



ENERGA SA

Independent Auditor's Report

Financial Year ended

31 December 2017

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 Shareholders' Meeting

Report on the Audit of the Annual Separate Financial Statements

We have audited the accompanying annual separate financial statements of ENERGA SA with its registered office in Gdansk, al. Grunwaldzka 472 (the "Entity"), which comprise the separate statement of financial position as at 31 December 2017, the separate statement of profit or loss, the separate statement of comprehensive income, the separate 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").

Responsibility of the Management Board and Supervisory Board of the Entity for the separate financial statements

The Management Board 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 EU") and other applicable laws. The Management Board of the Entity is also responsible for such internal control as the Management Board 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 2018, item 395) (the "Accounting Act"), the Management Board and members of the Supervisory Board of the Entity 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").

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 Board 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 the Management Board 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. We have determined the following key audit matters:

Key audit matters	Our procedures
<i>Impairment of investment in subsidiaries</i>	
<i>Net book value of investments in subsidiaries, associates and joint ventures as at 31 December 2017 amounts to PLN 7.149 million, while recognized impairment loss on investments in subsidiaries, associates and joint ventures as at 31 December 2017 amounts to PLN 29 million.</i>	

References to the separate financial statements: Note 5 "Material items subject to judgment and estimates", Note 8.4 "Impairment of non-financial assets and shares in subsidiaries and associates", Note 11 "Shares in subsidiaries and associates", Note 23.6 "Impairment losses on financial assets"

As described in the note 11 of the separate financial statements, in relation with the identified indications of possible impairment of investments in some subsidiary entities, the Entity decided to perform impairment tests for selected investments, ie ENERGA Wytwarzanie, ENERGA-OBRÓT, ENERGA Kogeneracja, ENERGA Invest, ENERGA Informatyka i Technologie and Enspiron.

As part of the above tests, the Entity has performed an estimation of the recoverable amount of investments in subsidiaries based on the corresponding value in use of cash generating units using the discounted cash flow model.

Impairment of investment in the subsidiary entities has been recognized as a key audit matter due to the fact that the estimation of entities' recoverable amount is based on a range of assumptions and estimates, most notably in relation to the future cash flows and the adopted discount rate.

The projected cash flows are highly sensitive on the assumptions based on the electrical energy prices, coal prices, prices of energy certificates of origin and 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 regulatory variability and uncertainty of their effect on economy of functioning of the energy trading and production sector.

Our procedures included, among others:

- Assessment of compliance of the accounting policies adopted by the Entity with regard to identification and recognition of impairment of investment in subsidiaries dependent on the corresponding financial reporting standards;
- Assessment of the internal controls system in regard to identification of indicators of impairment and testing for the impairment of investment in subsidiary entities;
- Assessment of Group's judgements in regard to grouping assets into cash generating units;
- Critical assessment of correctness of Entity's judgements regarding the existence of indications of impairment and, consequently, the need to perform impairment tests for individual components of financial assets;
- Critical assessment of reasonableness of judgements and assumptions made by the Entity, and the estimations of recoverable amount of investments in the subsidiary entities, and as a consequence, the value of identified impairment loss, with the ongoing support of our internal valuation specialists, including:
 - assessment of the discounted cash flow model prepared by the Entity with regard to its compliance with the correspondent financial reporting standards, compliance with the commonly used impairment tests models, and the internal integrity of the used methodology,
 - 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, 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 audit,

-assessment of whether the Entity's assumptions regarding future regulatory conditions were based on a rational model of power sector and renewable energy sources support system;

- Assessment of correctness and completeness of disclosures in the separate financial statements with regard to the key assumptions and judgements regarding impairment of investments in subsidiaries.

Opinion

In our opinion, the accompanying separate financial statements of ENERGA SA:

- give a true and fair view of the financial position of the Entity as at 31 December 2017 and of its financial performance and its cash flows for the year then ended accordance with IFRS EU and the adopted accounting 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.

Other Matters

The separate financial statements of the Entity as at and for the year ended 31 December 2016 were audited by another audit firm who expressed an unmodified opinion on those financial statements dated 29 March 2017.

Report on other legal and regulatory requirements

Report on the Entity's activities

Our opinion on the separate financial statements does not cover the report on the Entity's activities (the "report on activities").

The Management Board 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, the Management Board and members of the Supervisory Board of the Entity 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 determine if the report on activities was prepared in accordance with applicable laws and the information given in the report on activities 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.

Based on the work undertaken in the course of our audit of the separate financial statements, in our opinion, the accompanying report on activities in all material respects:

- has been 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

The Management Board and members of the Supervisory Board of the Entity 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 prepare a corporate governance statement, 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.

In our opinion the corporate governance statement, includes the information required by paragraph 91 subparagraph 5 point 4 letter a, b, g, j, k 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 corporate governance statement, in all material respects:

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

Information about non-financial statement

In accordance with the requirements of the Act on certified auditors, we report that the Entity has prepared a separate report on non-financial information referred to in art. 49b paragraph 9 of the Accounting Act.

We have not performed any assurance procedures in relation to the separate report on non-financial information of the Entity and, accordingly, we do not express any assurance conclusion thereon.

Independence and the appointment of the audit firm

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

During our audit the 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.

Key certified auditors or the audit firm have not provided any additional services other than statutory audit to the Entity, except disclosed in the the report on activities.

We have been appointed to audit of separate financial statements by resolution of Supervisory Board of the Entity dated 20 December 2016.

Our total uninterrupted period of engagement is 1 year, covering the periods ending 31 December 2017.

On behalf of audit firm
KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
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Signed on the Polish original

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Zbigniew Libera
Key Certified Auditor
Registration No. 90047
Limited Liability Partner
with power of attorney

14 March 2018

Signed on the Polish original

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Natalia Markowska
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