



ENEA S.A.

Independent Auditor's Report

Financial Year ended

31 December 2017

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Biuro w Poznaniu
ul. Roosevelta 22
60-829 Poznań, Polska
Tel. +48 (61) 845 46 00
Faks +48 (61) 845 46 01
poznan@kpmg.pl

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

INDEPENDENT AUDITOR'S REPORT

To the General Meeting of ENEA S.A.

Report on the Audit of the Annual Separate Financial Statements

We have audited the accompanying annual separate financial statements of ENEA S.A. with its registered office in Poznań, Górecka 1 Street (the "Entity"), which comprise the separate statement of financial position as at 31 December 2017, the separate statement of profit or loss and other comprehensive income, the statement of changes in equity and the separate statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information (the "separate financial statements").

Management's and Supervisory Board's Responsibility for the separate financial statements

Management of the Entity is responsible for the preparation, on the basis of properly maintained accounting records, of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS UE") and other applicable laws. Management of the Entity is also responsible for such internal control as Management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

According to the accounting act dated 29 September 1994 (Official Journal from 2017, item 2342 with amendments) ("the Accounting Act"), Management of the Entity and members of the Supervisory Board are required to ensure that the separate financial statements are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility for the audit of the separate financial statements

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with:

- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (Official Journal from 2017, item 1089) (the „Act on certified auditors”);

- International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance; and
- Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-listed entities and repealing Commission Decision 2005/909/EC (Official Journal of the European Union L 158 from 27.05.2014, page 77 and Official Journal of the European Union L 170 from 11.06.2014, page 66) (the "EU Regulation"); and
- other applicable laws.

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the regulations mentioned above will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting a material misstatement resulting from error because fraud may involve collusion, forgery, deliberate omission, intentional misrepresentations or override of internal controls.

The scope of audit does not include assurance on the future viability of the Entity or on the efficiency or effectiveness with which the Management has conducted or will conduct the affairs of the Entity.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Entity's preparation of the separate financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management of the Entity, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The most significant assessed risks of material misstatements

During our audit we identified the most significant assessed risks of material misstatements (the "key audit matters"), including those due to fraud, described below and we performed appropriate audit procedures to address these matters. Key audit matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Impairment of investment in subsidiaries in the energy production segment

The carrying amount of investments in ENEA Wytwarzanie Sp. z o.o. and ENEA Elektrownia Połaniec S.A. as at 31 December 2017 amounts to PLN 4,492,129.5 thousand and PLN 1,268,087.1 thousand respectively. Recognized impairment loss on investments in ENEA Wytwarzanie Sp. z o.o. as at 31 December 2017 amounts to PLN 1,280,505.0 thousand. Financial revenues from reversal of impairment loss on investments amounts to 879,270.0 PLN thousand during the year 2017.

References to separate financial statements

Note 2 Material estimates and assumptions, Note 8 Investments in subsidiaries, associates and jointly-controlled entities, Note 43.11 Description of key accounting principles – Impairment of assets.

Key audit matter

As described in the note 8 of the separate financial statements, due to the significant impairment losses recognized in previous years and the uncertainty of the energy market in Poland, especially the capacity market and the renewable energy support scheme, as at 31 December 2017 the Entity has conducted an impairment test of investments in subsidiaries operating in energy production segment i.e., the shares in ENEA Wytwarzanie Sp. z o.o. and ENEA Elektrownia Połaniec S.A.

The entity has performed an estimation of the recoverable amount of investments in subsidiaries based on the value in use of corresponding cash generating units using the discounted cash flows model.

Impairment of investment in subsidiaries operating in energy production has been considered as a key audit matter due to the fact that the estimation of recoverable amount is based on a range of assumptions, especially in relation to the future cash flows and the adopted discount rate.

The projected cash flows of the energy production segment are primarily driven by assumptions on the design and the way of functioning of the capacity market in Poland

Our procedures

Our procedures included, among others:

- Assessment of compliance of the accounting policies adopted by the Entity, regarding identification and recognition of impairment of investment in subsidiaries, with relevant financial reporting standards;
- Assessment of the internal controls on identification of impairment indicators and testing for impairment of investment in subsidiaries;
- Assessment of Entity's judgements in regard to grouping assets into cash generating units;
- Critical assessment of rationality of judgements and assumptions made by the Entity, and the estimations of recoverable amount of shares in the subsidiaries operating in energy production segment, and consequently the amount of reversed impairment loss, with the ongoing support of our internal valuation specialists, including:
 - assessment of the discounted cash flows model prepared by the Entity with regard to its compliance with relevant financial reporting standards, compliance with commonly used impairment testing models, and the integrity of the methodology used,
 - assessment of the rationality of the key macroeconomic and discount rate assumptions made by the Entity and comparing them to external sources,
 - critical assessment of the rationality of projections of future cash flows, including the assumed levels of revenues, costs,

starting from 2021 and the functioning of renewable energy support scheme, as well as coal prices, energy prices, prices of energy certificates of origin and cost of CO₂ emission rights. The validity of the assumptions made in this regard is considered to be burdened with a significant risk taking into consideration the potential variability of regulations and uncertainty of their effect on energy production economics.

investment expenditures by comparing the adopted assumptions to the historical financial information, and by analyzing actions taken by the Entity and its subsidiaries until the date of this auditor's report,

–assessment of whether the Entity's assumptions regarding future regulatory conditions were based on a rational model of capacity market and renewable energy support scheme;

- Assessment of correctness and completeness of disclosures in the separate financial statements with regard to impairment tests, including the assessment of the sensitivity of cash flows model prepared by the Entity to changes in its key assumptions, such as discount and inflation rates, prices of electric energy and revenues from the capacity market.

2. Claims resulting from termination of long-term contracts for purchase of property rights from energy certificates of origin from renewable sources

The carrying amount of the provision for claims resulting from termination of contracts for purchase of property rights from energy certificates of origin from renewable sources as at 31 December 2017 amounts to PLN 85,684 thousand. Changes in the amount of the provision for claims resulting from termination of contracts for purchase of property rights from energy certificates of origin from renewable sources recognized in profits and losses for the financial year ended 31 December 2017 amounts to PLN 85,684 thousand.

References to separate financial statements

Note 2 Material estimates and assumptions, Note 22 Provisions for liabilities and other charges, Note 34.5 Dispute concerning prices of energy certificates of origin and terminated contracts for purchase of energy certificates of origin Note 45.19 Description of key accounting principles – Provisions.

Key audit matter

As described in the note 34.5 of the separate financial statements, in 2016 the Entity has terminated contracts for the purchase of property rights resulting from energy certificates of origin from renewable sources (the "green certificates"). The terminations of the above mentioned contracts was caused, according to the Entity, by changes in regulations which disturbed the contractual balance and equivalence of the parties. The

Our procedures

Our procedures included, among others:

- Assessment of compliance of the accounting policies adopted by the Entity regarding recognition of provisions for claims resulting from termination of contracts for purchase of green certificates, with relevant financial reporting standards;
- Analysis of the content of the terminated contracts for purchase of green certificates, especially the legal basis for their termination,

purpose of the actions taken by the Entity was to avoid losses which are calculated by subtracting the current market price of green certificates from the contract prices. As a result of contractors disagreement on the legal basis of termination of these contracts and related trials pending at District Court in Poznań, where contractors demand judgement on no legal effects of contracts termination, the Entity has recognized a provision for potential costs of claims.

Taking into consideration provisions of these contracts, there is a material uncertainty on the final outcome of the disputes pending at the court and related to the legal grounds for contracts termination and submitted claims, which requires a detailed analysis and making assumptions and judgements. The amounts of claims can be significant and determination of the potential amount that should be recognized or disclosed in the financial statements is from its nature inherently subjective. For these reasons, submitted and potential claims resulting from termination of contracts for purchase of green certificates have been considered by us as a key audit matter.

and collecting the most up-to-date court trial documentation in order to assess the risks caused by court decisions for contracts termination which would be unfavorable for the Entity;

- Analysis of legal opinions obtained by the Entity and received by us correspondence from the Entity's lawyers on claims and ongoing court proceedings, and discussing selected topics with the Entity's Management Board;
- Based on the above-mentioned analysis and the assessment of the Entity's provision calculation model:
 - critical assessment of the Entity's assumptions and estimates (including the probability of unfavorable court decisions),
 - critical assessment of the rationality of the cost projections of unfavorable court decisions by comparison, on a sample basis, of volumes of unrealized purchases of green certificates and contractual prices with transaction notifications, and with respect to market prices, by comparing them to publicly available exchange market quotations of green certificates;
- Assessment of correctness and completeness of disclosures in the separate financial statements regarding the status of claims resulting from termination of contracts for purchase of green certificates and recognized provisions.

Opinion

In our opinion, the accompanying separate financial statements of ENEA S.A.:

- give a true and fair view of the unconsolidated financial position of the Entity as at 31 December 2017 and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with IFRS UE and the adopted accounting principles (policy);
- have been prepared, in all material respects, on the basis of properly maintained accounting records; and
- comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Entity's articles of association.

Auditor's Report on other legal and regulatory requirements

Report on activities of ENEA S.A. and ENEA Group

Our opinion on the separate financial statements does not cover the report on activities of ENEA S.A. and ENEA Group (the "report on activities").

Management of the Entity is responsible for the preparation of the report on activities in accordance with the requirements of the Accounting Act and other applicable laws. Furthermore, Management of the Entity and members of the Supervisory Board, are also required to ensure that the report on activities is in compliance with the requirements set forth in the Accounting Act.

In accordance with Act on certified auditors our responsibility was to report if the report on activities, excluding the content of the chapter "*Statement on non-financial information*" was prepared in accordance with applicable laws and the information is consistent with the separate financial statements. Our responsibility was also to state, if based on our knowledge about the Entity and its environment obtained in the audit, we have identified material misstatements in the report on the activities and describe the nature of each material misstatement.

We report that the accompanying report on activities, excluding the chapter titled "*Statement on non-financial information*", in all material respects:

- was prepared in accordance with applicable laws, and
- is consistent with the separate financial statements.

Furthermore, based on our knowledge about the Entity and its environment obtained in the audit, we have not identified material misstatements in the report on activities.

Opinion on corporate governance statement

Management of the Entity and members of the Supervisory Board are responsible for preparation of the corporate governance statement in accordance with the applicable laws.

In connection with the audit of the separate financial statements, our responsibility in accordance with the requirements of the Act on certified auditors was to report whether the issuer of securities obliged to file a statement on corporate governance, constituting a separate part of the report on activities, included information required by the applicable laws and regulations, and in relation to specific information indicated in these laws or regulations, to determine whether it complies with the applicable laws and whether it is consistent with the separate financial statements.

We report that the statement of corporate governance, which is a separate part of the report on the Entity's activities, includes the information required by paragraph 91 subparagraph 5 point 4 letter a, b, g, j, k and letter l of the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (Official Journal from 2014, item 133 with amendments) (the "decree"). Furthermore, in our opinion the information identified in paragraph 91 subparagraph 5 point 4 letter c-f, h and letter i of the decree, included in the statement on corporate governance, in all material respects:

- has been prepared in accordance with the applicable laws; and
- is consistent with the separate financial statements.

Information about preparation of statement on non-financial information

In accordance with the requirements of the Act on certified auditors, we report that the Entity has prepared a statement on non-financial information referred to in art. 49b paragraph 1 of the Accounting act as a separate part of the report on activities.

We have not performed any attestation works in relation to the statement on non-financial information of the Entity and, accordingly, we do not express any assurance thereon.

Requirement of the energy law

The regulatory financial information presented in note 42 of the separate financial statements comprising the relevant items of the statement of financial position as at 31 December 2017 and statements of profit or loss, statements of other comprehensive income for the year then ended, separately for each activity of the Entity and other explanatory information comprising a summary of significant accounting policies and the supplementary information and explanations, including allocation principles for assets and liabilities, revenues and costs to each activity (jointly referred to as "regulatory financial information") has been prepared by Management of the Entity in accordance with basis for preparation described in note 42 to fulfill the requirements of article 44 of the Energy act dated 10 April 1997 (Official Journal from 2017, item 220 with amendments) (the "Act"), including in respect of equal treatment of customers and elimination of cross-subsidies between activities.

The content of the regulatory financial information is determined by regulations of the Act. Our audit did not include an assessment of the adequacy of the information required by law for preparation of the regulatory financial information, in particular in respect of equal treatment of customers and elimination of cross-subsidies between activities.

In our opinion, the regulatory financial information as at 31 December 2017 and for the year then ended has been prepared, in all material respects, in accordance with the basis for preparation described in Note 42 and article 44 point 2 of the Act.

Information, confirmations and statements required by the EU Regulation

Our opinion on the audit of separate financial statements is consistent with our report to the audit committee.

During our audit key certified auditors and the audit firm remained independent of the Entity in accordance with requirements of the Act on certified auditors, the EU Regulation and the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants' (IFAC) as adopted by the resolutions of National Council of Certified Auditors.

We declare that, to the best of our knowledge and belief, we did not provide prohibited non-audit services referred to in art. 5 paragraph 1 second subparagraph of the EU Regulation and art. 136 including transitional provisions in art. 285 of the act on certified auditors.

The audit of separate financial statements was conducted based on resolution of the Supervisory Board dated 18 December 2014.

Our total uninterrupted period of engagement is 6 years, covering the periods ending 31 December 2012 to 31 December 2017.

On behalf of audit firm
KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
Inflancka 4A
00-189 Warsaw

Signed on the Polish original

.....
Michał Karwatka
Key Certified Auditor
Registration No. 10176
Limited Liability Partner
with power of attorney

Signed on the Polish original

.....
Alicja Barska
Key Certified Auditor
Registration No. 11667

22 March 2018