PwC Österreich GmbH

The World Bank

New and Revised Auditor Reporting Standards

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New and Revised Auditor Reporting Standards

Overarching Standard for Auditor Reporting – ISA 700 (Revised)

New Key Audit Matters section	**Modifications to auditor's opinions**	**Emphasis of Matter and Other Matter Paragraphs**	**Enhanced auditor reporting related to going concern**	**The Auditor's Responsibilities Relating to Other Information**
ISA 701	ISA 705 (Revised)	ISA 706 (Revised)	ISA 570 (Revised)	ISA 720 (Revised)

Revisions to **ISAs 260 and 706** as a result of ISA 701, and related conforming amendments to **ISAs 210, 220, 230, 510, 540, 600, 710**

Overview of content of the new IAASB reporting model (1/2) – ISA 700 Audit Report

Title	Indication, that is the report of an independent auditor
Addressee	Appropriately addressed
Auditor’s opinion	The audit opinion and identification of what’s been audited will now be the first section of the report.
Basics for Opinion	The Basis for Opinion will directly follow the Opinion section and, in addition to referring to compliance with the ISAs and referring to the auditor’s responsibilities section, will now include the new assertion of the auditor’s independence. If the audit opinion has been modified, the explanation would be here too.
Material uncertainty regarding going concern (if any)	If there is a material uncertainty with respect to going concern, it will now be described in a separate section that identifies it as such.
Emphasis paragraphs* (if any)	*An emphasis of matter paragraph may be next if, for example, it is relevant to understanding the financial reporting framework, or it might follow the key audit matters if it relates to a matter also addressed in that section.
Key audit matters	The new section providing insight into the key matters addressed in the audit will be required for audits of listed companies, but can also be included voluntarily by others.
Other matter paragraphs* (if any)	*The placement of an Other Matter paragraph could be here if it relates to the financial statement audit only, or later in the report if it relates to other legal or regulatory requirements, or both.

Overview of content of the new IAASB reporting model (2/2) – ISA 700 Audit Report

Other information	A new section in the auditor's report will describe the auditor's responsibilities for "other information" (e.g., the rest of the annual report, including the management report) and the outcome of fulfilling those responsibilities.
Responsibilities for the financial statements	The description of management's responsibilities will be expanded to explain its responsibilities with respect to going concern. It will also now identify those charged with governance (if different from management).
Auditor's responsibilities	The description of the auditor's responsibilities under the ISAs is now much more comprehensive and includes a description of the auditor's responsibilities with respect to going concern.
Other reporting responsibilities	Responsibilities beyond auditor's responsibilities under ISA – "Report on other legal and regulatory requirements".
Date, address and signature	In addition to the signature, address and date, auditor's reports for listed companies will now also have to identify the engagement partner's name.

ISA 701 – Key Audit Matters (KAM)

KAM are defined as those matters that, in the **auditor's professional judgment**, were of **most significance** in the audit of the financial statements of the current period.

KAM are **selected from matters communicated with Those Charged With Governance (TCWG)**.

Which Auditor's Report Will Include a KAM Section?

- **KAM is required** to be communicated in the auditor's report **for audits of financial statements of listed entities** in accordance with new ISA 701
- EU-Regulation No 537/2014 of 16 April 2014 (specific requirements regarding statutory audit of public-interest entities)
  – Article 10 "Audit report"

    (c) provide, in support of the audit opinion, the following:

    (i) a description of the most significant assessed risks of material misstatement, including assessed risks of material misstatements due to fraud;

    (ii) in summary of the auditor's response to those risks; and

    (iii) where relevant, key observations arising with respect to those risks.

Are KAM Always Communicated in the Auditor's Report?

- Auditor is required to include each KAM unless
  - Law or regulation precludes disclosure
  - In *extremely rare circumstances*, the auditor determines that the matter should not be communicated
    - Adverse consequences of communicating the KAM would reasonably be expected to outweigh the public interest benefits of such communication
- KAM is prohibited for a disclaimer of opinion, but required for a qualified or adverse opinion
- In certain *limited* circumstances, there may be no KAM to be communicated

ISA 705 – Modifications to the Opinion in the Independent Auditor's Report

- Modifications
  - Qualified Opinion

    (a) The auditor, having sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or

    (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.
  - Adverse Opinion
    - misstatements are both material and pervasive

ISA 705 – Modifications to the Opinion in the Independent Auditor's Report

- Disclaimer of opinion
  - possible effects of undetected misstatements are both material and pervasive
- Pervasive effects
  - not confined to specific elements, accounts or items of financial statements,
  - if confined – represent substantial proportion of financial statements, or
  - disclosures are fundamental to users' understanding of financial statements

ISA 705 – Examples

- Qualified opinion
  - appropriateness of selected accounting policies
  - application of selected accounting policies
  - inadequacy of disclosures
  - inability to obtain sufficient appropriate audit evidence (limitation on scope)
    - circumstances beyond the control of the entity
    - circumstances relating to nature or timing of auditor's work
    - limitations imposed by management
- Disclaimer of opinion
  - management refuses to sign representation letter

ISA 706 – Emphasis of Matter Paragraphs and Other Matter Paragraphs

– **Emphasis of Matter paragraph** – A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

– **Other Matter paragraph** – A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' under-standing of the audit, the auditor's responsibilities or the auditor's report.

ISA 706 – Examples

- Emphasis of Matter paragraph
  - uncertainty relating to the future outcome of exceptional litigation or regulatory action
  - significant subsequent events (occurrence between balance sheet date and date of auditor’s report)
  - major catastrophe

- Other Matter paragraph
  - restriction on distribution or use of auditor’s report (financial statements are prepared for a specific purpose)
  - prior period financial statements are audited by a predecessor auditor

Interaction between descriptions of Key Audit Matters and other elements required to be included in the auditor's report

- Modified opinions (ISA 705 – Qualified/Adverse opinion)
- Material uncertainty related to going concern (ISA 570 – Going concern)
- Additional information (ISA 706 – Emphasis of matter/Other matter paragraphs)

Additional information in the auditor's report

– Emphasis of matter paragraphs

  Auditor shall include emphasis of matter paragraph provided:

  i. would not be required to modification and

  ii. when ISA 701 applies, the matter has not be determined to be a KAM

– Other matter paragraphs

  Auditor shall include other matter paragraph provided:

  i. is not prohibited by law or regulation and

  ii. when ISA 701 applies, the matter has not be determined to be a KAM

Modified opinion and material uncertainty

- Matters giving rise to a modified opinion or material uncertainty

  -> by nature: Key Audit Matters

- However: these matters shall not be described in KAM section

- Rather: Report on those matters in accordance with ISA 705 or ISA 570 and include reference to Basis for Qualified/Adverse Opinion or Material Uncertainty related to going concern section in KAM section

Examples of KAMs

(From the PwC's audit report on TUI Travel plc's 30 September 2014 financial statements)

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition on every audit engagement. We focused on judgement in revenue in the recognition for certain contractual arrangements.	We challenged the key assumptions and judgements made by management in the calculation of certain contractual revenues, including whether the Group was entitled to, and appropriately recognized, revenue in line with their contractual obligations and revenue recognition policy. We also tested manual journal entries posted to revenue.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.	We tested manual journal entries made by local and Group management to determine that the adjustments made were appropriate. We considered whether there was evidence of bias by Directors in the significant accounting estimates and judgements relevant to the financial statements. We also assessed the overall control environment of the Group and interviewed senior management.

Examples of KAMs

(From the PwC's audit report on TUI Travel plc's 30 September 2014 financial statements)

Key Audit Matter

Risk of fraud in revenue recognition

See note 1 of the financial statements for the Director's disclosures of the related accounting policies, judgements and estimates for further information.

We focused on recognition in revenue because there can be a significant difference between the timing of receipt of cash from customers and the subsequent recognition of revenue on the holiday departure date. Due to manual intervention and the high volume of transactions, the high number of different reservation systems and the interfaces of these with the accounting records there is the potential for deliberate manipulation or error.

How our audit addressed the Key Audit Matter

We assessed the consistency of the application of the revenue recognition policy by reconsidering the accounting policy for the different sources of the Group's revenues. We tested the design and operating effectiveness of the controls (including IT controls) over revenue systems across the Group to determine the extent of additional substantive testing required and also tested key reservation system reconciliations at 30 September 2014. We found no material misstatements from our testing.

We checked that revenue had been recognized at the correct time by testing a sample of transactions and comparing the departure dates against which the revenue had been recognized. No exceptions were noted from our testing.

Our work also included testing a sample of manual journals which did not identify any items that could not be substantiated.

Key Audit Matters

The measurement of revenue and profit in the Civil aerospace business
Refer to page 81 (Key areas of judgement – Long-term aftermarket contracts), page 83 (Significant accounting policies – Revenue recognition) and page 44 (Audit committee report – Financial reporting)

- The risk The amount of revenue and profit recognised in a year on the sale of engines and aftermarket services is dependent, inter alia, on the assessment of the percentage of completion of long-term aftermarket contracts and the forecast cost profile of each arrangement. As long-term aftermarket contracts can extend over significant periods and the profitability of these arrangements typically assumes significant life-cycle cost improvement over the term of the contracts, the estimated outturn requires significant judgement to be applied in assessing engine flying hours, time on wing and other operating parameters, the pattern of future maintenance activity and the costs to be incurred. The inherent nature of these estimates means that their continual refinement can have an impact on the profits of the Civil aerospace business that can be significant in an individual financial year. The assessment of the estimated outturn for each arrangement involves detailed calculations using large and complex databases with a significant level of manual intervention.

- Our response We tested the controls designed and applied by the Group to provide assurance that the estimates used in assessing revenue and cost profiles are appropriate and that the resulting estimated cumulative profit on such contracts is accurately reflected in the financial statements; these controls operated over both the inputs and the outputs of the calculations. We challenged the appropriateness of these estimates for each programme and assessed whether or not the estimates showed any evidence of management bias. Our challenge was based on our assessment of the historical accuracy of the Group's estimates in previous periods, identification and analysis of changes in assumptions from prior periods and an assessment of the consistency of assumptions across programmes, detailed discussions and assessments of the achievability of the Group's plans to reduce life-cycle costs and an analysis of the impact of these plans on forecast cost profiles taking account of contingencies and analysis of the impact of known technical issues on cost forecasts. Our analysis considered each significant airframe that is powered by the Group's engines and was based on our own experience supplemented by discussions with an aircraft valuation specialist engaged by the Group. We assessed whether the valuer was objective and suitably qualified. We also checked the mathematical accuracy of the revenue and profit for each arrangement and considered the implications of identified errors and changes in estimates.

- Our findings Our testing identified weaknesses in the design and operation of controls. In response to this we assessed the effectiveness of the Group's plans for addressing these weaknesses and we increased the scope and depth of our detailed testing and analysis from that originally planned. We found no significant errors in calculation. Overall, our assessment is that the assumptions and resulting estimates (including appropriate contingencies) resulted in mildly cautious profit recognition.

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AUDITORS' REPORT

To the annual meeting of shareholders in SAS AB, Corporate Registration Number 556606-8499

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of SAS AB for the November 1, 2015–October 31, 2016 fiscal year, with the exception of the Corporate Governance Report on pages 45–54 of the printed version of this document. The company's annual accounts and consolidated accounts are included in the printed version of this document on pages 31-97.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of Parent Company as of October 31, 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of October 31, 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The Report by the Board of Directors is consistent with the other parts of the annual accounts and consolidated accounts.

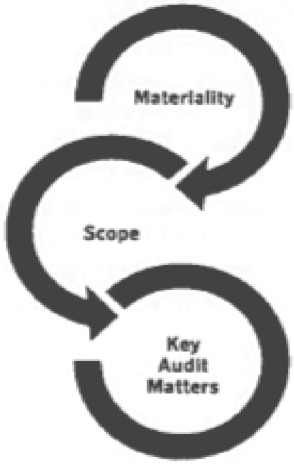
We therefore, recommend that the general meeting of shareholders adopts the income statement and balance sheet for the Parent Company and the Group.

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditors' responsibility section. We are independent of the Parent Company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

OUR AUDIT APPROACH – OVERVIEW



- Overall materiality level: MSEK 270, which is equivalent to 0.7% of total revenues.

- The scope of our audit is based on our understanding of the risk areas in SAS, the significance of these risks and how they are handled and controlled within the company. Consequently, the greatest weight is assigned to those risk areas deemed to be most important, and where the risk of material misstatement is the most significant. In this assessment, consideration has also been given as to whether the preparation of the accounts has been dependent on management's estimates or subjective judgements.

- Strategic program and financing.

Audit scope

SAS operates in an industry characterized by major competition and strong price pressure, which implies that the requirement of effectivity improvements needs to be balanced against the demands for a high level of safety. The industry is also characterized by major investments in the form of aircraft and other infrastructure. For many years, SAS has reported an insufficient level of profitability, which has led to major restructuring programs but also to the need for new capital. Even if SAS is, currently, in a satisfactory financial position, the industry, and thereby also SAS, is sensitive to macroeconomic conditions where, primarily, oil prices and exchange-rate developments for the USD and NOK are important parameters. SAS has initiated a renewal phase as regards its aircraft fleet with the aim of increasing fuel efficiency and simplifying the ongoing maintenance of the fleet through the use of fewer types of aircraft. As discussed below in the Key audit matters section, the renewal of the aircraft fleet gives rise to financing requirements.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole (see table below). These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Group materiality level	MSEK 270
How we determined this level	0.7 percent of revenues
Motivation behind the determination of the materiality level	We have chosen revenues to serve as the starting point in determining the materiality level as income in SAS fluctuates between years and is, relatively speaking, low.

We agreed with Audit Committee that we would report identified errors in excess of MSEK 15, as well as errors less than this amount but which we deemed should be reported for qualitative reasons.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were most significant in our audit of the annual accounts and consolidated accounts of the actual period. These matters were addressed in our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Restructuring program and financing For a considerable time, SAS has worked with increasing the proportion of variable costs and with implementing a number of different restructuring programs to ensure flexibility of capacity and profitable future operations. A successful implementation of these programs is significant both to the valuation of various assets items and to also ensuring access to financing for the aircraft fleet. The current aircraft fleet is comprised of both leased and owned aircraft. Total leasing commitments, which are not reported as a liability in the balance sheet, were equivalent to MSEK 13,344 as at October 31, 2016 (see Note 33). In addition, SAS has placed an order for 37 new aircraft which will be delivered during the 2016–2021 period. The list price of the ordered aircraft amounts to a total of approximately MUSD 2,551 (see Note 12). To date, SAS has secured financing for 18 of these purchase orders. Company management deems that the remaining financing will be secured via a combination of leasing agreements, loan financing and cash flow from operating activities.	In executing our audit, we have obtained an understanding of the manner in which macroeconomic developments can come to impact SAS and how the Board of Directors and company management work to obtain information to serve as documentation in decision-making processes, and how they monitor to ensure that the measures determined to be undertaken are implemented in the manner intended. In our audit we have also studied the company management's liquidity plans, alternative financing possibilities and sensitivity analyses regarding access to financing and currency and interest-rate developments. Based on our audit, we have concluded that SAS currently has realistic possibilities to fulfil its commitments in the form of actual borrowing, as well as regards leasing commitments and commitments for future aircraft purchases. We are also of the opinion that the annual accounts of SAS provide a satisfactory degree of disclosure regarding the company's challenges and risks in relation to its continued financing activities.

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and the consolidated accounts, which can be found on pages 1–30 and 102–105 of the printed version of this document.The Board of Directors and the President are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If, based on the work performed concerning this information, we conclude that the other information contains a material misstatement, we would be obliged to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the President

The Board of Directors and the President are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the President are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the President are responsible for the assessment of the company's and the Group's ability to continue as a going concern. When applicable, they provide disclosures regarding circumstances that could affect the capacity to continue as a going concern and to be able to apply the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the President intend to liquidate the company, cease operations, or have no realistic alternative but to do so.

Without prejudice to the Board of Director's responsibilities and tasks in general, the Audit Committee of the Board of Directors shall, among other things, oversee the company's financial reporting process.

Auditors' responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to submit an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA and generally accepted auditing standards in Sweden 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 annual accounts and consolidated accounts.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement in the annual accounts and consolidated accounts, 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 opinions. 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 controls.
- obtain an understanding of the company's internal control relevant to our 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 the Board of Directors and the President.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we have identified.

We must also provide the Board of Directors 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 the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and which therefore comprise the key audit matters. We describe these matters in the auditors' report unless laws or regulations preclude disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditors' report because the adverse consequences of doing so could reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the President of SAS AB (publ) for the November 1, 2015–October 31, 2016 fiscal year and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the Report by the Board of Directors and that the members of the Board of Directors and the President be discharged from liability for the fiscal year.

- conclude on the appropriateness of the Board of Directors' and the President's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and 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 annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our opinions.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditors' responsibility section. We are independent of the Parent Company and the Group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. The proposal of a dividend includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the Group's type of operations, size and risks place on the size of the Parent Company's and the Group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the Group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The President shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and include taking the necessary measures to ensure the company's accounting is conducted in compliance with legislation and the proper and appropriate management of financial assets.

Auditors' responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the President in any material respect:

- has undertaken any action or been guilty of any omission which could give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on my (our) professional judgment with their starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions taken, decision data, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditors' examination of the corporate governance report

The Board of Directors is responsible for the Corporate Governance Report on pages 45–54 of the printed version of this document having been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance report is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance report. This means that our examination of the corporate governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance report has been prepared. Disclosures in accordance with Chapter 6, Section 6, the second paragraph, points 2-6 of the Annual Accounts Act and Chapter 7, Section 31, the second paragraph of the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

PricewaterhouseCoopers AB, SE-113 97 Stockholm, was elected auditor of SAS AB by the annual meeting of shareholders on March 8, 2016 and has been the company's auditors since March 20, 2013.

Stockholm, January 31, 2017

PricewaterhouseCoopers AB

Bo Hjalmarsson Authorized Public Accountant Auditor in Charge	Eva Medbrant Authorized Public Accountant

INDEPENDENT AUDITOR'S REPORT

To TUI AG, Berlin and Hannover

Report on the Audit of the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of TUI AG, Berlin and Hannover, and its subsidiaries, which comprise the consolidated statement of financial position as at 30 September 2015, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements.

In our opinion based on the findings of our audit, the accompanying consolidated financial statements comply, in all material respects, with International Financial Reporting Standards, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": "German Commercial Code") and give a true and fair view of the net assets and financial position of the Group as at 30 September 2015 and the results of operations for the financial year then ended, in accordance with these requirements.

According to § 322 Abs. 3 Satz (sentence) 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations.

Basis for Audit Opinion

We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW) and additionally considered the International Standards on Auditing (ISA). Our responsibilities under those provisions and 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 Group in accordance with the provisions of German commercial law and professional standards as well as the IESBA Code of Ethics for Professional Acccountants of the International Ethics Standards Board for Accountants (IESBA Code) and we have fulfilled our other professional responsibilities in accordance with these requirements. 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 audit opinion thereon, and we do not provide a separate audit opinion on these matters.

In our view, the key audit matters were as follows:

1. Acquisition of non-controlling interests in TUI Travel PLC by TUI AG
2. Recoverability of goodwill
3. Recoverability of shares in Hapag-Lloyd AG
4. Provisions and other areas of judgment
5. Deferred tax assets relating to losses carried forward and risks related to German trade tax
6. EBITA adjustments

Our presentation of these key audit matters has been structured as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

❶ Acquisition of non-controlling interests in TUI Travel PLC by TUI AG

FINANCIAL RECOGNITION OF ACQUISITION OF NON-CONTROLLING INTEREST

① During the financial year TUI AG acquired all non-controlling interests in TUI Travel PLC, Crawley/United Kingdom, (hereinafter "TUI Travel PLC") by TUI AG. The Acquisition was executed by capital increase of TUI AG in return for shares in TUI Travel PLC as contribution in kind. Thereby the shareholders of TUI Travel PLC (except TUI AG) received for each share of TUI Travel PLC 0.399 new shares of TUI AG. The subscribed capital of TUI AG increased therefore by € 621 million. The measurement of the shares issued as consideration was conducted at fair value on stock issue (listing price on registration date). This resulted in a reduction of profit reserves by € 3,313 million. The difference of this amount (€ 3,313 million) and the increase of subscribed capital (€ 621 million) less the related expenses (€ 16 million) results in an increase of capital reserve by € 2,676 million. The non-controlling interests recorded in Group's equity up to the acquisition of € –606 million less related expenses (€ 46 million) have been directly offset against profit reserves, which therefore did decrease. Overall the amount of the Group's equity was reduced by the incurred expenses of € 62 million. This matter was from our point of view of particular importance because of its material impact on Group's equity accounts.

② With respect to the recognition of the acquisition of non-controlling interests we intensively dealt during our audit with the underlying legal requirements as well as the assessments of the involved consultants on this transaction. We considered the measurement of the shares issued as contribution in kind based on the listing price at the date of registration in the commercial register. Furthermore, we examined the amount of non-controlling interests for write off. Based on the procedures performed we were able to satisfy ourselves that the acquisition of non-controlling interests in TUI Travel PLC is properly presented.

③ The Company's disclosures about acquisition of non-controlling interests and their impact on Group's equity accounts are contained in section "Merger of TUI AG with TUI Travel PLC" and in sections 26 to 28 of the notes to the consolidated financial statements.

EXPENSES RELATED TO THE ACQUISITION OF NON-CONTROLLING INTERESTS

① In connection with the acquisition of non-controlling interests in TUI Travel PLC, expenses relating to the fees from banks and consulting firms accrued. Where material expenses are directly related to the capital increase or the acquisition of non-controlling interests, the costs incurred have to be directly offset against equity. Therefore, € 62 million were classified directly in equity. This matter was from our point of view of particular importance because the underlying allocation rules are very complex.

② During our audit we satisfied ourselves of the proper recognition of the accrued expenses based on the evidence submitted to us. Furthermore, we reperformed the allocation of expenses applied by Management and accept the classification made by Management.

③ The Company's disclosures about the recognition of expenses in connection with the acquisition of non-controlling interests in equity are provided in the statement of changes in equity and are further contained in section "Merger of TUI AG with TUI Travel PLC" of the notes to the consolidated financial statements.

CHANGE IN SEGMENT REPORTING

① As part of TUI AG's organisational and strategic reorganisation following the acquisition of non-controlling interests in TUI Travel PLC, the TUI Group's internal reporting structure was reorganized. Since the internal reporting structure is used as a basis for determining the segment structure under IFRS 8 (segment reporting), consequently the new reporting structure resulted in a change in TUI AG's segment reporting. From our point of view, this matter was of particular importance, because in the context of capital market communications the segment reporting has a special significance and the segment structure presented also affects other accounting-related areas (particularly the reallocation of goodwill and the resultant implication on testing of goodwill for impairment as well as the allocation of the remaining assets and the disclosure of discontinued operations).

② During our audit we, amongst other procedures, considered the internal reporting and its subcategorisation of the individual reporting units; and reconciled this structure to the segment structure used in the segment reporting. Moreover, we examined the method applied for the reallocation of goodwill. We were able to satisfy ourselves that the changes in segment reporting applied by Management were consistent with the reorganisation of the internal reporting structure.

③ The Company's disclosures about the change of the internal reporting structure regarding the acquisition of non-controlling interests are contained in section "Comments on Segments" of the notes to the consolidated financial statements.

❷ Recoverability of goodwill

① Goodwill amounting to € 3.2 million in total is reported under the goodwill line item in the statement of financial position in the consolidated financial statements of TUI AG. Goodwill is tested by the Company for impairment as of June 30 of the financial year (impairment test). While in the previous year goodwill for the former TUI Travel segment was tested for impairment based on this segment, in this financial year the goodwill for former TUI Travel has been split into the redefined segments after the acquisition of non-controlling interests and in each case tested for impairment at that level. As TUI Travel PLC was no longer listed at the reporting date and listing prices could therefore not be used for the measurement of goodwill, a discounted cash flow (DCF) valuation technique was used for measurement for the first time. From our point of view, this matter was of particular importance, because the result of this measurement depends to a large extent on Management's assessment of future cash inflows and the discount rate used, and is therefore subject to considerable uncertainty.

② With respect to the appropriateness of the future cash inflows used in the calculation we satisfied ourselves, amongst other procedures, by agreeing this information with the current budgets in the three-year plan adopted by Management and approved by the supervisory board, as well as by comparison with general and sector-specific market expectations. With the knowledge that even relatively small changes in the discount rate applied can have material effects on the value of goodwill calculated in this way, we also focused our testing on the parameters used to determine the discount rate applied, including the weighted average cost of capital, and reperformed the calculations. Due to the materiality of goodwill (representing approximately 22 % of consolidated total assets) and the fact that its measurement also depends on economic conditions which are outside of the company's sphere of influence, we also performed sensitivity analyses for cash-generating units with low coverage (net book value compared to present value) and found that the respective goodwill was sufficiently covered by discounted future cash flows. Overall, we consider the measurement inputs and assumptions used by Management to be in line with our expectations.

③ The Company's goodwill disclosures are contained in section 14 of the notes to the consolidated financial statements.

❸ Recoverability of shares in Hapag-Lloyd AG

① In TUI AG's consolidated financial statements, the shares in Hapag-Lloyd AG, Hamburg, (hereinafter "Hapag-Lloyd AG") are reported in the amount of € 335 million after a value adjustment of € 147 million and are presented as financial instruments within the balance sheet item financial assets available for sale. These shares are measured at fair value, with changes in fair value of less than 20 % of original costs being recognised directly in equity pursuant to TUI AG's internal accounting guidelines. Changes in measurement greater or equal 20 % result in an impairment and are classified in the income statement. As Hapag-Lloyd AG was not listed as of the reporting date and it was therefore not possible to use a listing price for the measurement of the shares, measurement took place using a discounted cash flow valuation technique. The Company's measurement showed that the previous carrying amount could no longer be covered by future cash inflows. This led to the recognition of an impairment loss of € 147 million. From our point of view, this matter was of particular importance, because the result of this measurement depends to a large extent on Management's assessment of future cash inflows and the discount rate used, and is subject to considerable uncertainty.

② Amongst other procedures, we examined the measurement of the shares in Hapag-Lloyd AG and verified the inputs used in connection with the valuation technique using company-specific information as well as sector-specific market data and expectations. We also evaluated the appropriateness of the threshold for impairments specified by TUI AG. Even taking into account the relevant market data (e. g. the first listing price of Hapag-Lloyd AG dated 6 November 2015), we found the measurement of the shares in Hapag-Lloyd AG to be within an acceptable range and we accept Management's assessment.

③ The Company's disclosures about financial assets available-for-sale are contained in section "Accounting and measurement methods" and section 19 of the notes to the consolidated financial statements.

❹ Provisions and other areas of judgment

① In TUI AG's consolidated financial statements, prepayments to hotels totalling € 967 million are reported under the balance sheet line item trade receivables and other assets; provisions for aircraft maintenance in the amount of € 564 million are reported under the balance sheet line item other provisions. In addition, provisions for pensions and similar obligations of € 1,147 million are reported. From our point of view, this matter was of particular importance, because recognition and measurement of these material items are based to a large extent on Management's estimates and assumptions.

② With the knowledge that estimated values result in an increased risk of material misstatements within the consolidated financial statements and that Management's measurement decisions have a direct and significant effect on consolidated profit, we assessed the appropriateness of the carrying amounts inter alia by comparing these amounts with historical data and by referring to contracts provided to us. Amongst other tests, we

- assessed the recoverability of prepayments to hotels, considering the background of current political developments in Greece and the incidents in Tunisia and Turkey, based on the repayment plans agreed with the respective hoteliers, the possibilities to offset payments with future overnight accommodation services and the framework agreements,
- reperformed the calculation of the costs expected for maintenance expenses for aircraft maintenance based on group-wide maintenance agreements, the price increases expected based on external market forecasts and the discount rates applied and
- assessed the appropriateness of the key assumptions and inputs used to calculate pension provisions by involving the expertise of our internal pension valuation specialists.

In doing so, we were able to satisfy ourselves that the estimates applied and the assumptions made by Management were sufficiently reasonable and supported with reference to historical data or third party information to justify the recognition and measurement of the material provisions and the other areas where judgment was involved.

③ The Company's disclosures about trade receivables and other assets as well as provisions are contained in sections 20 as well as 32 and 33 of the notes to the consolidated financial statements.

❺ Deferred Taxes assets relating to losses carried forward and risks related to German trade tax

① Deferred tax assets of € 331 million (of which € 239 million relate to losses carried forward) are reported in the consolidated statement of financial position in the consolidated financial statements of TUI AG. Due to the acquisition of non-controlling interest in TUI Travel PLC, the tax affairs have been restructured in Germany with the consequence of deferred tax assets of € 145 million being recognised by TUI AG relating to losses carried forward. Furthermore, there are tax risks as certain hotel expenses may not be completely deductible for the determination of German trade tax. Management estimates the probability of occurrence for these risks related to German trade tax to be less than 50%. Therefore, a contingent liability is disclosed, which does not result in a provision. Based on updated estimates this contingent liability considerably dropped to € 42 million from € 113 million previous year. From our point of view, these matters were of particular importance, because they depend to a large extent on estimates and assumptions made by Management, and is subject to uncertainties.

② Within our audit of these tax matters we added internal tax accounting specialists to our audit team. With their support, we assessed the internal processes and controls implemented to record tax matters. With respect to the tax restructuring, we also questioned the date when deferred taxes were recognized as well as Management's underlying reasons. We assessed the recoverability of deferred tax assets relating to losses carried forward and deductible temporary differences on the basis of the Company's internal forecasts for future taxable income position of TUI AG and its material controlled entities for income tax purposes using Management's planning and evaluated the appropriateness of the planning framework used. Furthermore, we examined the reconciliation to the tax expense. Based on expert opinions we gained an understanding about the tax risks from the treatment of certain hotel expenses in connection with the German trade tax and we evaluated the appropriateness of the

financial recognition. We were able to retrace the assumptions made by Management concerning the recognition and measurement of deferred taxes as well as the risk relating to German trade tax and accept Management's assessments.

③ The Company's disclosures about deferred taxes are contained in the notes to the consolidated financial statements in section "accounting policies" as well as in sections 9, 22, 37 and for tax disputes in section 40. In addition, further disclosures about the acquisition of non-controlling interests in TUI Travel PLC are in section "Merger of TUI AG with TUI Travel PLC" of the notes to the consolidated financial statements.

❹ EBITA adjustments

① For the TUI Group's management and analysis purposes, operating profit (earnings before interest, taxes and amortization – EBITA) is used and adjusted for one-off effects and non-operating effects on profit. Adjustments to EBITA in the amount of € 204 million have been reported in the consolidated financial statements of TUI AG. Underlying EBITA is used for capital market communication as a core financial performance indicator. Furthermore, underlying EBITA is used as a target achievement standard for the annual performance-related remuneration of TUI AG's middle management. The adjustments to EBITA were of particular importance during our audit, because the applied adjustments are based on TUI AG's internal accounting guidelines and there is a risk of bias in Management's judgment.

② We reperformed the calculation of underlying EBITA and assessed the identification of extraordinary effects on profit and non-operating effects on profit. Based on the knowledge obtained during the audit of the consolidated financial statements and the information provided to us by Management, we examined whether, the adjustments made are in line with the definition and the procedural method stated in the comments on segment reporting. We were able to satisfy ourselves that the adjustments applied to EBITA by Management were consistent with TUI AG's internal accounting guideline and continuous applied.

③ The Company's disclosures about the adjustments to EBITA as well as their determination are described under "Comments on Segments" in the segment reporting of the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information compromises

- the Corporate Governance- Report according to section 3.1 of the German Corporate Governance Code,
- the Management's Corporate Governance Statement pursuant to § 289a HGB
- the report concerning the UK Corporate Governance Code according to section 9.8.6 R (5) of the listing rules in the United Kingdom and
- the report to shareholders according to section 9.8.8 R of the listing rules in the United Kingdom as well as
- other parts of the annual report of TUI AG, Berlin and Hannover, for the financial year ending 30 September 2015, which were not subject of our audit.

Our audit 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, 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. If, based on the work we have performed, 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 Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements and, therefore, that these statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to §315a Abs. 1 HGB. Furthermore, Management is responsible for such internal controls as Management determines are 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 as well as using the going concern basis of accounting unless Management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The supervisory board of TUI AG, Berlin and Hannover, is responsible for overseeing the Company's financial reporting process.

Auditor's 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 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 § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW) and additional consideration of the ISA 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 German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW) and additional consideration of the ISA, we exercise professional judgment and maintain professional scepticism 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 include collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of the Group's internal controls.
- 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our audit 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 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 the consolidated financial statements give a true and fair view of the net assets and financial position of the Group in accordance with International Financial Reporting Standards, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an audit 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 the Supervisory Board 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 a statement to the Supervisory Board 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 the Supervisory Board, 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

REPORT ON THE AUDIT OF THE GROUP MANAGEMENT REPORT

We have audited the accompanying group management report, which is combined with the management report of TUI AG, Berlin and Hannover, for the financial year from 1 October 2014 to 30 September 2015.

In our opinion based on the findings of our audit of the consolidated financial statements and combined management report, the accompanying combined management report is in all material respects consistent with the consolidated financial statements, provides as a whole a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

According to § 322 Abs. 3 Satz 1 HGB we state, that our audit of the combined management report has not led to any reservations.

Management of TUI AG, Berlin and Hannover, is responsible for the preparation of the combined management report in accordance with the requirements of German commercial law applicable pursuant to § 315a Abs. 1 HGB.

We conducted our audit in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of the combined management report promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW). Accordingly, we are required to plan and perform the audit of the combined management report to obtain reasonable assurance about whether the combined management report is in all material respects consistent with the consolidated financial statements and the audit findings, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

REVIEW OF MANAGEMENT'S STATEMENT REGARDING THE UK CORPORATE GOVERNANCE CODE

Under section 8.8.10 R (2) of the UK Listing Rules we are required to review Management's Statement pursuant to 9.8.6 R (6) of the UK Listing Rules in the report concerning the UK Corporate Governance Code regarding the Company's compliance with the provisions C.1.1, C.2.1 and C.2.3 as well as C.3.1 to C.3.8 of the UK Corporate Governance Code during the financial year or respectively Company's explanation in case of discrepancies. We have nothing to report having performed our review.

Responsible Auditor

The responsible auditor on the audit is Thomas Stieve.

Hannover, 8 December 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Thomas Stieve Wirtschaftsprüfer (German Public Auditor)	Prof. Dr Mathias Schellhorn Wirtschaftsprüfer (German Public Auditor)

Auditor's Report [1]

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of

OMV Aktiengesellschaft, Vienna,

and of its subsidiaries (the Group) comprising the consolidated statement of financial position as of December 31, 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year then ended and the notes to the consolidated financial statements.

Based on our audit the accompanying consolidated financial statements were prepared in accordance with the legal regulations and present fairly, in all material respects, the assets and the financial position of the Group as of December 31, 2016 and its financial performance for the year then ended in accordance with the International Financial Reportings Standards (IFRSs) as adopted by EU, and the additional requirements under Section 245a Austrian Company Code UGB.

Basis for Opinion

We conducted our audit in accordance with Austrian Standards on Auditing. Those standards require that we comply with International Standards on Auditing. Our responsibilities under those regulations and 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 Group in accordance with the Austrian General Accepted Accounting Principles and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 fiscal year. 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 considered the following matters as key audit matters for our audit:

- Recoverability of intangible exploration and evaluation (E&E) assets
- Recoverability of the carrying value of property, plant and equipment
- Estimation of oil and gas reserves
- Estimation of provision for decommissioning and restoration obligations
- Recoverability of receivable from Romanian State
- Accounting for assets held for sale

Key Audit Matter	How our audit addressed the key audit matter
Recoverability of intangible exploration and evaluation (E&E) assets The carrying value of intangible E&E assets amounted to € 1,095 mn at 31 December 2016, after a write off (impairment) of € 322 mn in 2016. Under IFRS 6, Exploration for and Evaluation of Mineral Resources, exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying value of an exploration and evaluation asset may exceed its recoverable amount. The assessment of the carrying value requires management to apply judgement and estimates in assessing whether any impairment has arisen at yearend, and in quantifying any such impairment. The principal risks relate to management's intention to proceed with a future work program for a prospect or licence, the likelihood of licence renewal, and the success of drilling and geological analysis to date.	We evaluated management's assessment of the carrying value of intangible E&E assets performed with reference to the criteria of IFRS 6 and the Group's accounting policy. Specifically our work included, but was not limited to, the following procedures: ► Inquire whether management has the intention to carry out exploration and evaluation activity in the relevant exploration area which included the review of management's budget and discussions with senior management as to the intentions and strategy of the Group; ► Read Executive Board minutes of meetings and consider whether there were negative indicators that certain projects might be unsuccessful; ► Discuss with management about the status of the largest exploration projects; ► Assess whether the Group has the ability to finance any planned future exploration and evaluation activity;

OMV Group's disclosures about intangible E&E assets and related impairment testing are included in Note 4 (Accounting and valuation principles), Note 7 (Depreciation, amortization and impairment losses) and Note 13 (Intangible assets).

- Identify the existence of any fields where the Group's right to explore is either at, or close to, expiry and review management's assessment whether there are any risks related to renewal of the licence; and
- Review of supporting evidence where an E&E asset has been impaired.

Key Audit Matter	How our audit addressed the key audit matter
Recoverability of the carrying value of property, plant and equipment The carrying amount of property, plant and equipment amounted to € 14,613 mn at 31 December 2016, after an impairment charge of € 355 mn in 2016. The impairment mainly relates to oil & gas assets, a Turkish gas fired power plant and a gas storage facility in Germany. Under IFRS, an entity is required to assess, whether impairment indicators exist and if they exist, an impairment test is required. The assessment of the recoverability of the carrying amount of property, plant and equipment requires judgement in assessing whether there is an indication that an asset should be impaired and in measuring any such impairment.	We assessed and tested management's assessment of the recoverability of the carrying amount of property, plant and equipment by evaluating management's assessment whether impairment indicators exist. Where an impairment test was required, we evaluated management's assumptions. Specifically our work included, but was not limited to, the following procedures: ▸ Assess the design and implementation of the controls over the valuation process; ▸ Review and evaluation of management's assessment of the existence of impairment indicators; ▸ Compare the assumptions used within the future cash flow models to approved budgets and business plans;

The principal risk relates to management's estimates of future cash flows and discount rates, which are used to project the recoverability of property, plant and equipment. These future cash flows are mainly sensitive to assumptions in future oil and gas prices, production volumes (oil & gas assets), future spark spreads (gas power plant) and future summer/winter spreads (storage facility).

OMV Group's disclosures about property, plant and equipment and related impairment testing are included in Note 2 (Estimates and Assumptions), Note 7 (Depreciation, amortization and impairment losses) and Note 14 (Property, plant and equipment).

- Compare production profiles to oil and gas reserves and future short and long term oil and gas prices to consensus analysts' forecasts and those adopted by other international oil companies (oil & gas assets);
- Involve our valuation specialists to assist us in performing industry benchmarking and analysis over spark spreads (gas power plant), summer/winter spreads (storage facility) and discount rates;
- Assess the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year; and
- Review of management's sensitivity analysis over key assumptions in the future cash flow model in order to assess the potential impact of a range of possible outcomes.

Key Audit Matter	How our audit addressed the key audit matter
Estimation of oil and gas reserves Oil and gas reserves are an indicator of the future potential of the group's performance. Furthermore, they have an impact on the financial statements as they are the basis for production profiles in future cash flow estimates and basis for depreciation & amortization. The estimation of oil and gas reserves requires judgement and assumptions made by management and engineers. The principal risk is the impact of the oil and gas reserves estimate on the financial statements through impairment testing, depreciation & amortization and decommissioning provision estimate. OMV Group's disclosures about oil and gas reserves and related impairment testing are included in Note 2 (Estimates and Assumptions), Note 7 (Depreciation, amortization and impairment losses) and Note 23 (Provisions).	Our procedures have focused on management's estimation process in the determination of oil and gas reserves. Specifically our work included, but was not limited to, the following procedures: ▸ Walkthrough and understand of the Group's process and controls associated with the oil and gas reserves estimation process; ▸ Test controls of the oil and gas reserves review process; ▸ Analysis of the internal certification process for technical and commercial specialists who are responsible for oil and gas reserves estimation; ▸ Assess the competence of both internal and external specialists and the objectivity and independence of external specialists, to consider whether they were appropriately qualified to carry out the estimation of oil and gas reserves; ▸ Analyse the report of the external specialists on their review of Group's estimated oil and gas reserves as at 31 December 2015; ▸ Test whether significant additions or reductions in oil and gas reserves were made in the appropriate period and in compliance with Group's Reserves and Resources Guidelines; and

- Test that the updated oil and gas reserve estimates were included appropriately in the Group's consideration of impairment and in accounting for depreciation & amortization.

Key Audit Matter	How our audit addressed the key audit matter
Estimation of provision for decommissioning and restoration obligations The total provision for decommissioning and restoration obligations amounted to € 3,412 mn at 31 December 2016. Group's core activities regularly lead to obligations related to dismantling and removal, asset retirement and soil remediation activities. The principal risk relates to management's estimates of future costs, discount rates and inflation rates, which are used to project the provision for decommissioning and restoration obligations. OMV Group's disclosures about the provision for decommissioning and restoration obligations are included in Note 2 (Estimates and Assumptions) and Note 23 (Provisions).	We assessed management's annual estimation of the provision for decommissioning and restoration obligations. Specifically our work included, but was not limited to, the following procedures: ► Assess the design and implementation of the controls over the obligation estimation process; ► Compare current estimates of costs with actual decommissioning and restoration costs previously incurred. Where no previous data was available, we reconciled cost estimates to third party support or internal engineers' estimates; ► Review of supporting evidence for any material revisions in cost estimates during the year; ► Confirm whether the decommissioning dates are consistent with the Group's budget and business plans; ► Involve our valuation specialists to assist us in performing industry benchmarking and analysis of discount rates and inflation rates; and ► Test the mathematical accuracy of the decommissioning and restoration obligation calculation.

Key Audit Matter	How our audit addressed the key audit matter
Recoverability of receivable from Romanian State As part of the privatization agreement regarding OMV Petrom S.A., the Group is entitled to the reimbursement by the Romanian State of part of wells abandonment (decommissioning) and environmental costs incurred to restore and clean up areas pertaining to activities prior to privatization in 2004. Consequently, the Group has recorded a receivable from the Romanian State amounting to € 542 mn at 31 December 2016. The assessment of the recoverability of the receivables from the Romanian State, requires management to make judgements and estimates to assess the uncertainty regarding the expenditure recoverable from Romanian State. The assessment process is considering inter alia history of amounts claimed, documentation process and requirements, potential litigation or arbitration proceedings. OMV Group's disclosures about Environmental and Decommissioning State Receivables are included in Note 2 (Estimates and assumptions) and Note 18 (Other financial assets).	We assessed management's estimate regarding recoverability of the receivables from the Romanian State. Our work included, but was not limited to, the following procedures: ▸ Read the stipulations of the Annex P of the privatization agreement dated 23 July 2004, related to the acquisition by OMV Aktiengesellschaft of shares in the National Petroleum Company Petrom SA, as approved by Law no. 555/2004. Annex P includes stipulations related to the obligation of the seller (i.e. Ministry of Economy and Commerce) to reimburse the Company for historical environmental losses and abandonment costs, provided certain conditions are met; ▸ Review management's assessment of the recoverability of the receivables from the Romanian State, including the history of amounts claimed vs. amounts accepted and reimbursed, and discuss with management about the status of the notices of claims submitted by the Group and of the Arbitration process; ▸ Trace the receivables for which notices of claim have been submitted to the respective notices of claims;

- Trace the receivables for which decommissioning was performed but the notices of claim have not yet been submitted to the respective decommissioning costs;
- Trace the receivables for which decommissioning has not yet been performed against the respective decommissioning provisions;
- Discuss with management the estimates of timing of collection; and
- Test the mathematical accuracy of the calculation of the net present value of the receivables recorded.

Key Audit Matter	How our audit addressed the key audit matter
Accounting for assets held for sale The carrying value of assets held for sale amounted to € 3,405 mn at 31 December 2016, after a write off (impairment) of € 1,155 mn in 2016. In 2016 OMV Group planned, signed and closed several disposal transactions. We considered the accounting treatment in the financial statements of those transactions that are not closed yet and therefore shown as assets held for sale as a key audit matter because of size, complexity and the judgement required in calculating the impairment due to reclassification to assets held for sale. Major transactions include the sale of the OMV (U. K.) Limited and the planned sale of OMV Petrol Ofisi, Turkey. OMV Group's disclosures about planned disposals are included in Note 20 (Assets and liabilities held for sale), Note 7 (Depreciation, amortization and impairment losses) and Note 38 (Subsequent events).	Our work included, but was not limited to, the following procedures: ▸ Review management's assessment of the criteria to reclassify the respective assets as assets held for sale; ▸ Review whether the loss on disposal was calculated in accordance with the relevant clauses of the Share resp. Asset Purchase Agreement and assessing the net present value of contingent considerations which are linked to future performance of the divested business; ▸ Assess the valuation of disposal groups based on management's estimate of the expected sale proceeds.

Responsibilities of Management and of the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and the additional requirements under Section 245a Austrian Company Code UGB for them to present a true and fair view of the assets, the financial position and the financial performance of the Group and for such internal controls as management determines are 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 Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities 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 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 Austrian Standards on Auditing, which require the application of ISA, 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 Austrian Standards on Auditing, which require the application of ISA, we exercise professional judgment and maintain professional scepticism 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 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 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 the Audit Committee 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 the Audit Committee 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 the Audit Committee, 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. 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

Comments on the Directors' Report for the Group

Pursuant to Austrian Generally Accepted Accounting Principles, the directors' report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the directors' report for the Group was prepared in accordance with the applicable legal regulations.

Management is responsible for the preparation of the directors' report for the Group in accordance with Austrian Generally Accepted Accounting Principles.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the directors' report for the Group.

Opinion

In our opinion, the directors' report for the Group was prepared in accordance with the valid legal requirements, comprising the details in accordance with Section 243a Austrian Company Code UGB, and is consistent with the consolidated financial statements.

Statement

Based on the findings during the audit of the consolidated financial statements and due to the thus obtained understanding concerning the Group and its circumstances no material misstatements in the directors' report for the Group came to our attention.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the directors' report for the Group and the auditor's report thereon. The annual report is estimated to be provided to us after the date of the auditor's report. 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, our responsibility is to read the other information, as soon as it is available, and, in doing so, to consider whether – based on our knowledge obtained in the audit – the other information is materially inconsistent with the consolidated financial statements or otherwise appears to be materially misstated.

Responsible Austrian Certified Public Accountant

The engagement partner on the audit resulting in this independent auditor's report is Mr. Alexander Wlasto, Certified Public Accountant.

Vienna, March 22, 2017

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Alexander Wlasto
Wirtschaftsprüfer / Certified Public Accountant

Katharina Schrenk
Wirtschaftsprüferin / Certified Public Accountant

[1] This report is a translation of the original report in German, which is solely valid. Publication or sharing with third parties of the consolidated financial statements together with our auditor's opinion is only allowed if the consolidated financial statements and the directors' report for the Group are identical with the German audited version. This audit opinion is only applicable to the German and complete consolidated financial statements with the directors' report for the Group. Section 281 paragraph 2 UGB (Austrian Company Code) applies to alternated versions.

Summary

- Investors have welcomed extended auditor reporting and greatly value the enhanced information it provides (source: FRC, Extended auditor's reports, January 206)

- No reaction of Investors and analysts in Austria

- Implementation of New Revised ISAs

- Implementation of EU Audit Regulation and Directive

Thank you for your attention!

Practical Examples

Report

FRC Financial Reporting Council

January 2016

Extended auditor's reports

A further review of experience

Practical Examples