

Audit & Risk Committee report



Andrew Bartlett

Chairman of the Audit & Risk Committee

I am pleased to present this Audit & Risk Committee Report for the year ended 31 December 2019, which sets out the role and work of the Committee during the year and key areas of focus for 2020.

Membership of the Committee

The members of the Audit & Risk Committee during the year were myself, Ohad Marani and Robert Peck.

The Committee's members are all Independent Non-Executive Directors, and therefore the composition of the Committee complies with the Code. Committee members' skills and experience are documented on pages 82-85. The Board is satisfied that the Committee meets the requirement to have recent and relevant financial experience and sufficient experience of the oil and gas sector. Any member of the Committee, the Company's external auditor, or its internal auditor may however request a meeting if he/she considers that one is necessary or expedient. No meetings of this nature were requested during the financial year.

The CFO and external audit partner attend meetings by invitation; the Company Secretary acts as Secretary to the Committee.

As noted in the Nomination & Governance Committee report, effective from 1 January 2020, Ohad Marani will leave the Committee and Karen Simon and Amy Lashinsky will join the Committee. I would like to thank Ohad for his contribution to the Committee and welcome Karen and Amy. With these changes, the Board remains satisfied that the Committee has recent and relevant financial experience and that the Committee as a whole has sufficient sector experience.

Attendance at meetings

The Committee met four times during the year, and attendance at these meetings is set out below:

Member	Number of meetings	Meetings attended
Andrew Bartlett	4	4
Ohad Marani	4	4
Robert Peck	4	4

Role and activities of the Committee

The Audit & Risk Committee's role is to assist the Board with discharging its responsibilities in relation to:

- financial reporting, including monitoring the integrity of the Group's annual and half year financial statements and reviewing the Group's accounting policies
- reviewing the Group's internal financial controls
- reviewing and monitoring the scope of the annual audit and the extent of the non-audit work undertaken by external auditors
- advising on the appointment of external auditors
- reviewing the effectiveness of the internal audit, whistleblowing and fraud systems in place within the Group

The Audit & Risk Committee reviews the Group's capability to identify and manage new types of risk, and keeps under review the Group's overall risk assessment processes that inform the Board's decision-making. In order to assist with achieving this, the Committee regularly liaises with the Company's compliance function.

The Audit & Risk Committee considers annually how the Group's internal audit requirements shall be satisfied and makes recommendations to the Board accordingly, as well as on any area it deems needs improvement or action.

The Committee receives regular regulatory updates to ensure that it remains up to date with developments in financial reporting.

Key matters considered in relation to the consolidated financial statements

The Audit & Risk Committee focused on a number of key judgements and reporting issues in the preparation of the full year results and the Annual Report. In particular, the Committee considered and where appropriate raised challenges in the areas set out below:

- The Committee discussed how the Group assesses the recoverability of oil and gas assets, including the estimation of oil and gas reserves. The Committee considered the approach taken by the Company on the impairment indicators and where

appropriate, the approach taken to calculate the value-in-use for producing oil and gas assets. The Committee supported the view that the Greek assets should be impaired by \$71.1 million, but no indicators of impairment from the Israeli assets.

- Given the importance to the Company, the Committee again assessed and challenged the accounting treatment of the Karish/Tanin development costs. The Committee reviewed the capitalisation of development costs and agreed with the Company's approach and that appropriate accruals were in place for the year end to reflect the costs of services provided by contractors.
- The viability statement in the 2019 Annual Report and the going concern basis of accounting including consideration of evidence of the Group's capital, liquidity and funding position. The Committee considered the assessment of principal risks, assessed the Group's prospects in light of its current position and reviewed the disclosures on behalf of the Board. The Committee supported the viability statement and the Directors' going concern conclusion.

A requirement of the Code is that the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. This is the Group's third Annual Report and, in order to support the assessment, the Committee reviewed the principal risks, business model, financial review and KPIs to ensure these were representative of the business and consistent throughout the Report – and that areas requiring significant judgement and explanation have due prominence.

The Committee believes that the disclosures set out in the Annual Report provide the information necessary for shareholders to assess the Group's position, performance, business model and strategic outlook.

External auditors

Ernst & Young LLP (EY and the External Auditor) were appointed as auditors in 2018 and undertook their first audit for the year ended 31 December 2017. Energean Oil & Gas plc became a Public Interest Entity in 2018 on admission to trading on the London Stock Exchange. The Company has to comply with the EU Audit Directive (2014/56/EU) and Audit Regulation (537/2014) and will be required to put the external audit contract out to tender by 2028. The Committee confirms that it has complied with the provisions of the September 2014 Competition and Markets Authority Order in this area. The current lead audit partner is Andrew Smyth, who has been the lead partner since 2018. The fees paid to EY for their services are detailed in note 8 to the financial statements on page 155.

The External Auditor attends each meeting of the Committee and reports on their audit work and conclusions including the appropriateness of the judgements made by management and their compliance with International Financial Reporting Standards.

The Audit & Risk Committee has responsibility for the oversight of the external audit plan. This includes monitoring the independence and objectivity of EY, the quality of the audit services and their effectiveness, the level of fees paid, approval of non-audit services provided by EY and re-appointment.

The Committee concluded that EY are independent and objective, and operate at a high standard and have recommended to the Board that the External Auditor be re-appointed at this year's AGM for the financial year ending 31 December 2020.

The Committee regularly reviews the performance of the auditor and the Chairman of the Committee regularly meets with the Audit Partner to pass on any feedback. The Chairman of the Committee also met with the EY audit teams in Athens and Tel Aviv.

Non-audit services

In order to safeguard the External Auditor's independence and objectivity, the Group has in place a policy setting out the circumstances in which the External Auditor may be engaged to provide services other than those covered by the Group audit. The policy complies with the FRC's Ethical Standard for Auditors, published in September 2015, which implemented the EU's revised Statutory Audit Directive.

The Policy sets out those types of services that are strictly prohibited and those that are allowable in principle (permissible services). Any service types are considered by the Audit & Risk Committee Chairman on a case-by-case basis, supported by a risk assessment prepared by management. This is reported bi-annually to the Committee.

The Committee notes the proposed changes in this area and will comply with any future FRC recommendation on the provision of non-audit services.

The types of services received are as follows:

- Tax certification services in Greece and Israel
- Agreed upon procedures for loan covenant review
- Climate change and sustainability services
- Reporting accountant services in connection with the Prospectus for the Class 1 transaction related to the acquisition of Edison E&P S.p.A
- Review of the Group's interim financial statements

In all these cases, safeguards were adopted and reasons given as to why these safeguards were considered to be effective. The Committee was satisfied that the independence of the External Auditor was not affected by the performance of any of these services.

Internal controls and risk management

The Audit & Risk Committee is responsible for the oversight of the Group's system of internal controls, including the risk management framework and the work of the internal audit function. Details of the risk management framework are provided within the risk management section on pages 58-59. The Group's principal risks and uncertainties, which provide a framework for the Committee's focus, are discussed on pages 60-78. Management has identified the key operational and financial processes that exist within the business and has developed an internal control framework. This is structured around a number of Group policies and procedures and includes a delegated authority framework.

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continued

Internal auditors

PricewaterhouseCoopers Business Solutions S.A. ("PwC") were appointed in January 2018 for a term of three years as the Group's outsourced internal audit function following a tender process. Its key objectives are to provide independent and objective assurance on risks and controls, to the Board, the Audit & Risk Committee and senior management, and to assist the Board in meeting its corporate governance responsibilities. The long-term internal audit plan for 2018, 2019 and 2020 was approved by the Audit & Risk Committee in April 2018, as well as a short-term Internal Audit plan for 2019. The Committee's Chairman has established a positive and effective working relationship with Internal Audit.

The Audit & Risk Committee is responsible for the review and approval of the role and mandate of internal audit function, including the approval of the annual internal audit plan and monitoring the effectiveness of the function. Each report produced by the internal auditor is reviewed at meetings of the Committee and the status of follow-up action points reviewed against the agreed deadline.

The Audit & Risk Committee delegates the setting of the internal audit plan and the review of the performance of the internal audit function to the Internal Audit Committee, which is a sub-committee of the Audit & Risk Committee. The membership of this Committee is Andrew Bartlett (Committee Chair), Amy Lashinsky, Robert Peck, Karen Simon, Group Head of Financial Control, Group Compliance Officer and representatives from the internal audit function.

In its annual assessment of the effectiveness of the internal audit function, the Audit & Risk Committee carried out the following:

- met with the internal audit team without the presence of management to discuss the effectiveness of the function
- reviewed and re-assessed the internal audit work plan
- monitored and assessed the role and effectiveness of the internal audit function in the overall context of the Group's risk management policy

During the year PwC undertook four (2018: three) internal audits at a cost of \$75,899 (2018: \$62,600). Following Internal Audit's reviews of the Company's internal control systems, the Committee considered whether any matter required disclosure as a significant failing or weakness in internal controls during the year. No such matters were identified.

Whistleblowing policy

The Group has a Whistleblowing policy in place and the Committee is responsible for overseeing the arrangements and the effectiveness of the processes for this. The policy exists to enable employees to raise any concerns in confidence about wrongdoing or impropriety within the Group.

Performance of the Committee

The performance of the Audit & Risk Committee was assessed by way of an internal process in 2019. The 2020 assessment will form part of the overall externally facilitated Board evaluation.

Our priorities for 2020

During 2020, the Committee will play an active role in assessing the accounting treatment of the Edison E&P S.p.A transaction and reviewing the financial information contained within the Prospectus.

The Committee will continue to review the effectiveness of the risk management process and controls put in place by management.

Furthermore, the Committee will undertake a formal internal review of the effectiveness of the External Auditor. The Committee will also continue to review the effectiveness of the internal audit function ahead of the existing contract coming to an end.

Approval

This report in its entirety has been approved by the Board of Directors, following recommendation by the Committee, and signed on its behalf by:

Andrew Bartlett

Audit and Risk Committee Chairman
18 March 2020