



Ernst & Young Assurance Services SRL
Bucharest Tower Center Building, 22nd Floor
15-17 Ion Mihalache Blvd., Sector 1
011171 Bucharest, Romania

Tel: +40 21 402 4000
Fax: +40 21 310 7193
office@ro.ey.com
ey.com

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of SNGN ROMGAZ S.A.

Report on the Audit of the standalone financial statements

Opinion

We have audited the standalone financial statements of SNGN ROMGAZ S.A (the Company) with official head office in Mediaş, Piaţa Constantin I. Moţaş. nr. 4, cod 551130, Sibiu county, Romania, identified by sole fiscal registration number RO 14056826, which comprise the statement of financial position as at December 31, 2018 and the statement of comprehensive income, of changes in shareholders' equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2018 and of its financial performance and its cash flows for the year then ended, in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 ("Regulation (EU) No. 537/2014") and Law 162/2017 („Law 162/2017"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the 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) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Description of each key audit matter and our procedures performed to address the matter

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| <p>Estimation of gas reserves used in impairment testing and the calculation of depreciation and amortisation</p> <p>The Company’s disclosures about estimation of gas reserves are included in Note 2 (sections “Exploration and appraisal assets” and “Use of estimates”) to the financial statements.</p> | <p>Gas reserves are important to our audit because they have a very significant impact on the financial statements, as they are the basis for production estimates used in the Company’s cash flow forecasts for impairment testing and they are also the basis for unit of production depreciation and amortization for the core assets in the Upstream segment.</p> <p>The estimation of gas reserves requires the Company’s management and engineers to make significant judgement and assumptions.</p> <p>We assessed the management’s estimation process in the determination of gas reserves. Specifically, our work included, but was not limited to, the following procedures:</p> <ul style="list-style-type: none"> - We performed a detailed understanding of the Company’s internal process and related documentation flow and key controls associated with the gas reserves estimation process; - We tested the Company’s key controls over the gas reserves review process; - We analysed the certification process for technical and commercial specialists who are responsible for gas reserves estimation; we also assessed the competence, capabilities and objectivity of management specialists; - We tested whether significant increases or reductions in gas reserves were made in the period in which the new information became available and in compliance with the Agentia Nationala de Resurse Minerale (“ANRM”) standards; |

- We compared total reserves determined by the Company's internal specialists for all fields, resulting in studies approved by the National Agency of Mineral Resources with reserves estimated by the external specialists in their report prepared as at 31 December 2017
- We compared the gas reserves with the assumptions used in the cash flows for the impairment test

We further assessed the adequacy of the Company's disclosures about impairment testing and calculation of depreciation, and amortization.

Impairment testing of production assets in the Upstream Gas segment

The Company's disclosures about its impairment testing are included in Note 2 (Judgements, Estimates and Assumptions) and in Note 12 (Property, Plant and Equipment) to the financial statements

Impairment testing is important to our audit because of the carrying value of the Upstream property, plant and equipment of RON 2,392 million as at 31 December 2018.

International Financial Reporting Standards require an entity to assess whether indicators of impairment exist. Management considered that the recent changes brought by new legislation in 2018, which will reduce the profitability of the Company, constitute impairment indicators and, consequently, has carried out an impairment test for the production assets in the Upstream Gas segment which resulted in an additional impairment of RON 141.8 million.

The impairment test is significant to our audit because the assessment process is complex, requires significant management judgment and is based on assumptions that are affected by expected future market conditions

In respect of impairment testing, our work included, but was not limited to, the following procedures:

- We analysed and evaluated the management's assessment of the existence of impairment indicators in particular relating to recent changes in legislation;
- We reviewed the allocation of the carrying value of common infrastructure and corporate assets to each CGU (field)
- We evaluated the management's assessment of the recoverability of the carrying value of property, plant and equipment of the cash generating unit for which triggering events were identified;
- We tested the reasonability of future yearly production volumes per field based on actual production in 2018 and 2017;
- On a sample basis, we compared the remaining reserves per field in the impairment test as of 31 December 2018 with the latest ANRM approved reserve reports;

- We compared the main assumptions used in the impairment test (gas prices, operating costs, production volumes, gas reserves and discount rate) with the current forecasts approved as part of the Company's mid-term planning process;
- We assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance in prior years;
- We used our internal valuation specialists to assist us in evaluating the key assumptions and methodologies used by the Company for the impairment testing of upstream productions assets (checked the mathematical accuracy of model, its conformity with the requirements of the International Financial Reporting Standards and discount rates used)

We also assessed the adequacy of the Company's disclosures in the financial statements

Estimation of decommissioning and restoration provisions

The Company's disclosures about decommissioning, restoration and environmental obligations are included in Note 2 (Judgements, Estimates and Assumptions) and Note 19 (Provisions) to the financial statements.

The Company's core activities regularly lead to obligations related to dismantling and removal of equipment and installations, asset retirement and soil remediation activities. The decommissioning and restoration provision is important to our audit because of its magnitude (carrying value of RON 530.5 million at 31 December 2018) and because management makes estimates and judgments in determining the respective provisions.

The key estimates and assumptions relate to the envisaged future dismantling costs, forecasted inflation rates and discount rates to determine the present value of the obligations.

Our work in respect of management's estimation of decommissioning and restoration provisions included, but was not limited to, the following procedures:

- We performed a detailed understanding of the Company's internal provision estimation process and the related documentation flow and assessed the design and implementation of the controls within the process;
- We compared the current estimates of decommissioning, restoration and environmental costs with the actual costs incurred in previous periods
- We reviewed the timing of works to be performed for surface and subsurface decommissioning for wells;

- We inspected supporting evidence for any material revisions in cost estimates during the year;
- We involved our valuation specialists to assist us in performing industry benchmarking and analysis over discount rates and inflation rates;
- We tested the mathematical accuracy of management's decommissioning and restoration provision calculations;
- We assessed the competence, capabilities and objectivity of management specialists

We also assessed the adequacy of the Company's disclosures in the financial statements relating to decommissioning and restoration obligations.

Other matters

The financial statements of the Company for the year ended 31 December 2018 were audited by another auditor, who expressed an unmodified opinion dated 22 March 2018.

Other information

The other information comprises the Annual Report (which includes the Directors' Report, the Report on Payments to Governments for mining activities and the Corporate Governance Statement), but does not include the financial statements and our auditors' report thereon. Management is responsible for the other information.

Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of our auditor's report we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Order of the Minister of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 auditors' report to the related disclosures in the 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 Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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 with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements

Reporting on Information Other than the financial statements and Our Auditors' Report Thereon

In addition to our reporting responsibilities according to ISAs described in section "Other information", with respect to the Directors' Report, we have read the Directors' Report and report that:

- a) in the Directors' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying financial statements as at December 31, 2018;
- b) the Directors' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 - 19 and 26-28;
- c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the financial statements as at December 31, 2018, we have not identified information included in the Directors' Report that contains a material misstatement of fact.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as auditors of the Company by the General Meeting of Shareholders on 06 December 2018 to audit the financial statements for the financial year end December 31, 2018. Total uninterrupted engagement period, for the statutory auditor, has lasted for one year, covering the year ended December 31, 2018.

Consistency with Additional Report to the Audit Committee

Our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 20 March 2019.

Provision of Non-audit Services

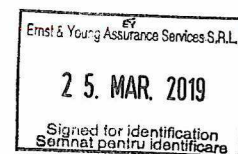
No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.

In addition to statutory audit services and other audit related services as disclosed in the annual report and in the financial statements, no other services were provided by us to the Company, and its controlled undertakings.

On behalf of

Ernst & Young Assurance Services SRL
15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania

Registered in the electronic Public Register under No. 77



Name of the Auditor/ Partner: Alexandru Lupea
Registered in the electronic Public Register under No. 273

Bucharest, Romania
25 March 2019