



TRANSLATORS' EXPLANATORY NOTE

The English content of this report is a free translation of the registered auditor's report of the below-mentioned Polish Company. In Poland statutory accounts as well as the auditor's report should be prepared and presented in Polish and in accordance with Polish legislation and the accounting principles and practices generally adopted in Poland.

The accompanying translation has not been reclassified or adjusted in any way to conform to the accounting principles generally accepted in countries other than Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancies in interpreting the terminology, the Polish language version is binding.

Independent Registered Auditor's Report

to the General Shareholders' Meeting and the Supervisory Board
of ENEA Spółka Akcyjna

Report on the audit of consolidated financial statements
of ENEA Capital Group

Our opinion

In our opinion, the attached annual consolidated financial statements of the group ENEA S.A ("the Group"), in which ENEA S.A is the parent entity ("the Parent Company"):

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the applicable International Financial Reporting Standards as adopted by the European Union and the adopted accounting policies;
- comply in terms of form and content with the laws applicable to the Group and the Parent Company's Articles of Association;

Our opinion is consistent with our additional report to the Audit Committee issued on the date of this report.

Basis for opinion

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing as adopted as National Standards on Auditing by the National Council of Statutory Auditors ("NSA") and pursuant to the Act of 11 May 2017 on Registered Auditors, Registered Audit Companies and Public Oversight ("the Act on Registered Auditors" – Journal of Laws of 2017, item 1089 as amended) and Regulation (EU) No. 537/2014 of 16 April 2014 on specific

What we have audited

We have audited the annual consolidated financial statements of the ENEA Capital Group which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- and the following prepared for the financial year from 1 January to 31 December 2018:
- the consolidated statement of profit and loss and other comprehensive income;
 - the consolidated statement of changes in equity;
 - the consolidated statement of cash flows, and
 - the introduction to the consolidated financial statements and additional notes and explanations.

requirements regarding the statutory audit of public-interest entities ("the EU Regulation" – Journal of Laws EU L158). Our responsibilities under those NSA are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

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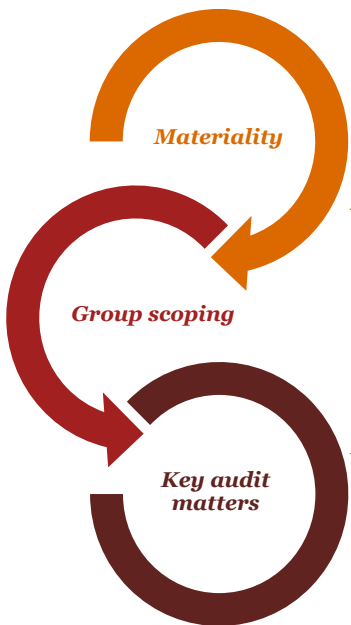
Independence and ethics

We are independent of the Group in accordance with the International Federation of Accountants' *Code of Ethics for Professional Accountants* ("the IFAC Code") as adopted by resolutions of the National Council of Statutory Auditors and other ethical requirements that are relevant to our audit

of the financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC's Code. During the audit, the key registered auditor and the registered audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Registered Auditors and in the EU Regulation.

Our audit approach

Overview



- The overall materiality threshold adopted for the purposes of our audit was set at PLN 62 million, which represents 2,5% of EBITDA (estimated at the planning stage of the audit), defined in the consolidated financial statements (Note 6).
- We have audited the Parent Company and 12 subsidiaries in Poland.
- We received audit reports from other auditors who audited the consolidation packages of 1 of the Group's subsidiaries.
- The scope of our audit covered 99,7% of the Group's revenue and 99,6% of the absolute value of its profit or loss before consolidation eliminations.
- Change in electricity pricing regulations in 2019
- Impairment of non-current assets
- Adoption of IFRS 15 Revenue from Contracts with Customers in first year of application
- Claims for non-contractual use of land

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Parent Company's Management Board made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud. We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial

statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operated.

Materiality

The scope of our audit was influenced by the adopted materiality level. Our audit was designed to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement. Misstatements may arise due to fraud or error. They 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 the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole, as presented below. These thresholds, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

The concept of materiality is used by the registered auditor both in planning

and conducting an audit, as well as in assessing the effect of the misstatements identified during the audit and the unadjusted misstatements (if any), on the financial statements, and also when forming the registered auditor's report. Therefore, all opinions, assertions and statements contained in the registered auditor's report have been made taking into consideration the quantitative and qualitative materiality levels determined in accordance with the audit standards and the registered auditor's professional judgement.

Overall Group materiality

PLN 62 million

Basis for determination

2,5% EBITDA (estimated at the planning stage of the audit)

Rationale for the materiality benchmark applied

We have adopted EBITDA as the basis for determining materiality because, in our opinion, it is an indicator commonly used by the users of financial statements to evaluate the Group's operations and is a generally adopted benchmark. EBITDA is an alternative measure of the profit or loss adopted by the Parent Company's Management Board, the method of its calculations and limitations related to it are described in consolidated financial statements on page no 23. The adoption of the EBITDA to determine the materiality threshold does not mean our acceptance for reasonableness of using this indicator to make an economic decisions or to confirm the appropriateness of its determination. We adopted the materiality threshold at 2,5% because based on our professional judgement it is within the acceptable quantitative materiality thresholds .

We agreed with the Parent Company's Audit Committee that we would report to them misstatements identified during our audit of the consolidated financial statements above

PLN 4,3 million as well as any misstatements below that amount, that in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. They include the most significant identified risks of material misstatements, including the identified risks of material misstatement resulting from fraud. These matters were addressed in the context of our audit

of the consolidated financial statements as a whole, and in forming our opinion thereon. We summarized our response to these risks and, when deemed appropriate, presented the most important observations relating to these risks. We do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

Change in electricity pricing regulations in 2019

In note 50.1 to the consolidated financial statements, the Group presented disclosures regarding the estimated scale of possible impact on the consolidated financial statements of the electricity pricing regulation for end consumers in 2019 resulting from the Act dated 28 December 2018 amending the Act on excise duty and certain other acts ("The Pricing Act") and the amended Act dated 21 February 2019, limiting the possibility of increasing energy prices in 2019, and information on the provision for onerous contracts created as at 31 December 2018.

The balance sheet value of the provision for onerous contracts as at 31 December 2018 is PLN 79 million. As indicated in note 50.1, due to the lack of transitional provisions to the above-mentioned Act, in the opinion of the Parent Company's Management Board, both the calculation of the provision and presentation of the impact on the audited financial statements and future periods require significant judgments and estimates, in particular on legislative issues, sales volumes, energy purchase costs or determining what is the minimum unavoidable cost of fulfilling the obligation.

Bearing in mind the significance of the impact of the above matter, this issue was subject of our analysis.

Our procedures included mainly:

- Analysis of the provisions of the Pricing Act and its subsequent changes in terms of its impact on the Group's operations, including determining whether changes to the Pricing Act made in 2019 constitute an event that should adjust the status as of balance sheet date;
- Review of analyzes prepared by the Parent Company's Management Board and analysis of uncertainty factors resulting from the lack of implementing regulations to the Pricing Act and amendments to this Act after the balance sheet date, which concern the level of sales prices for electricity consumers in 2019;
- Assessment of the assumptions made by the Parent Company's Management Board as well as the judgments and estimates done to determine whether as at 31 December 2018 there were contracts that give rise to charges and to determine the amount of provisions for such contracts, including, among others, the following:
 - sales level in 2019,
 - the method of determining the sale price of electricity for various groups of customers,
 - the method to determine the minimum unavoidable costs of fulfilling the obligation;
- Check of the mathematical correctness of the calculated provision for onerous contracts;
- Verification of numerical information of expected changes as a result of amending the Pricing Act in 2019;
- Consultation with internal experts on the correctness of the accounting treatment applied by the Group as well as the disclosure of information;
- Assessment of the Parent Company's Management Board position regarding the non-recognition of assets related to compensations that the Group expects as a result of the Pricing Act;
- Assessment of the extent of disclosures required in these circumstances.

Based on the procedures performed, we have not found it necessary to make any material adjustments.

Impairment of non-current assets

In the note 7 of the consolidated financial statements, the Group presented disclosures related to the impairment tests regarding the cash generating units (CGU) in the area of energy production by type of production source, including tests results, adopted assumptions used in calculating the asset's value in use and sensitivity analysis for reasonably possible change of assumptions used in calculating recoverable value.

The carrying amount of cash generating units covered by impairment test as at 31 December 2018 is PLN 9.814 million (including cumulative total impairment loss of PLN 1.460 million) and covers property, plant and equipment and net working capital allocated to those units. As a result of impairment tests carried out in 2018, the impairment loss on property plant and equipment recognized in previous years was reversed in total value PLN 171 million.

According to IAS 36 "Impairment of Assets" the Parent Company's Management Board performs analysis of impairment indicators at the end of reporting period and, for the assets with impairment indicators or with the decrease of previously recognized impairment loss, tests are carried out on given reporting date.

The calculation of the recoverable amount requires an adoption of a number of assumptions and judgments made by the Parent Company's Management Board concerning, among others, the Group's adopted strategy, financial plans and cash flow forecasts for subsequent years, as well as macroeconomic and market assumptions (mainly regarding electricity prices, fuel prices, prices of CO₂ emission rights, support system for renewable energy sources and the power market).

Being aware of significance of balances in the consolidated financial statement, as well as the sensitivity of results of the abovementioned test for the taken assumptions, this matter was subject to our analyzes.

Our procedures included mainly:

- Understanding and evaluation of assets impairment indicators identification process and the accuracy of grouping assets into cash generating units in accordance with relevant financial reporting standards;
- Checking the mathematical accuracy and methodological consistency (with the use of internal PwC valuation specialists) of valuation model based on discounted cash flows prepared by the Parent Company's Management Board;
- Critical evaluation of the assumptions and estimates done by the Parent Company's Management Board to determine the recoverable value of non-current assets including:
 - projection period of future cash flows and assumed level of revenues, operating margin and expenditures necessary to keep the operations unchanged,
 - applied discount rate (based on weighted average cost of capital);
 - growth rate after the projection period, in situations it was applied to determine the recoverable amount.
- Assessment of the Management Board's sensitivity analysis of assumptions that could have impact on the valuation results;
- Assessment of the accuracy and completeness of disclosures in the consolidated financial statements.

Based on performed procedures, we assessed the assumptions made by the Parent Company's Management Board as rational and supported with obtained documentation. As a result of procedures we have not identified necessity for material adjustments. We assessed the scope of disclosures related to impairment tests and provided our comments regarding details of those disclosures. We have not identified any irregularities significantly misstating the consolidated financial statements.

Adoption of IFRS 15 Revenue from Contracts with Customers in first year of application

In note 35 of the consolidated financial statements the Group presented disclosures related to the Revenue and in note 4 of the consolidated financial statements the description of implementation process of new standard – IFRS 15.

The amount of net sales revenue in consolidated financial statements in 2018 in amounted to PLN 12.673 million.

In the financial year ended at 31 December 2018 the Group generated revenue from sales of various goods and services, mainly:

- electricity;
- distribution services;
- heat;
- coal;
- gas.

First-time adoption of the IFRS 15 “Revenue from contracts with customers” (“IFRS 15”) required a comprehensive analysis of contracts, including making assumptions and accounting judgements, main part of the Group’s revenue is recognized using IT systems (in particular billing systems).

Bearing in mind the above and the significance of lines in consolidated financial statements, as well as due to sensitivity of recognized revenue for assumptions and accounting judgements made during the contracts analysis, this issue was the subject of our analyzes.

Our procedures included mainly:

- Understanding and evaluation of the process carried out by the Parent Company’s Management for identifying differences between previously applied accounting policies regarding measurement and recognition of revenue and IFRS 15 requirements and for evaluating the impact of the new IFRS 15 standard on the consolidated financial statements;
- Review of the report prepared for the Group by its external advisor with identification of areas being impacted by IFRS 15;
- Critical evaluation of the key accounting assumptions adopted by the Parent Company’s Management Board, including identification of the role of the Group entities in transactions made with clients (agent), identification of separate obligations and other aspects affecting the recognition and measurement of revenue;
- Understanding and evaluation of the internal control environment, including the IT controls, related to measurement, recognition and presentation of revenue streams, including those recorded in billing systems;
- Detailed testing on targetly and haphazardly selected samples of sales agreements concluded by the Group entities, verifying completeness of the Group analysis of contracts for the needs of revenue recognition according to IFRS 15;
- Detailed testing on targetly and haphazardly selected samples to verify correctness of revenue recognized in consolidated financial statements, including estimated sales for the period between last invoice and the end of the financial year;
- Verifying accuracy and completeness of disclosures according with reporting standards.

As a result of performed audit producers we have not identified significant issues that would require an adjustment in consolidated financial statements.



Claims for non-contractual use of land

In notes 34 and 50.6 of consolidated financial statements the Group presented disclosures regarding the claims for the Group's non-contractual use of land owned by third parties.

Due to the fact that the Group does not have a legal title to use of land for all the objects, where the power lines and other network assets are located, the Group creates a provision for outstanding claims for non-contractual use of land.

The Group estimated total value of provision for outstanding claims both for claims that are already reported, and those not reported, based on the assessment of the likelihood for future claims in the population of non-contractual use of land in total.

The carrying amount of provision for claims for non-contractual use of land as at 31 December 2018 was PLN 183 million. The increase in the provision for claims for non-contractual use of land recognized in 2018 net results is PLN 16 million, whereas the use of the provision amounted to PLN 33 million and the reversal amounted to PLN 1 million.

Bearing in mind the significance of balances in the consolidated financial statements, as well the inherent risk of uncertainty in the provision calculation, the matter was subject of our analyses.

Our procedures included mainly:

- Understanding and evaluation of compliance of accounting policy used by the Group with regard to recognizing provisions for claims for non-contractual use of land with relevant accounting standards and familiarization with applicable laws and current market practice;
- Analysis of letters received from the lawyers providing services to the Group in disputes for:
 - accuracy and completeness of the claim amounts in the model used by the Group to calculate provision amount,
 - legal evaluation of the probability of an unfavorable outcome,Selected matters were discussed with the Management Boards of entities to which the claims are related.
- Based on an analysis of a selected sample of claims, including in particular those in the course of court proceedings, a critical assessment of the Group's assumptions and estimates (including the likelihood of an unfavorable outcome) with respect to the provision for claims arising from non-contractual use of land;
- Analysis of the methodology for calculating the provision for claims not reported to the Group, including assumptions about the likelihood of further claims in the entire population of cases of non-contractual use of land, and assessment of consistency of assumptions with assumptions adopted in previous years;
- Evaluation of accuracy and completeness of disclosures in consolidated financial statements.

As a result of performed audit procedures we have not identified significant issues that would require an adjustment in consolidated financial statements.



Responsibility of the Management and Supervisory Board for the consolidated financial statements

The Management Board of the Parent Company is responsible for the preparation of annual consolidated financial statements that give a true and fair view of the Group's financial position and results of operations, in accordance with the International Financial Reporting Standards as adopted by the European Union, the adopted accounting policies, the applicable laws and the Parent Company's Articles of Association, and for such internal control as the Management Board 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, the Parent Company's Management Board 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 the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Parent Company's Management Board and members of its Supervisory Board are obliged to ensure that the consolidated financial statements comply with the requirements specified in the Accounting Act of 29 September 1994 ("the Accounting Act" – Consolidated text: Journal of Laws of 2019, item 351, as amended). Members of the Supervisory Board are responsible for overseeing the financial reporting process.

Auditor's 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 auditor's 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 the NSA 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 economic decisions of users taken on the basis of these consolidated financial statements.

The scope of the audit does not cover an assurance on the Group's future profitability or the efficiency and effectiveness of the Parent Company's Management Board conducting its affairs, now or in future.

As part of an audit in accordance with the NSA, we exercise professional judgement and maintain professional scepticism 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 the Parent Company's Management Board.
- Conclude on the appropriateness of the Parent Company's Management Board'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 auditor's



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 auditor's 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 the Audit Committee 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 the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 to the Audit Committee, 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 auditor's 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.

Other information, including the Report on the operations

Other information

Other information comprises a Report on the Group's operations for the financial year ended 31 December 2018 ("the Report on the operations") and the corporate governance statement and the statement on non-financial information referred to in Article 55(2b) of the Accounting Act which are separate parts of the Report on the operations, and a separate report on non-financial information and the Annual Report for the financial year ended 31 December 2018 ("the Annual Report"), as well as the statement of payments to public administration ("statement of payments") (together "Other Information").

Responsibility of the Management and Supervisory Board

The Management Board of the Parent Company is responsible for preparing Other Information in accordance with the law.

The Parent Company's Management Board and the members of the Supervisory Board are obliged to ensure that the Report on the Group's operations including its separate parts and a separate report

on non-financial information complies with the requirements of the Accounting Act.

Registered auditor's responsibility

Our opinion on the audit of the consolidated financial statements does not cover Other Information.

In connection with our audit of the consolidated financial statements, our responsibility is to read Other Information and, in doing so, consider whether it is materially inconsistent with the information in the consolidated financial statements, our knowledge obtained in our audit, or otherwise appears to be materially misstated. If, based on the work performed, we identified a material misstatement in Other Information, we are obliged to inform about it in our audit report. In accordance with the requirements of the Act on the Registered Auditors, we are also obliged to issue an opinion on whether the Report on the operations has been prepared in accordance with the law and is consistent with information included in annual consolidated financial statements.



Moreover, we are obliged to issue an opinion on whether the Parent Company provided the required information in its corporate governance statement and to inform whether the Parent Company prepared a statement on non-financial information.

We obtained the Report on the Group's operations before the date of this audit report, and the Annual Report will become available after that date.

If we identify a material misstatement in the Annual Report, we are obliged to inform the Parent Company's Supervisory Board of this fact.

Opinion on the Report on the operations

Based on the work we carried out during the audit, in our opinion, the Report on the Group's operations:

- has been prepared in accordance with the requirements of Article 49 of the Accounting Act and para. 71 of the Regulation of the Minister of Finance dated 29 March 2018 on current and periodical information submitted by issuers of securities and conditions for considering as equivalent the information required under the legislation of a non-Member State ("Regulation on current information" – Journal of Laws 2018, item 757);
- is consistent with the information in the consolidated financial statements.

Moreover, based on the knowledge of the Group and its environment obtained during our audit, we have not identified any material misstatements in the Report on the Group's operations.

Opinion on the corporate governance statement

In our opinion, in its corporate governance statement, the Group included information set out in para. 70.6 (5) of the Regulation on current information. In addition, in our opinion, information specified in paragraph 70.6 (5)(c)–(f), (h) and (i) of the said Regulation included in the corporate governance statement are consistent with the applicable provisions of the law and with information included in the consolidated financial statements.

Information on non-financial information

In accordance with the requirements of the Act on the Registered Auditors, we confirm that the Group has prepared a statement on non-financial information referred to in the Article 55(2b) of the Accounting Act as a separate section of the Report on the operations.

We have not performed any assurance work relating to the statement on non-financial information and we do not provide any assurance with regard to it.

Report on other legal and regulatory requirements

Statement on the provision of non-audit services

To the best of our knowledge and belief, we declare that the non-audit services we have provided to the Company and its subsidiaries are in accordance with the laws and regulations applicable in Poland and that we have not provided any non-audit services prohibited under Article 5(1) of the EU regulation and Article 136 of the Act on Registered Auditors.

The non-audit services which we have provided to the Company and its subsidiaries in the audited period are disclosed in the Report on the Group's operations.

Appointment

We have been appointed to audit the annual consolidated financial statements of the Group for 2018-2020 by a resolution of the Supervisory Board dated 19 December 2017. The consolidated financial statements of the Group were audited by us for the first time.



The Key Registered Auditor responsible for the audit on behalf of PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. (formerly: PricewaterhouseCoopers sp. z o.o.), a company entered on the list of Registered Audit Companies with the number 144., is Piotr Bejger.

Piotr Bejger

Key Registered Auditor
No. 10950

Warsaw, 20 march 2019