

## INDEPENDENT AUDITOR'S REPORT

To the shareholders of **S.N.T.G.N. Transgaz S.A.**

### *Opinion*

1. We have audited the consolidated financial statements of S.N.T.G.N. Transgaz S.A. (the Company), with registered office in Medias, Piata Constantin I. Motas, no. 1, identified by the unique tax registration code RO13068733, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the consolidated financial statements.
2. The consolidated financial statements as at December 31, 2018 are identified as follows:
  - Net assets/Equity: Ron 3.709.263.106
  - Net profit for the financial year: Ron 490.485.975
3. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Ministry of Public Finance Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU ("Order 2844/2016").

### *Basis for Opinion*

4. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named The "Regulation") and Law 162/2017 ("the Law"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated 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), in accordance with ethical requirements relevant for the audit of the 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*

5. 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.

Key Audit Matter	How our audit addressed the key audit matter
<b>Recoverability of the accounting value of return assets</b> As described in Note 9 to the consolidated financial statements, at December 31, 2018, the value of the return assets recorded as intangible assets under IFRIC 12 was significant, Ron Th1.783.116.	Our audit procedures included, inter alia, the involvement of our internal valuation experts to assist us in evaluating key assumptions and methodologies applied by the Company for impairment testing of the immovable assets subject to the concession agreement. Our review focused on the analysis of the discount

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<p>Since much of the value of these assets will be recovered through use during the duration of the concession agreement, which expires in 2032, the Company regularly performs a depreciation test. This depreciation is significant to our audit because the valuation process is complex, involves significant management professional judgment and is based on assumptions that are affected by applicable law.</p>	<p>rate, the main assumptions used to analyze future cash flows, as well as their correlation with the administrators' report and the revenue and expenditure budget. The purpose of our analysis was not to validate the test conducted by management but to ensure that there is no significant risk that the value recorded in the accountancy of return assets will be impaired.</p>
<p><b>Application of IFRIC 12 "Service Concession Agreements"</b>            IFRIC 12, although not an accounting standard, is an interpretation that implies a great deal of professional reasoning, especially in the Romanian legislative context.            According to IFRIC 12, Transgaz may receive an intangible asset, a financial asset, or a combination of the two, in exchange for construction work (upgrading / expansion) on the infrastructure (SNTG).            The Service Concession Agreement (ACS) was concluded by Transgaz in 2002 for a period of 30 years and IFRIC 12 was applicable starting with 2010. Law 127/2014, which entered into force on 5 October 2014, states that in the event of termination of the concession contract for any reason, the investment made by Transgaz shall be transferred to the owner of SNTG or another operator in exchange for the payment of a compensation equal to the net regulated accounting value established according to the regulations imposed by ANRE.            In the context of the first-time adoption of IFRS 15, which provides a wider interpretation of the notion of a contract, the Company has decided that this compensation should no longer be treated as a grant under IAS 20 "Government Grants" but as a financial asset, according to the bifurcated model described in Note 5.4.            Estimates and key assumptions refer to the depreciation period of tangible and intangible assets considered as return assets under the ACS, the pattern of realization of the benefits related to the investments made on the SNTG, the assessment of the long-term receivable.</p>	<p>Our specific procedures focused primarily on the analysis of the service concession agreement concluded in 2002, as well as the specific legislation supplementing the contractual provisions (especially Law 127/2014).            The reasonableness of applying the bifurcated model in the context of first-time application of IFRS 15 and restatement of comparative information has been revised.            The criteria for recognizing the financial asset as well as the method for assessing the long-term receivable as mentioned in Note 5.4 to the consolidated financial statements (the residual value, the discount rate used) were also reviewed.            We've also examined how the information required by IFRIC 12 was disclosed in the financial statements.            Consultations have taken place with the management of the Company and the Audit Committee.</p>
<p><b>Litigations</b>            The company is involved in various litigations, some of them with major potential impact in the context in which they will materialize, such as those outlined in Note 30 to the consolidated financial statements. These issues are important in the context of our audit due to inherent uncertainties about their outcome, the complexity of the cases and the significant reasoning applied by management in estimating the</p>	<p>Our audit procedures include, among other things, obtaining confirmations from the Company's external lawyers providing assistance on these disputes, as well as analyzing the estimates of the Company's legal department on each case. We examined the minutes of the Board of Directors and held meetings with the management to discuss and understand the evolution and status of the</p>

Key Audit Matter	How our audit addressed the key audit matter
<p>outcome and the exposure. Depending on these estimates (especially the probability of realization), the Company may decide to record liabilities, provisions or contingent liabilities in the financial statements.</p> <p>Due to the importance and complexity of these disputes, their possible unfavorable results could have a major impact on the Company's financial performance and balance sheet position.</p>	<p>legal proceedings initiated for each significant case. We also reviewed management policies and estimates to ensure that they are correlated with the views of internal and external lawyers, as well as with the representations included in the financial statements regarding contingent liabilities, provisions and debts.</p>

**Other aspects**

- The previous consolidated financial statements as at December 31, 2017 have been audited by a different auditor, who issued an unmodified audit report dated March 21, 2018.

**Other information - Administrator's Report**

- Management is responsible for preparation and presentation of the other information. The other information comprises the Administrator's report, which includes the non-financial information declaration, but does not include the consolidated financial statements and our audit auditor.

Our opinion on the consolidated 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 consolidated financial statements for the year ended December 31, 2018, 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 Administrator's report, we read and report if this has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20.

On the sole basis of the procedures performed within the audit of the consolidated financial statements, in our opinion:

- the information included in the administrators' report for the financial year for which the consolidated financial statements have been prepared are consistent, in all material respects, with these consolidated financial statements;
- the administrators' report has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20.

Moreover, based on our knowledge and understanding concerning the Company and its environment gained during the audit on the consolidated financial statements prepared as at December 31, 2018, we are required to report if we have identified a material misstatement of this Administrator's report. We have nothing to report in this regard.

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

8. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU 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 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 Consolidated financial statements***

9. 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, consolidatedly 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:

- a) 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.
- b) 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.
- c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- d) 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 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 Company to cease to continue as a going concern.
- e) 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.

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 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.

### Report on Other Legal and Regulatory Requirements

10. We have been appointed by the General Assembly of Shareholders on December 03, 2018 to audit the consolidated financial statements of **S.N.T.G.N. Transgaz S.A.** for the financial years ended December 31, 2018 to December 31, 2022. The uninterrupted total duration of our commitment is 1 year, covering the financial year ended December 31, 2018.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Company that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.
- We have not provided for the Company the non-audit services referred to in Article 5 (1) of EU Regulation No.537 / 2014.

On behalf of:

#### **BDO Audit SRL**

Registered with the Public Electronic Registry under no 018/2001

Authorized by the Authority for Public Supervision of Statutory Audit Activity (ASPAAS)

Under FA 19 TEMP no. 14

Dan Apostol, Engagement partner

Registered with the Public Electronic Registry under no 1671/2006

Authorized by the Authority for Public Supervision of Statutory Audit Activity (ASPAAS)

Under FA 19 TEMP no. 91

Bucharest, Romania

April 16, 2019

**For stamp and signature please refer to the original Romanian version**