



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

To the Shareholders of Societatea Energetica Electrica S.A.

9 Grigore Alexandrescu St., Bucharest, Romania
Registration no: 13267221

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Societatea Energetica Electrica S.A. ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated 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 consolidated financial statements as at and for the year ended 31 December 2017 are identified as follows:

- Net assets/Total equity: RON 5,655,556 thousand
- Net profit for the year: RON 171,559 thousand

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



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 Consolidated Financial Statements* section of our report. We are independent of the Group 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 consolidated 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

- Taxation
- Provisions and contingent liabilities

Taxation	
Refer to Notes 6(g), 6(r), 6(s) (accounting policy), 29 and 34 (financial disclosures) to the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>The Group has been subject to various adjustments related to corporate income tax and value added tax imposed by tax authorities as a result of their tax audits performed in the prior years.</p> <p>In addition, certain Group entities are in litigation or disputes with tax authorities regarding findings of the prior years' tax audits.</p> <p>Key judgments are made by management in estimating tax exposures and quantifying related liabilities, provisions and/or contingent liabilities.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • assisted by our own tax specialists, assessing the Group'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 tax liabilities, provisions or contingent liabilities, with particular focus on the litigation with tax authorities regarding an enforced order of RON 39,248 thousand, as discussed in Note 34; • obtaining and evaluating responses to our audit inquiry letters from the Group's in-house and external lawyers in relation to existing or potential tax proceedings and assessing the Group's position in relation to specific matters disputed, with particular focus on the litigation with tax

	<p>authorities regarding an enforced order of RON 39,248 thousand, as discussed in Note 34;</p> <ul style="list-style-type: none"> • inspecting the Group's correspondence with tax authorities during the reporting period and subsequently, until the date of our report; • assessing the adequacy of disclosures related to taxation in the consolidated financial statements, with particular focus on uncertain tax positions and tax-related contingencies.
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Provisions and contingent liabilities	
<p><i>Provisions as at 31 December 2017 (RON 29,889 thousand), change in provisions, net for the year ended 31 December 2017 (credit of RON 32,518 thousand) – Note 29</i></p> <p><i>Contingent liabilities (RON 39,248 thousand) – Note 34</i></p>	
<p>Refer to Notes 6(r), 6(s) (accounting policy), 29 and 34 (financial disclosures) to the consolidated financial statements.</p>	
The key audit matter	The key audit matter
<p><i>Litigation</i></p> <p>In the normal course of the Group's business, potential exposures arise from administrative or court proceedings. As disclosed in Notes 29 and 34 to the consolidated financial statements, the Group entities are involved in litigations with different authorities, business partners or other parties.</p> <p><i>Restructuring</i></p> <p>In 2017 the Group started the implementation of a reorganisation process that involves personnel lay-offs and other operational changes.</p> <p>Whether a liability is recognized or disclosed as a contingent liability in the consolidated financial statements is inherently judgmental and dependent on a number of significant assumptions and assessments.</p> <p>The amounts involved are potentially significant and determining the amount, if any, to be recognised or disclosed in the financial statements, is inherently subjective.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • inspecting minutes of the shareholders' and board of directors' meetings; • obtaining and evaluating the Group's lawyers' responses to our audit inquiry letters and discussing the nature and status of the litigations and potential legal exposures with the Group's management and in-house legal counsels; • critically assessing the Group's assumptions and estimates in respect of litigations and claims, including the liabilities or provisions recognized or contingent liabilities disclosed in the consolidated financial statements. This involved assessing the probability of an unfavourable outcome of a given proceeding and the reliability of estimates of related amount; • obtaining and inspecting the documentation regarding the Group's reorganization and assessing the accounting implications, the necessity of restructuring provisions and accuracy of disclosures;





	<ul style="list-style-type: none">• assessing whether the disclosures detailing significant legal proceedings adequately disclose the Group's potential liabilities.
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Other Information

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

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the consolidated Administrators' Report, we read and report whether the consolidated Administrators' Report is prepared, in all material respects, in accordance with Order of Minister of Public Finance no. 2844/2016, articles 26 - 27 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 consolidated financial statements, in our opinion:

- a) the information given in the consolidated Administrators' Report for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- b) the consolidated Administrators' Report has been prepared, in all material respects, in accordance with Order of Minister of Public Finance no. 2844/2016, articles 26 - 27 of the accounting regulations in accordance with International Financial Reporting Standards.

In addition, based on the knowledge and understanding of the Group and its environment obtained in the course of our audit, we are required to report if we have identified material misstatements in the consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group's financial reporting process.

Auditors' Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated 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.

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 consolidated financial statements of the Group 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 Group 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 consolidated 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.

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



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

Bucharest,

6 March 2018