KPMG Audit SRL
Victoria Business Park
DN1, Soseaua Bucuresti-Ploiesti nr. 69-71
Sector 1

P.O. Box 18-191
Bucharest 013685
Romania
Tel: +40 (21) 201 22 22
+40 (372) 377 800
Fax: +40 (21) 201 22 11
+40 (372) 377 700
www.kpmg.ro

Independent Auditors' Report

(free translation[1])

To the Shareholders of Societatea Energetica Electrica S.A.
9 Grigore Alexandrescu St., Bucharest, Romania
Registration no: 13267221

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Societatea Energetica Electrica S.A. ("the Company"), which comprise the separate statement of financial position as at 31 December 2017, the separate statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

The separate financial statements as at and for the year ended 31 December 2017 are identified as follows:

- Net assets/Total equity: RON 3,924,157,518
- Net profit for the year: RON 258,163,915

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2017, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with Order of Minister of Public Finance no. 2844/2016 for approval of accounting regulations in accordance with International Financial Reporting Standards ("OMPF no. 2844/2016").

[1] TRANSLATOR'S EXPLANATORY NOTE: This translation of the auditors' report is provided as a free translation from Romanian, which is the official and binding version.

k

Fiscal registration code RO12997279
Trade Registry no.J40/4439/2000
Share Capital 2.000 RON

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"), EU Regulation no. 537/2014 of the European Parliament and of the Council ("the Regulation") and Law no. 162/2017 ("the Law"). Our responsibilities under those standards and regulations are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with *International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants* ("IESBA Code") together with the ethical requirements that are relevant to our audit of the separate financial statements in Romania, including the Regulation and the Law, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These 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.

- Taxation
- Impairment of investment in Electrica Serv

Taxation	
Contingent liabilities (RON 39,248,000 – Notes 26 and 29)	
Refer to Notes 6(f), 6(p), 6(q) (accounting policy), 26 and 29 (financial disclosures) to the separate financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The Company has been subject to various adjustments related to corporate income tax imposed by tax authorities as a result of their tax audits performed in the prior years. In addition, the Company is involved in litigation or disputes with tax authorities regarding findings of the prior years' tax audits. Key judgments are made by management in estimating tax exposures and quantifying related liabilities, provisions and/or contingent liabilities.	Our audit procedures included, among others: • assisted by our own tax specialists, assessing the Company's interpretation and application of relevant tax law, and evaluating the reasonableness of key assumptions used and estimates made in relation to uncertain tax positions and the level of related liabilities, provisions, or contingent liabilities, with particular focus on the litigation with tax authorities regarding an enforced order of RON 39,248,000, as discussed in Note 26;

ll

<table>
<tr><td></td><td>obtaining and evaluating responses to our audit inquiry letters from the Company's in-house and external lawyers in relation to existing or potential tax proceedings and assessing the Company's position in relation to specific matters in dispute, with particular focus on the litigation with tax authorities regarding an enforced order of RON 39,248,000, as discussed in Note 26;
inspecting the Company's correspondence with tax authorities during the reporting period and subsequently, until the date of our report;
assessing the adequacy of tax related disclosures in the separate financial statements, with particular focus on those in respect of uncertain tax positions and tax-related contingencies.</td></tr>
</table>

<table>
<tr><th colspan="2">Impairment of the investment in Electrica Serv</th></tr>
<tr><td colspan="2">Carrying amount of the investment in Electrica Serv (RON 300,893,867 – Note 22)</td></tr>
<tr><td colspan="2">Refer to Notes 6(k)(ii) (accounting policy) and 22 (financial disclosures) to the separate financial statements.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Company wholly owns Electrica Serv, an unlisted subsidiary ("the Investee"); the investment in the subsidiary is carried at cost of RON 445,743,000, less impairment losses recognised in the prior years of RON 144,849,133).

As discussed in Note 22, as part of the reorganization process initiated in 2017, Electrica Serv transferred its core business (electricity distribution network services) to its main customers - the electricity distribution subsidiaries of the Company. Following the transfer, the level of the Investee's activities was significantly reduced and is currently limited to performing specialized transportation services. Pursuant to the requirements of the relevant financial reporting standards, the above represents an impairment trigger. Consequently, the Company's management assessed whether an additional impairment loss is required in respect of the Investee as at 31 December 2017 by estimating its recoverable amount</td><td>Our audit procedures included, among others:
assisted by our own valuation specialists, assessing the impairment testing methodologies used by the Company by reference to the relevant financial reporting standards, including the assessment of the internal consistency, inputs and sources used by the appraisers and of the mathematical accuracy of the relevant discounted cash flow model;
assisted by our own valuation specialists, evaluating and challenging the reasonableness of key assumptions applied by the Company in performing the impairment test. The main assumptions include those related to:
projected future revenues and expenses, by reference to our understanding of the business,</td></tr>
</table>

k

based on a discounted cash flow model. The discounted cash flow model used in the impairment assessment involved a significant degree of management judgement and developing a number of subjective assumptions, including primarily those in respect of future business developments, expected revenues and expenses, proceeds from sale of existing idle property of the Investee, terminal value and discount rate. For the above reasons, we considered this area to be a key audit matter.	management's future plans and existing contracts; o expected proceeds from sale of idle property of the Investee and terminal values by comparing such assumptions to the results of historical transactions published market and industry data and other relevant information; o discount rate applied, by reference to data specific to the Investments' industry; • assisted by our own valuation specialists, evaluating the competence, capabilities and objectivity of the external appraisers engaged by the Investee to perform the valuation of its property, plant and equipment, obtaining an understanding of the scope of their engagement. and assessing the methodology applied and results obtained; • inspecting minutes of the shareholders' and board of directors' meetings of the Company and the Investee for any discussions and/or decisions with respect to the reorganization, and future plans for the Investee's activities; • performing a sensitivity analysis based on the reasonably possible upside or downside changes in the key assumptions; • assessing the adequacy of disclosures assessment in the separate financial statements related to the impairment, with particular focus on significant management assumptions.

Other Information

Administrators are responsible for the preparation and presentation of other information. The Other information comprises the separate Administrators' Report and information included in the Annual Report, but does not include the separate financial statements and our auditors' report thereon.

Our opinion on the separate financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the separate Administrators' Report, we read and report whether the separate Administrators' Report is prepared, in all material respects, in accordance with Order of Minister of Public Finance no. 2844/2016, articles 15 - 19 of the accounting regulations in accordance with International Financial Reporting Standards.

Based solely on the work required to be undertaken in the course of the audit of the separate financial statements, in our opinion:

a) the information given in the separate Administrators' Report for the financial year for which the separate financial statements are prepared is consistent, in all material respects, with the separate financial statements;

b) the separate Administrators' Report has been prepared, in all material respects, in accordance with Order of Minister of Public Finance no. 2844/2016, articles 15 - 19 of the accounting regulations in accordance with International Financial Reporting Standards.

In addition, based on the knowledge and understanding of the Company and its environment obtained in the course of our audit, we are required to report if we have identified material misstatements in the separate Administrators' Report and other information that we have obtained prior to the date of this auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation of the separate financial statements that give a true and fair view in accordance with OMPF no. 2844/2016, and 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.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibility for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

Report on Other Legal and Regulatory Requirements - Public Interest Entities

We were appointed by the General Shareholders' Meeting on 27 April 2016 to audit the separate financial statements of the Company for the year ended 31 December 2017. Our total uninterrupted period of engagement is 16 years, covering the periods ending 31 December 2002 to 31 December 2017.

We confirm that:

- Our audit opinion is consistent with the additional report presented to the Audit Committee of the Company, which we issued on 5 March 2018. We also remained independent of the audited entity in conducting the audit.

- We have not provided to the Company the prohibited non-audit services referred to in article 5(1) of EU Regulation no. 537/2014.

Other matters

This independent auditors' report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for the report on the audit of the separate financial statements and the report on other legal and regulatory requirements, or for the opinion we have formed.

The engagement partner on the audit resulting in this independent auditors' report is Razvan Mihai.

Refer to the original signed Romanian version

For and on behalf of KPMG Audit S.R.L.:

Razvan Mihai

registered with the Chamber of Financial Auditors of Romania under no. 2561/2008

KPMG AUDIT S.R.L.

registered with the Chamber of Financial Auditors of Romania under no. 9/2001

Bucharest,

6 March 2018