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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 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.

We have determined the matters described below to be the key audit matters to be communicated in our report:

- Impairment of assets under construction
- Litigations – Provisions and contingent liabilities
- Uncertain tax positions

Impairment of assets under construction

Carrying amount of assets under construction (RON 1,786,048 thousand as at 31 December 2018, RON 1,667,960 thousand as at 31 December 2017), Impairment loss, net (reversal of RON 171,417 thousand for the year 2018, expense of RON 79,334 thousand for the year 2017) – Note 5

Refer to Notes 3(a), 3(d)(ii) (accounting policies), 2.7 and 5 (financial disclosures) to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
As at 31 December 2018, the Group recognized assets under construction of RON 5,071,682 thousand (31 December 2017: RON 5,127,655 thousand) before allowances for impairment of RON 3,285,634 thousand (31 December 2017: RON 3,459,695 thousand).	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • inspecting minutes of the shareholders', board of directors' and supervisory board's meetings with respect to discussions, analysis or decisions related to the investment projects under construction;

The assets under construction include investment projects started long time in the past and suspended by the Group several years ago, mainly due to significant doubts as to the economic viability of those investments.

In 2018 the management performed a detailed analysis of these investment projects and determined the recoverable amounts and recognized impairment losses with respect to assets under construction. Due to the fact that these assets under construction were impaired already in prior periods, management determined impairment losses as at the end of the current year and for prior periods, and consequently restated the corresponding figures for the prior periods' error.

The assessment of the recoverable amount requires from management significant judgment as it is based on assumptions, including forecasted cash flows and discount rates.

Due to the significant degree of judgment required from management and the magnitude of the amounts involved, we have considered this area to be a key audit matter.

- inspecting the documents prepared by the Company related to the detailed analysis of the main investment projects under construction;
- evaluating the methodology and models used by management to determine the recoverable amount against the requirements of the relevant accounting standard;
- evaluating the key assumptions used by management in the discounted future cash flows models, such as discount rate, forecasted revenues and profit margins. These procedures included:
 - comparing the forecasted electricity prices with the historical performance of the Company and with market trends;
 - reconciling capacities used in the revenue forecast with technical documentation;
 - assessing the profit margins used by comparison to recent performance of the Company and market expectations for the future;
 - assessing the appropriateness of the discount rates with the assistance of our own valuation specialists;
- assessing the appropriateness of accounting for the impairment allowances for the assets under construction;
- evaluating the appropriateness of the restatement of comparatives for the prior periods error related to impairment of assets under construction;
- assessing the adequacy of the disclosures related to impairment losses to the consolidated financial statements.

Litigations - Provisions and contingent liabilities

Provisions for litigation as at 31 December 2018 (RON 127,188 thousand), Net change in provisions for litigations for the year ended 31 December 2018 (expense of RON 48,316 thousand) – Note 18

Contingent liabilities (RON 655.7 million) – Note 25.1

Refer to Notes 3(k) and 3(l) (accounting policies), 18 and 25.1 (financial disclosures) to the consolidated financial statements.

Key audit matter

In the normal course of the Group's business, potential exposures arise from administrative or court proceedings. As disclosed in Notes 18 and 25.1 to the consolidated financial statements, the Company is involved in litigations with different authorities, business partners or other parties, the most significant being the litigations with: Andritz Hydro GmbH and Voith Hydro Holding GmbH & Co KG with potential exposure of RON 161.5 million additional to the amount of RON 113.3 million recognized as a provision by the Group, Romelectro S.A., Hidroconstructia S.A. and ISPH Project Development S.A. with potential exposure of RON 121.2 million; Ministry of Energy with potential exposure of RON 373 million.

Whether a liability is recognized or disclosed as a contingent liability in the financial statements is inherently judgmental and dependent on a number of significant assumptions and assessments made by management. Furthermore, the amounts involved are significant. As a result, we have considered this area to be a key audit matter.

How the matter was addressed in our audit

Our audit procedures included, among others:

- inspecting minutes of the shareholders', board of directors' and supervisory board's meetings;
- obtaining and evaluating the Company's internal and external lawyers' responses to our audit inquiry letters and discussing the nature and status of the litigations and potential legal exposures with the Company's management and the Company's legal advisors and internal lawyers;
- critically assessing the Company'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, by inspecting relevant documentation provided by the Company and discussing with Company's lawyers. This involved assessing the probability of an unfavorable outcome of a given proceeding and the reliability of estimates of related amount;
- evaluating the reliability of management's estimation process by retrospective analysis of prior periods estimates against actual outcomes;
- assessing the appropriateness of accounting for provisions and contingent liabilities related to litigations against the requirements of the relevant accounting standards;
- assessing whether the disclosures to the consolidated financial statements with respect to provisions and contingent liabilities related to litigations are adequate and comply with the relevant requirements of the reporting framework.

Uncertain tax positions

Other current assets – tax receivable (RON 214,385 thousand as at 31 December 2018) – Note 8

Refer to Notes 3(q) (accounting policies) and 8 (financial disclosures) to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
<p>The Group has been subject to various tax audits performed in prior years and as a result, the Company has been involved in ongoing disputes with tax authorities regarding findings of the prior years' tax audits and amounts executed by tax authorities. In particular, as disclosed in Note 8, tax authorities executed in prior years an amount of RON 214,385 thousand, which is recognized as "Other current assets" in the accompanying consolidated financial statements. The management expects the outcome of the tax dispute to be favorable to the Company and therefore recognized the amount of RON 214,385 thousand as a prepayment that it expects to be ultimately returned to the Company.</p> <p>Determining the expected outcome of such disputes requires from the management significant degree of judgment.</p> <p>Due to the significant degree of judgment required from management and the magnitude of the amounts involved, we have considered the uncertain tax positions to be a key audit matter.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • inspecting the Company's correspondence with tax authorities; • obtaining an understanding of the nature and status of tax disputes and relevant positions taken by the management through discussion with management; • obtaining and evaluating responses to our audit inquiry letters from the Company's internal and external lawyers in relation to the litigations with the tax authorities and discussing the nature and status of the existing or potential tax litigations and potential exposures with the Company's management and the Company's legal advisors; • assisted by our own tax and legal specialists, assessing the reasonableness of the Company's interpretation and position in relation to the potential outcomes of the tax litigations; • assessing the adequacy of tax related disclosures in the consolidated financial statements, with particular focus on those in respect of uncertain tax positions.

Emphasis of Matter - Comparative Information

We draw attention to Note 2.7 to the accompanying consolidated financial statements, which indicates that the comparative information presented as at and for the year ended 31 December 2017 has been restated. Our opinion is not modified in respect of this matter.

Other matter - Scope of the Audit

The consolidated financial statements of the Group as at and for the years ended 31 December 2017 and 31 December 2016 (from which the consolidated statement of financial position as at 1 January 2017 has been derived), excluding the adjustments described in Note 2.7 to the consolidated financial statements as at and for the year ended 31 December 2018, were audited by another auditor. The predecessor auditor expressed a qualified opinion on the consolidated financial statements as at and for the year ended 31 December 2017 on 21 August 2018 due to the inability to obtain sufficient audit evidence as to whether an impairment should have been recorded in relation to an investment project with a carrying amount of RON 741,308 thousand, whether a liability with respect to fully impaired assets under construction with a gross book value of RON 1,753,655 thousand should have been recorded, and whether a receivable of RON 214,385 thousand representing amounts executed by tax authorities was recoverable. The predecessor auditor expressed a qualified opinion on the consolidated financial statements as at and for the year ended 31 December 2016 on 21 September 2017 due to the inability to obtain sufficient audit evidence as to whether a liability with respect to fully impaired assets under construction with a gross book value of RON 1,699,995 thousand should have been recorded.

As part of our audit of the consolidated financial statements as at and for the year ended 31 December 2018, we audited the adjustments described in Note 2.7 that were applied to restate the comparative information presented as at and for the year ended 31 December 2017 and the consolidated statement of financial position as at 1 January 2017. We were not engaged to audit, review, or apply any procedures to the consolidated financial statements for the years ended 31 December 2017 or 31 December 2016 (not presented herein) or to the consolidated statement of financial position as at 1 January 2017, other than with respect to the adjustments described in Note 2.7 to the consolidated financial statements as at and for the year ended 31 December 2018. Accordingly, we do not express an opinion or any other form of assurance on those respective consolidated financial statements taken as a whole. However, in our opinion, the adjustments described in Note 2.7 are appropriate and have been properly applied.

Other Information – Consolidated Directorate's Report

The Directorate is responsible for the preparation and presentation of other information. The other information comprises the Consolidated Directorate's Report, which includes also the Non-financial Statement, 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 Directorate's Report, we read and report whether the Consolidated Directorate's Report is prepared, in all material respects, in accordance with OMPF no. 2844/2016, articles 15 – 19 and 26 - 28 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 Directorate's 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 Directorate's Report has been prepared, in all material respects, in accordance with OMPF no. 2844/2016, articles 15 - 19 and 26 - 28 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 Directorate's 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 consolidated 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 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 19 March 2019 to audit the consolidated financial statements of the Group for the year ended 31 December 2018. Our total uninterrupted period of engagement is 1 year, covering the year ended 31 December 2018.

We confirm that:

- Our audit opinion is consistent with the additional report presented to the Audit Committee of the Company, which we issued on 25 May 2019. 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 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.

Refer to the original signed
Romanian version



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

Jan Mikael Olsson

registered in the electronic public register of
financial auditors and audit firms under no. 662

Bucharest, Romania

27 May 2019

KPMG AUDIT S.R.L.

registered in the electronic public register of
financial auditors and audit firms under no. 9