as: financial instruments and related risks, consolidation and business combinations, going concern, impairment of non-financial assets, fair value and deferred tax as well as related disclosures. These topics concern the issues covered by the European common enforcement priorities as defined by ESMA. Furthermore, the need for improvement in the quality of disclosures, which are relevant to understanding the financial position and performance of issuers and their groups, is noted as referred to in the ESMA Public Statement on improving the quality of disclosures.

The review of financial statements of security issuers other than investment funds, carried out in 2015 by the Accounting Division of the Public Offerings and Financial Information Department of the PFSA, revealed that the issues raised in auditors' qualifications presented in opinions on the audit of consolidated financial statements / financial statements of issuers for the financial year 2014 and in reports on the review of consolidated financial statements / financial statements for the first half of the financial year 2015, respectively, concerned the issues related to, in particular: financial instruments, impairment of nonfinancial assets, consolidation and business combinations, going concern and deferred tax. Disclaimers of opinion / report related to the going concern issues.

The cyclical publication of review reports aims at contributing to a consistent application of the applicable financial reporting framework and a higher level of issuers' compliance with financial reporting requirements, particularly with the requirements of IFRSs. The improved quality of issuers' financial statements will contribute to improving the transparency of financial information useful for the decision making process of investors and other users of these statements and thus facilitate the assessment of the financial position and performance of issuers and their groups, as well as enhance investor confidence in financial reporting. It is expected that the improvement in the quality of financial statements would also be reflected in a reduced number of qualified opinions on the audited financial statements / qualified reports on the reviewed financial statements, as well as in a reduced number of a disclaimer of opinion / report issued by an auditing or reviewing entity authorised to audit financial statements.

Another factor that could contribute to a reduction in the number of modified opinions / reports is the achievement, by issuers (the manager of the entity within the meaning of the Accounting Act), of improvement in relation to providing the auditor conducting audit or review with all the required documents and explanations.

For educational purposes, the Report has been published on the PFSA's website. The issues referred to in qualifications made by auditors and in disclaimers of opinion / report, as well as the most common cases of non-compliance and deficiencies in compliance with the requirements of IFRSs are also presented at the seminar for financial market participants, which is organised annually by the PFSA as part of the CEDUR (Education Centre for Market Participants) initiative, and also during the meetings with auditors. It should be mentioned that the topics mentioned in review reports developed by the Accounting Division of the Public Offerings and Financial Information Department of the PFSA are present in public debates on the supervision of issuers' financial reporting. Moreover, the information on the results of the cyclical review of issuers' financial statements is exchanged during European Enforcers Coordination Sessions (EECS) within ESMA.

## LIST OF TABLES



## LIST OF FIGURES

## Appendix 1
## IFRSs AND AMENDMENTS TO IFRSs ANNOUNCED IN THE YEARS 2008-2014

IFRSs and amendments to IFRs, issued in the form of the regulations of the European Commission in the years 2008-2014, in the reverse chronological order.

In 2014:

1) Commission Regulation (EU) No 1361/2014 of 18 December 2014 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standards 3 and 13 and International Accounting Standard 40

   Each entity shall apply the amendments to IFRS 3, IFRS 13 and IAS 40, at the latest, as from the commencement date of its first financial year starting on or after the date of entry into force of this Regulation [determine the first day of the next month following the date of entry into force of this Regulation]. As transpires from this Regulation, it shall apply until the financial year starting on or after 1 January 2015.

2) Commission Regulation (EU) No 634/2014 of 13 June 2014 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards Interpretation 21 of the International Financial Reporting Interpretations Committee

   Each entity shall apply Interpretation 21 of the International Financial Reporting Interpretations Committee, at the latest, as from the commencement date of its first financial year starting on or after 17 June 2014.

In 2013:

1) Commission Regulation (EU) No 1375/2013 of 19 December 2013 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 39

   Each entity shall apply the amendments to IAS 39, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2014.

2) Commission Regulation (EU) No 1374/2013 of 19 December 2013 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 36

   Each entity shall apply the amendments to IAS 36, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2014.

3) Commission Regulation (EU) No 1174/2013 of 20 November 2013 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standards 10 and 12 and International Accounting Standard 27

Each entity shall apply the amendments to IFRS 10, IFRS 12 and IAS 27, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2014.

4) Commission Regulation (EU) No 313/2013 of 4 April 2013 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance (Amendments to International Financial Reporting Standards 10, 11, and 12)*

   Each entity shall apply the amendments to IFRS 10, IFRS 11 and IFRS 12, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2014.

5) Commission Regulation (EU) No 301/2013 of 27 March 2013 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards Annual Improvements to International Financial Reporting Standards, 2009-2011 Cycle

   Each entity shall apply the amendments to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2013.

6) Commission Regulation (EU) No 183/2013 of 4 March 2013 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 1

   Each entity shall apply the amendments to IFRS 1, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2013.

<u>In 2012:</u>

1) Commission Regulation (EU) No 1256/2012 of 13 December 2012 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 7 and International Accounting Standard 32

   Each entity shall apply the amendments to IFRS 7 as from the commencement date of its first financial year starting on or after 1 January 2013.

   Each entity shall apply the amendments to IAS 32, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2014.

2) Commission Regulation (EU) No 1255/2012 of 11 December 2012 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 12, International Financial Reporting Standards 1 and 13, and Interpretation 20 of the International Financial Reporting Interpretations Committee

   Each entity shall apply the amendments to IAS 12 and IFRS 1, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2013.

Each entity shall apply IFRS 13 and IFRIC 20, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2013.

3) Commission Regulation (EU) No 1254/2012 of 11 December 2012 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 10, International Financial Reporting Standard 11, International Financial Reporting Standard 12, International Accounting Standard 27 (2011) and International Accounting Standard 28 (2011)

   Each entity shall apply IFRS 10, IFRS 11, IFRS 12, amended IAS 27 and amended IAS 28, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2014.

4) Commission Regulation (EC) No 475/2012 of 5 June 2012 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 1 and International Accounting Standard (IAS) 19

   Each entity shall apply the amendments to IAS 1, at the latest, as from the commencement date of its first financial year starting on or after 1 July 2012.

   Each entity shall apply the amendments to IAS 19, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2013.

<u>In 2011:</u>

1) Commission Regulation (EU) No 1205/2011 of 22 November 2011 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 7

   Each entity shall apply the amendments to IFRS 7, at the latest, as from the commencement date of its first financial year starting after 30 June 2011.

2) Commission Regulation (EU) No 149/2011 of 18 February 2011 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards Improvements to International Financial Reporting Standards (IFRSs)

   Each entity shall apply the amendments to IFRS 3, at the latest, as from the commencement date of its first financial year starting after 30 June 2010.

   Each entity shall apply the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13, at the latest, as from the commencement date of its first financial year starting after 31 December 2010.

<u>In 2010:</u>

1) Commission Regulation (EU) No 662/2010 of 23 July 2010 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International

Financial Reporting Interpretations Committee's (IFRIC) Interpretation 19 and International Financial Reporting Standard (IFRS) 1

Each entity shall apply IFRIC 19 and the amendment to IFRS 1, at the latest, as from the commencement date of its first financial year starting after 30 June 2010.

2) Commission Regulation (EU) No 633/2010 of 19 July 2010 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 14

   Each entity shall apply the amendments to IFRIC 14, at the latest, as from the commencement date of its first financial year starting after 31 December 2010.

3) Commission Regulation (EU) No 632/2010 of 19 July 2010 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 24 and International Financial Reporting Standard (IFRS) 8

   Each entity shall apply IAS 24 and the amendments to IFRS 8, at the latest, as from the commencement date of its first financial year starting after 31 December 2010.

4) Commission Regulation (EU) No 574/2010 of 30 June 2010 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 1 and IFRS 7

   Each entity shall apply the amendments to IFRS 1 and IFRS 7, at the latest, as from the commencement date of its first financial year starting after 30 June 2010.

5) Commission Regulation (EU) No 550/2010 of 23 June 2010 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 1

   Each entity shall apply the amendments to IFRS 1, at the latest, as from the commencement date of its first financial year starting after 31 December 2009.

6) Commission Regulation (EU) No 244/2010 of 23 March 2010 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 2

   Each entity shall apply the amendments to IFRS 2, at the latest, as from the commencement date of its first financial year starting after 31 December 2009.

7) Commission Regulation (EU) No 243/2010 of 23 March 2010 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards Improvements to International Financial Reporting Standards (IFRSs)

Each entity shall apply the amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16, at the latest, as from the commencement date of its first financial year starting after 31 December 2009.

In 2009:

1) Commission Regulation (EU) No 1293/2009 of 23 December 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 32

   Each entity shall apply the amendments to IAS 32, at the latest, as from the commencement date of its first financial year starting after 31 January 2010.

2) Commission Regulation (EC) No 1171/2009 of 30 November 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 9 and International Accounting Standard (IAS) 39

   Each entity shall apply the amendments to IFRIC 9 and IAS 39, at the latest, as from the commencement date of its first financial year starting after 31 December 2008.

3) Commission Regulation (EC) No 1165/2009 of 27 November 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 4 and IFRS 7

   Each entity shall apply the amendments to IFRS 4 and IFRS 7, at the latest, as from the commencement date of its first financial year starting after 31 December 2008.

4) Commission Regulation (EC) No 1164/2009 of 27 November 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 18

   Each entity shall apply IFRIC 18, at the latest, as from the commencement date of its first financial year starting after 31 October 2009.

5) Commission Regulation (EC) No 1142/2009 of 26 November 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 17

   Each entity shall apply IFRIC 17, at the latest, as from the commencement date of its first financial year starting after 31 October 2009.

6) Commission Regulation (EC) No 1136/2009 of 25 November 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 1

Each entity shall apply restructured IFRS 1, at the latest, as from the commencement date of its first financial year starting after 31 December 2009.

7) Commission Regulation (EC) No 839/2009 of 15 September 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 39

   Each entity shall apply the amendments to IAS 39, at the latest, as from the commencement date of its first financial year starting after 30 June 2009.

8) Commission Regulation (EC) No 824/2009 of 9 September 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 39 and International Financial Reporting Standard (IFRS) 7

   This Regulation entered into force on the third day following its publication in the Official Journal of the European Union, i.e. 13 September 2009.

9) Commission Regulation (EC) No 636/2009 of 22 July 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 15

   Each entity shall apply IFRIC 15, at the latest, as from the commencement date of its first financial year starting after 31 December 2009.

10) Commission Regulation (EC) No 460/2009 of 4 June 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 16

   Each entity shall apply IFRIC 16, at the latest, as from the commencement date of its first financial year starting after 30 June 2009.

11) Commission Regulation (EC) No 495/2009 of 3 June 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 3

   Each entity shall apply revised IFRS 3, at the latest, as from the commencement date of its first financial year starting after 30 June 2009.

12) Commission Regulation (EC) No 494/2009 of 3 June 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 27

   Each entity shall apply the amendments to IAS 27, at the latest, as from the commencement date of its first financial year starting after 30 June 2009.

13) Commission Regulation (EC) No 254/2009 of 25 March 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 12

    Each entity shall apply IFRIC 12, at the latest, as from the commencement date of its first financial year starting after the date of entry into force of this Regulation, i.e. after 29 March 2009.

14) Commission Regulation (EC) No 70/2009 of 23 January 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards Improvements to International Financial Reporting Standards (IFRSs)

    Each entity shall apply the amendments to IAS 1, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41, at the latest, as from the commencement date of its first financial year starting after 31 December 2008.

    Each entity shall apply the amendments to IFRS 5, at the latest, as from the commencement date of its first financial year starting after 30 June 2009.

15) Commission Regulation (EC) No 69/2009 of 23 January 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards amendments to International Financial Reporting Standard (IFRS) 1 and International Accounting Standard (IAS) 27

    Each entity shall apply the amendments to IFRS 1 and IAS 27, at the latest, as from the commencement date of its financial year starting after 31 December 2008.

16) Commission Regulation (EC) No 53/2009 of 21 January 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 32 and IAS 1

    Each entity shall apply the amendments to IAS 32 and to IAS 1, at the latest, as from the commencement date of its first financial year starting after 31 December 2008.

<u>In 2008:</u>

1) Commission Regulation (EC) No 1274/2008 of 17 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 1

    Each entity shall apply revised IAS 1, at the latest, as from the commencement date of its first financial year starting after 31 December 2008.

2) Commission Regulation (EC) No 1263/2008 of 16 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 14

Each entity shall apply IFRIC 14, at the latest, as from the commencement date of its first financial year starting after 31 December 2008.

3) Commission Regulation (EC) No 1262/2008 of 16 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretation Committee's (IFRIC) Interpretation 13

   Each entity shall apply IFRIC 13, at the latest, as from the commencement date of its first financial year starting after 31 December 2008.

4) Commission Regulation (EC) No 1261/2008 of 16 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 2

   Each entity shall apply the amendment to IFRS 2, at the latest, as from the commencement date of its first financial year starting after 31 December 2008.

5) Commission Regulation (EC) No 1260/2008 of 10 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 23

   Each entity shall apply revised IAS 23, at the latest, as from the commencement date of its first financial year starting after 31 December 2008.

6) Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council

   This Regulation entered into force on the third day following its publication in the Official Journal of the European Union, i.e. 2 December 2008.

## Appendix 2
## USEFUL LINKS

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www.esma.europa.eu
(tab: Databases & Library/ ESMA Library)

http://ec.europa.eu/finance/accounting/legal_framework/regulations_adopting_ias/original_text_en. htm

http://eur-lex.europa.eu/ homepage.html

www.ifrs.org

www.iasplus.com

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