

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of S.N.G.N. ROMGAZ S.A.

### Report on the Audit of the Individual financial statements

#### Opinion

1. We have audited the individual financial statements of S.N.G.N. ROMGAZ S.A. (the Company), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the individual financial statements, including a summary of significant accounting policies.
2. In our opinion, the accompanying individual financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by European Union.

#### Basis for Opinion

3. We conducted our audit in accordance with the Auditing Standards adopted by the Chamber of Auditors of Romania, which are International Standards on Auditing (ISAs). Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Individual financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with 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

4. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the individual financial statements of the current period. These matters were addressed in the context of our audit of the individual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	How our audit addressed the key audit matter
<p data-bbox="137 331 600 394"><b>Property Plant and Equipment and Intangibles Assets valuation</b></p> <p data-bbox="137 427 743 1037">As presented in Note 12 and Note 14 to the individual financial statements, S.N.G.N. ROMGAZ S.A. ("The Entity") has tangible assets amounting RON 5,789,262 thousand as at 31st December 2016 and intangible assets amounting to RON 397.864 thousand. Following a thorough review of the business, the outlook of the industry and future operating plans, management has assessed the carrying values of the Property Plant and Equipment and of the Intangibles Assets as t year-end. As a result of the assessment, the closing balance of Impairment of Property Plant and Equipment and Impairment of Other Intangible assets as at December 31, 2016 is of RON 556,643 thousand and RON 204,101 thousand, respectively. These conclusions are dependent upon significant management judgement, in respect of:</p> <ul data-bbox="188 1070 738 1585" style="list-style-type: none"> <li>- Technical and physical assessment of the status of the assets as at year end;</li> <li>- Analysis of future reserves and production plans for the assets;</li> <li>- Assessment based on history of success for exploration assets;</li> <li>- Status of regulators decisions for wells in conservation as at year end; and</li> <li>- Decommissioning calculations for assets in use.</li> </ul> <p data-bbox="137 1619 734 1843">Because of the significance of management estimates and judgements involved in assessing this area and also considering the significant amount of these assets, we consider that the Property Plant and Equipment and Intangibles Assets valuation is a key audit matter.</p>	<p data-bbox="775 331 1393 454">Our procedures in relation to management's impairment assessment of Property Plant and Equipment and Intangibles Assets valuation included:</p> <ul data-bbox="826 488 1393 1877" style="list-style-type: none"> <li>- Evaluating of the appropriateness of the Entity's judgments regarding identification of assets which may be impaired;</li> <li>- Critically reviewing management's assumptions for each decision taken in the valuation exercise;</li> <li>- Discussions held with representatives from technical departments to understand and confirm managements assumptions regarding technical aspects included in the valuation exercise;</li> <li>- Performed parallel assessment of ageing analysis for old assets with no movement and no production on the period and held discussions with management and technical department on a sample basis;</li> <li>- Reviewed and analyzed reports approved by the regulators for assets that are kept in conservation;</li> <li>- Reviewed decommissioning calculation and assessed the reasonability of the variables included in the calculation (WACC and inflation rates used, average cost of decommissioning per type of well, period before decommissioning liability starts etc).</li> <li>- Evaluation of the adequacy of disclosures in respect of the assets in discussion.</li> <li>- Analyzed the success rates for exploration projects used in the valuation of intangible assets exercise;</li> </ul>

## **Reporting requirements concerning the administrators' report**

5. The administrators are responsible for the preparation and presentation of the standalone administrators' report in accordance with the requirements of the Ministry of Public Finance Order 2844/2016 for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20, which does not contain material misstatements and for such internal control as management determines is necessary to enable the preparation of administrator's report that is free from material misstatement, whether due to fraud or error.

The administrators' report is not part of the individual financial statements.

Our opinion on the individual financial statements does not cover the administrators' report.

In connection with our audit of the individual financial statements, we have read the administrators' report accompanying the individual financial and we report as follows:

- a) In the administrators' report, we have not identified information which is not consistent, in all material respects, with the information presented in the individual financial statements attached;
- b) the administrators' report identified above contains, in all material respects, the required information according to the provisions of Ministry of Public Finance Order no. 2844/2016 for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20 (accounting regulations regarding annual standalone individual financial statements and annual consolidated individual financial statements);
- c) based on our knowledge and understanding concerning the Company and its environment gained during the audit on the individual financial statements prepared as at December 31, 2016, we have not identified information included in the administrators' report that contains a material misstatement of fact.

## **Responsibilities of Management and Those Charged with Governance for the individual financial statements**

6. Management is responsible for the preparation and fair presentation of the individual financial statements in accordance with IFRSs as adopted by EU and for such internal control as management determines is necessary to enable the preparation of individual financial statements that are free from material misstatement, whether due to fraud or error.
7. In preparing the individual 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 Company or to cease operations, or has no realistic alternative but to do so.
8. Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the individual financial statements**

9. Our objectives are to obtain reasonable assurance about whether the individual 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 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 individual financial statements.
10. 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 individual 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 auditor's report to the related disclosures in the individual 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 Company to cease to continue as a going concern.
  - Evaluate the overall presentation, structure and content of the individual financial statements, including the disclosures, and whether the individual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
11. 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.
12. We also provide those charged with governance 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.

13. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the individual 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.

The engagement partner on the audit resulting in this independent auditor's report is Ahmed Hassan.

Ahmed Hassan, Audit Partner

*For signature, please refer to the original Romanian version.*

Registered with the Romanian Chamber of Financial Auditors  
under no. 1529/25.11.2003

*On behalf of:*

**DELOITTE AUDIT S.R.L.**

Registered with the Romanian Chamber of Financial auditors  
under no. 25/25/06/01

Bucharest, Romania  
March 23, 2017