Societatea **N**ationala de **G**aze **N**aturale "**ROMGAZ**" SA

Consolidated Board of Directors' Report

2019

Contents

I. 2019 ROMGAZ GROUP OVERVIEW

1.1. Romgaz Group in figures

Romgaz Group1 recorded in 2019 a ***revenue*** of RON 5,080.5 million, increasing by 1.52%, namely RON 76.3 million, as compared to the previous year.

The Net Profit of RON 1,089.6 million was lower by RON 276.55 million than the net profit for 2018. Following factors influenced the net profit:

- A net impairment of assets of RON 837.3 million was recorded at the end of 2019 as a result of: cancelling some of the well investment projects (RON 250.3 million, of which RON 55.9 million for well Trinity – IX within EX 30 Trident block in the Black Sea), of some recent small investments in investment projects started in the previous years (RON 88.9 million), recording a net adjustment of RON 71.3 million following an impairment test of gas fields performed on December 31, 2019 and RON 388.1 million based on an impairment test of assets used in underground storage activity following the GMS and BoD decisions, taken in 2020, to increase the share capital of Filiala Depogaz;
- Increase by RON 166.1 million (30.16%) of the *windfall tax* further to the deregulation of prices in the gas sector;
- Decrease by RON 22.97% of *petroleum royalty* expenses (RON 343 million in 2019, compared to RON 445 million in 2018) further to the decrease in the reference price used in calculating such royalty;
- Increase by 11% of consolidated income from natural gas storage compared to 2018, in amount of RON 330.8 million (RON 298.0 million in 2018), the biggest influence being the capacity reservation services (an increase of RON 35.4 million, namely by 15.33%, compared to the previous year). The reserved capacity of 2019-2020 cycle (April 2019-March 2020), including the Group's share increased by 26.08% compared to the 2018-2019 underground storage cycle (April 2018-March 2019). In 2019, the quantities injected in storages increased by 51.40% which explains the increase of the income from underground storage services;
- Introduction in 2019 of a monetary contribution from licence holders in the electric power and natural gas sectors of 2% from the revenue obtained from the activities under the scope of licences granted by ANRE, amounting to RON 86.96 million.

The consolidated net profit per share was RON 2.83.

The ***achieved margins*** of the consolidated net profit (21.5%), consolidated EBIT (24.4%) and consolidated EBITDA (51.1%) confirm that the Group continues to maintain a high profitability.

In 2019, Romgaz Group made ***investments*** of RON 891.6 million, lower by RON 296.9 million, namely 24.98%, compared to 2018 and the value of commissioned fixed assets was RON 522.8 million.

[1] **Romgaz Group** consists of SNGN Romgaz SA ("Company"/"Romgaz") as parent company, Filiala de Inmagazinare Gaze Naturale Depogaz Ploiesti SRL ("Depogaz"), 100% owned by Romgaz, and associates SC Depomures SA (40% of the share capital) and SC Agri LNG Project Company SRL (25% of the share capital).

In 2019, *Romania's natural gas consumption* recorded a decrease of approximately 4%, from 12.3 bcm to 11.5 bcm according to ANRE and to the company's consumption estimations[2].

The 2019 Romgaz ***natural gas production*** recorded in 2019 a volume of 5,277 million cm, being lower by 1.05% than the production recorded in 2018. This level of production is high in relation to hydrocarbon production sector where production decline continually diminishes reserves production potential. This production, according to estimations, ensured Romgaz a ***56% market share*** of internal gas deliveries for consumption, and an approximately **44%** market share of deliveries for the total consumption of Romania.

The 2019 Romgaz ***electricity production*** was 590.13 GW lower by 49.35% than 2018 production because of the units' unavailability due to works on the new power plant. According to Transelectrica, Romgaz' ***market share*** is 1.00%.

Operational Results

The table below shows a summary of the main production indicators, royalty and storage services:

Q4 2018	Q3 2019	Q4 2019	Δ Q4 (%)	Main indicators	2018	2019	Δ '19/'18 (%)
1,411	1,249.8	1,327	-5.95	Gas production (million m^3)	5,333	5,277	-1.05
2,589	3,679	**4,388**	69.49	Condensate production (tons)	7,867	17,340	120.41
104	90	96	-7.69	Petroleum royalty (million m^3)	388	339	-12.63
414.5	120.4	**298.0**	-28.11	Electricity production (GWh)	1,165.2	**590.1**	-49.35
819.0	0.0	347.1	-57.62	Invoiced UGS withdrawal services (million m^3)	1,949.9	1,271.8	-34.78
119.6	1,226.8	**346.1**	189.38	Invoiced UGS injection services (million m^3)	1,731.2	**2,620.5**	51.37

Natural gas quantities produced, delivered, injected into and withdrawn from gas storages are shown in the table below (million m^3):

Item No	Specifications	2017	2018	2019	Ratios
0	1	2	3	4	5=4/3x100
1.	**Gross gas production – total**, including:	5,157.5	5,333.3	5,276.9	98.9%
1.1.	*own gas	4,987.7	5,177.1	5,276.9	101.9%
1.2.	*Schlumberger (100%)	169.8	156.3	0.0	-
2.	Technological consumption	74.5	86.4	78.9	91.3%
3.	**Net own gas production** (***1.-1.2.-2.***)	4,913.2	**5,090.6**	5,198.0	102.1%
4.	Own gas injected into UGS	253.5	348.1	526.0	151.1%
5.	Own gas withdrawn from UGS	723.5	479.4	257.7	53.8%
5.1.	*gas cushion		6.9	0.0	-
6.	Difference from conversion to Gross Calorific Value	2.7	1.4	0.0	-
7.	**Delivered own gas** (***3.-4.+5.-6.***)	**5,380.5**	**5,220.5**	**4,929.7**	**94.4%**
8.1.	Gas sold in UGS	0.0	8.1	0.0	-
8.2.	Gas delivered to CTE Iernut and Cojocna from Romgaz's gas	506.4	326.7	173.0	53.0%
9.	**Own gas delivered to the market** (***7.+8.1.-8.2.***)	**4,874.1**	**4,901.9**	**4,756.7**	**97.0%**

[2] As until the date of this Report ANRE did not publish the gas market monitoring reports for December 2019, the data used for national consumption and market shares are estimated data.

Item No	Specifications	2017	2018	2019	Ratios
0	1	2	3	4	5=4/3x100
10.	**Gas from joint ventures– total**, including:	**175.5**	**163.6**	**140.5**	**85.9%**
	*Schlumberger (50%)	84.9	78.2	0.0	-
	*Raffles Energy (37.5%)	0.1	0.0	0.0	-
	*Amromco (50%)	90.5	85.4	140.5	85.9%
11.	Gas purchase from domestic production (including imbalances)	27.0	9.7	4.4	45.4%
12.	**Traded domestic gas** (***9.+10.+11.***)	**5,076.6**	**5,075.2**	**4,901.6**	**96.6%**
13.	**Gas delivered from domestic production** (***8.2+12.***)	**5,583.0**	**5,401.9**	**5,074.6**	**93.9%**
14.	Delivered import gas	33.0	181.4	53.0	29.2%
15.	Gas delivered to CTE Iernut and Cojocna from other sources (including imbalances)	40.3	19.4	4.5	23.2%
16.	**Total delivered gas** (***13.+14.+15.***)	**5,656.3**	**5,602.7**	**5,132.1**	**91.6%**
*	Invoiced UGS withdrawal services	1,745.5	1,949.9	1,271.8	65.2%
*	Invoiced UGS injection services	1,497.6	1,731.2	2,620.5	151.4%

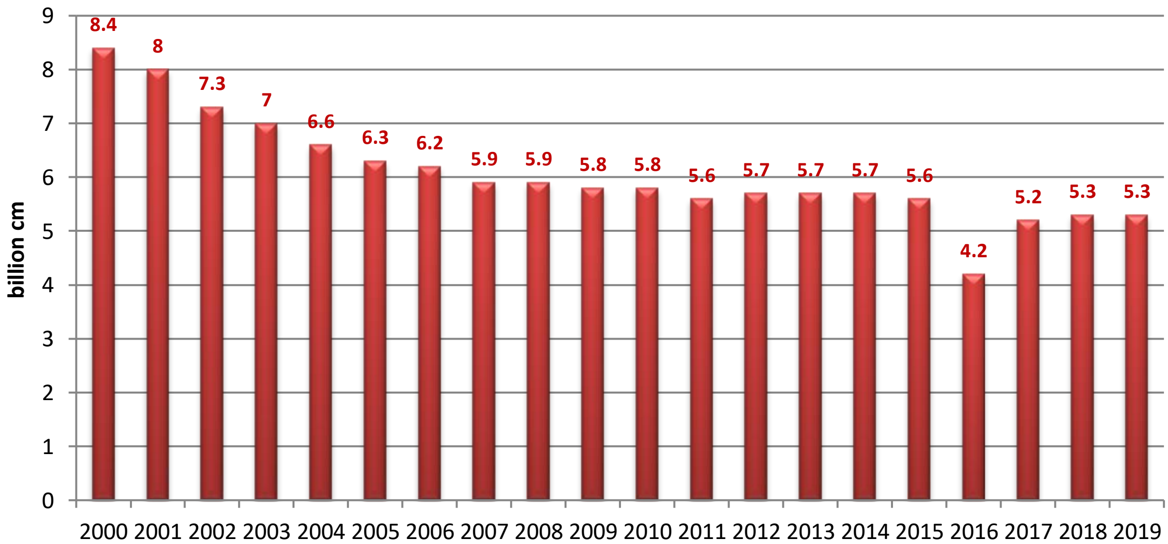
Note: the information is not consolidated; these include the transactions between Romgaz and Depogaz.

*) *Romgaz-Schlumberger joint venture contract ended on November 30, 2018. With respect to the joint venture with Amromco, gas produced is reflected in Romgaz revenue, proportionally with its respective participating interest share in the joint venture.*

Natural gas production lies in the parameters forecasted in the 2019 program, achieving 98.6% of the planned production (5,277 million m^3 – achieved vs 5,350 million m^3 – planned).

The production level was maintained by the ongoing production rehabilitation projects of the main fields, performance of capitalisable repair and well recompletion works in 169 wells, bringing into production new wells.

The natural gas production evolution during 2000-2019 is shown below:



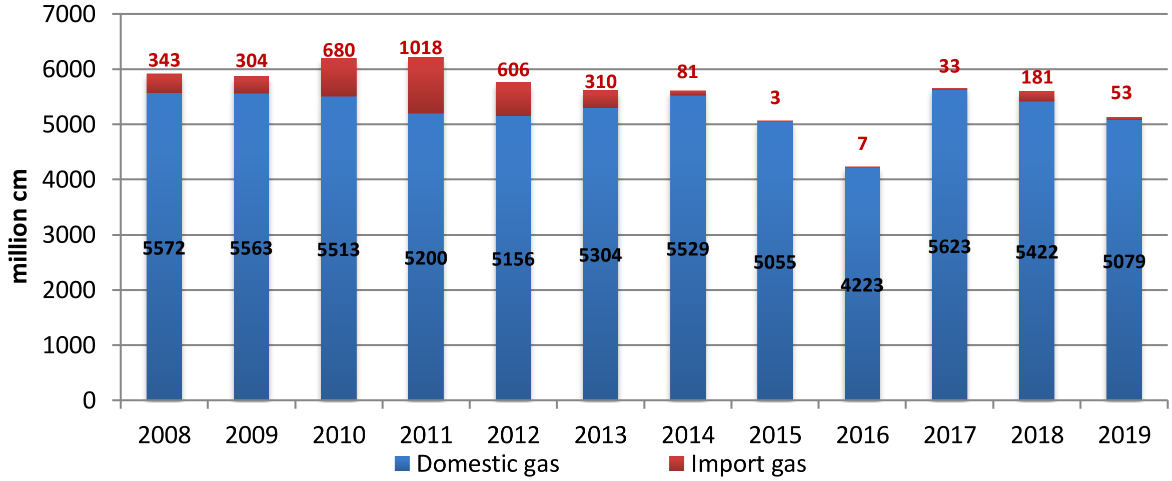
Decrease of Romgaz *electricity production* by 49.35% as compared to the similar period of 2018, as noticed in the data shown below, is due to the unavailability of the units because of the works performed at the new power plant.

The table below shows the quarterly electricity production for 2019, as compared to 2018:

MWh

	2018	2019	Variation
1	2	3	4=(3-2)/2x100
1st Quarter	287,287	170,894	-40.51%
2nd Quarter	178,933	773	-99.57%
3rd Quarter	284,429	120,443	-57.65%
4th Quarter	414,539	298,019	-28.11%
Year total	1,165,189	**590,129**	-49.35%

Romgaz is one of the largest gas suppliers in Romania. The evolution of gas supplies[3] during 2008-2019 is shown below:



Relevant Consolidated Financial Results

RON million

Q4 2018	Q3 2019	Q4 2019	Δ Q4 (%)	Main indicators	2018	2019	Δ '19/'18 (%)
1,559.6	916.1	1,289.6	-17.31	Revenue	5,004.2	5,080.5	1.52
1,531.2	1,014.6	1,308.4	-14.55	Income	5,048.8	5,235.4	3.70
1,164.7	770.1	1,429.3	22.72	Expenses	3,464.3	3,961.7	14.36
0.6	0.2	0.1	-83.33	Share of profit of associates	0.6	**1.5**	150.00
367.5	244.7	**(120.8)**	n/a	Gross profit	1,585.2	1,275.2	-19.56
27.8	35.5	**(25.3)**	n/a	Income tax expense	219.0	185.60	-15.25
339.7	209.2	(95.5)7	n/a	Net profit	1,366.2	1,089.6	-20.25
354.2	238.5	**(128.8)**	n/a	EBIT**)	1,531.9	1,237.1	-19.24
673.9	467.5	634.9	-5.79	EBITDA**)	2,240.0	2,595.3	15.86
0.86	0.5	**(0.25)**	n/a	Earnings per share EPS**) (RON)	3.54	2.83	-20.06
21.78	22.8	**-7.4**	n/a	Net profit ratio**) (% from Revenue)	27.30	**21.45**	-21.43

[3] Comprise own gas from domestic production, including gas delivered to CTE Iernut and Cojocna, 50% of the gas from Schlumberger joint venture and gas purchased from the domestic production of other producers

22.71	26.0	-9.99	n/a	EBIT Ratio**) (% from Revenue)	30.61	**24.35**	-20.45
43.2	51.0	49.23	13.96	EBITDA Ratio**) (% from Revenue)	44.76	**51.08**	14.12
6,214	6,214	6,251	0.6	Number of employees at the end of the period	6,214	6,251	0.6

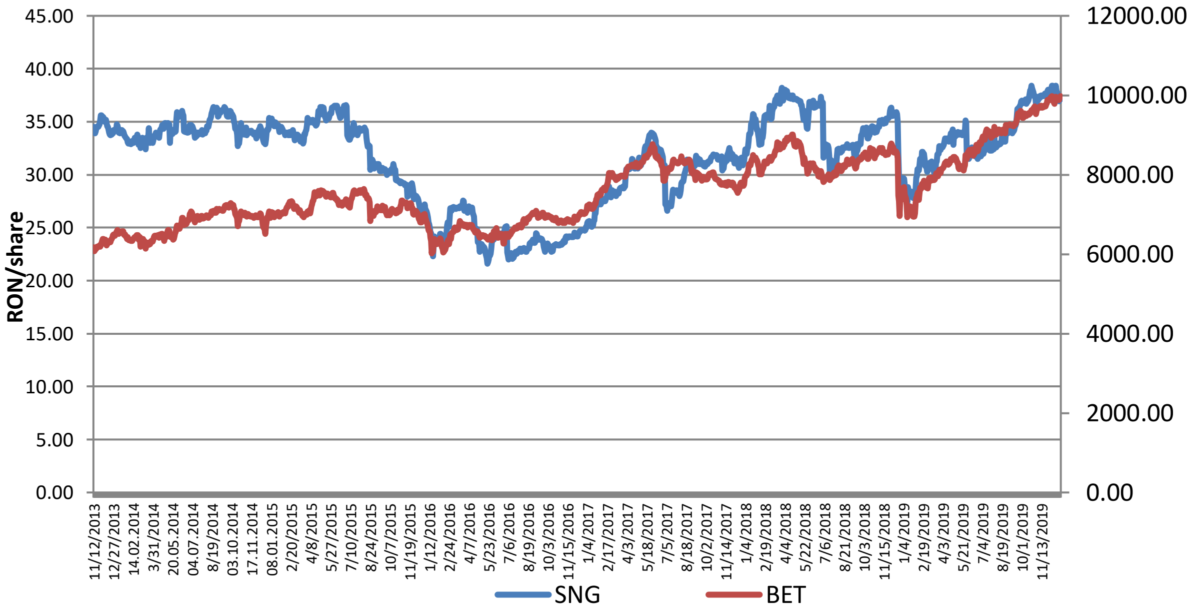
Figures in the above table are rounded; therefore, small differences may result upon reconciliation.

Note 1: Income and Expenses do not include those related to in-house production of non-current assets.

Romgaz on the stock exchange

Since November 12, 2013, the company's shares have been traded on the regulated market governed by BVB (Bucharest Stock Exchange) under the "*SNG*" symbol, and the GDRs on the regulated market governed by LSE (London Stock Exchange) under the "*SNGR*" symbol.

Performance of Romgaz shares compared to the evolution of BET index (Bucharest Exchange Trading) from listing to December 31, 2019 is shown below:



1.2. Important events

March 29, 2019

Romanian Government issues GEO No.19/2019[4] favourably amending GEO no. 114/2018[5] in that capping of natural gas sale price at RON 68/MWh during May 1, 2019 – February 28, 2022 is limited to gas deliveries to "*suppliers of residential customers and thermal energy producers, only for natural gas quantity used in producing thermal energy in cogeneration plants and thermal power plants for population consumption*".

Through GEO no. 114/2018 price capping aimed at gas deliveries to "*eligible final suppliers and customers*", with the mention that "*during this period the producer has the obligation to sell to suppliers, as a priority, under ANRE regulated conditions, in order to cover the entire consumption needs of residential customers from current production and/or from UGSs*".

[4] Romanian GEO no.19 of March 29, 2019 amending and supplementing certain legislative acts.

[5] GEO no. 114 of December 28, 2018 on imposing certain measures in public investments sector and certain fiscal-budgetary measures, amending and supplementing certain legislative acts and extending certain terms.

April 1, 2019

New storage tariffs approved by ANRE through Order no.44/2019 take effect.

May 7, 2019

Romgaz celebrates 110 years from the first gas discovery in Romania. Natural gas history in Romania began in 1909, in Sarmasel, when, while drilling at over 300 m depth for potassium salts, natural gas burst out. This phenomenon marked the beginning of a secular industry.

June 26, 2019

Through Resolution No.6, Romgaz shareholders, exercising the cumulative vote, appoint the following persons as members of Romgaz Board of Directors:

- Stan-Olteanu Manuela-Petronela
- Havrilet Niculae
- Ciobanu Romeo-Cristian
- Parpala Caius-Mihai
- Harabor Todorel
- Cimpeanu Nicolae
- Jansen Petrus Antonius Maria

Mr. Ciobanu Romeo Cristian and Mr. Jansen Petrus Antonius Maria were reconfirmed as members, being selected following a selection process carried out during 2018 and appointed as members of Romgaz Board of Directors for a 4 year mandate pursuant to Resolution of OGMS no.8 of July 6, 2018. As a result, their mandate is still in effect. The other board members are appointed for a 4 month period due to their interim mandate.

October 24, 2019

Romgaz and SOCAR signed a Memorandum of Understanding pursuant to which both companies shall cooperate in oil and gas upstream projects (exploration and production). The purpose of this Memorandum is to establish a strategic cooperation in order to develop projects of common interest, mainly in the Republic of Azerbaijan and Romania, as well as internationally.

October 28, 2019

By Resolution No.8, Romgaz shareholders approve the extension of the interim mandates for a period of 2 month as of their end date, pursuant to the provisions of article 64^1, paragraph (5) of GEO No. 109/2011.

December 23, 2019

By Resolution No. 11, Romgaz shareholders approve the revocation of the following members of the Board of Directors:

- Stan-Olteanu Manuela-Petronela
- Havrilet Niculae
- Parpala Caius-Mihai
- Harabor Tudorel
- Cimpeanu Nicolae

and approve the selection of the following interim members of the Board of Directors, for a 4 months mandate:

- Jude Aristotel Marius

- Stan-Olteanu Manuela-Petronela
- Harabor Tudorel
- Marin Marius Dumitru
- Balazs Botond

II. PARENT COMPANY AT A GLANCE

2.1. Identification Data

Name: Societatea Nationala de Gaze Naturale "ROMGAZ" SA
Main scope of activity: natural gas production
Address: Medias, 4 Constantin I. Motas Square, 551130, Sibiu County
Trade Registry registration number: J32/392/2001
Fiscal registration number: RO14056826
LEI Code: 2549009R7KJ38D9RW354
Legal form of establishment: joint-stock company
Subscribed and paid in share capital: RON 385,422,400
Number of shares: 385,422,400 each having a nominal value of RON 1
Regulated market where the company's shares are traded: Bucharest Stock Exchange (shares) and London Stock Exchange (GDRs)
Phone: *0040 374 401020*
Fax: *0040 269 846901*
Web: *www.romgaz.ro*
E-mail: secretariat@romgaz.ro

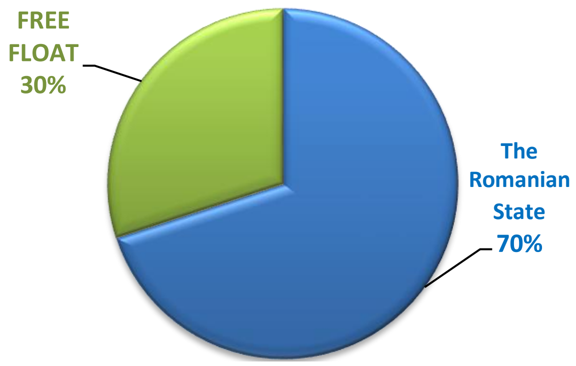
Bank accounts opened at: Banca Comerciala Romana, BRD-Groupe Société Générale, Citibank Europe, Patria Bank, Raiffeisen Bank, Banca Transilvania, ING Bank, Eximbank, CEC Bank.

Shareholder Structure

As of December 31, 2019 the shareholder structure is:

	Number of shares	%
	Number of shares	%
The Romanian State[6]	269,823,080	70.0071
Free float – total, including:	115,599,320	29.9929
***legal persons**	98,317,285	25.5090
***natural persons**	17,282,035	4.4839
Total	**385,422,400**	**100.0000**

[6] The Romanian State through the Ministry of Economy, Energy and Business Environment



In financial year 2019 the Company ***neither performed transactions with own shares*** nor held own shares on December 31, 2019.

2.2. Company organization

Romgaz organization structure is a hierarchy-functional type, with a number of six hierarchy levels, from company's shareholders to execution personnel, as follows:

- General Meeting of Shareholders
- Board of Directors
- Director General
- Deputy Directors General
- Branch Directors
- Heads of functional and operational compartments subordinated to the Director General, Deputy Directors General and Branch Directors
- Execution Personnel

The responsibilities of the Board of Directors are detailed in the Company's Articles of Incorporation as well as in the Rules of Organization and Operation.

The Director General, the Deputy Directors General, Economic Director, as well as the branch directors are key people in the structure and function of the company. The heads of compartments (branches/departments/directions/offices etc.) representing the connection between the upper structure and the employees of the respective compartment are directly subordinated to the afore-mentioned.

Each compartment has its own attributions well-defined in the company's Rules of Organization and Operation and all these elements work as a whole.

The tasks, competencies and responsibilities of the execution personnel are included in the job descriptions related to each position.

Until March 31, 2018, the company had seven branches set up based on the specific of the activities performed and on the region (natural gas production branches) as follows:

- Sucursala Medias (Medias Branch) having its office in Medias, 5 Garii Street, postal code 551025, Sibiu County, territorially organized in 8 sections;
- Sucursala Targu Mures (Targu Mures Branch) having its office in Tirgu Mures, 23 Salcamilor Street, postal code 540202, Mures County, territorially organized in 8 sections;

- Sucursala Ploiesti (Ploiesti Branch) having its office in Ploiesti, 184 G. Cantacuzino Street, postal code 100492, Prahova County, territorially organized in 2 sections and 2 workshops;
- Sucursala de Interventii, Reparatii Capitale si Operatii Speciale la Sonde Medias (SIRCOSS – Branch for Well Workover, Recompletions and Special Well Operations) having its office in Medias, 5 Soseaua Sibiului Street, postal code 551009, Sibiu County, territorially organized in 3 sections and 5 workshops;
- Sucursala de Transport Tehnologic si Mentenanta Targu Mures (STTM – Technological Transport and Maintenance Branch) having its office in Targu Mures, 6 Barajului Street, postal code 540101, Mures County, territorially organized in 3 sections and 3 workshops;
- Sucursala de Productie Energie Electrica Iernut (SPEE – Iernut Power Generation Branch) having its office in Iernut, 1 Energeticii Street, postal code 545100, Mures County;
- Sucursala Bratislava (Bratislava Branch) having its office in Bratislava, City Business Centre V.-Karadžičova 16, code 82108, Slovakia.

As of April 1, 2018 Sucursala Ploiesti ceased its activity and ***SNGN Romgaz SA – Filiala de Înmagazinare Gaze Naturale Depogaz Ploieşti SRL*** became operational, managing the natural gas underground storage activity.

Subject to BoD Resolution No.33 dated September 4, 2019, Ploiesti Branch was removed from the graphical scheme and deregistered from the National Tarde Registry Office.

Therefore, subject to EC Directive No. 73/2009 implemented by the Electricity and Natural Gas Law 123/2012 (art. 141), the storage activity is unbundled from SNGN Romgaz SA and performed by a storage operator, namely a subsidiary, where SNGN Romgaz SA is sole associate.

The subscribed and paid in share capital of the company is RON 66,056,160, divided in a number of 6,605,616 shares, with a nominal value of RON 10/share, solely owned by Romgaz.

The Subsidiary took over the operation of the underground storages licensed by SNGN Romgaz SA, the operation of assets that contribute to performing the storage activity and the entire personnel performing storage activities.

Information about the Subsidiary can be found at: https://www.depogazploiesti.ro

2.3. Mission, Vision and Values

Romgaz **Mission** is to produce and supply energy, to provide underground gas storage activities under quality, safety, continuity and flexibility conditions. The company uses all resources in a responsible and ethical manner in order to obtain long-term profit.

Vision

ROMGAZ aims to be an active, profitable and competitive player on the gas and electricity production market.

Romgaz has to pursue both a strong development on the local market and the development on the international market in order to become an important player on the regional energy market.

Values promoted by Romgaz are mainly the following:

2.4. Strategic Objectives

In order to meet its main business scope by efficiently using material, financial, informational and human resources, the company set the following strategic objectives:

- increase of the gas resources and reserves portfolio through the discovery of new resources and the improvement of the recovery rate of already discovered resources;
- identify new growth and diversification opportunities;
- increase the company's performance;
- optimization, development and diversification of the UGS activity by reconsidering its importance in terms of safety, continuity and flexibility of the natural gas supply;
- increase efficiency of the underground gas storages to improve gas trading capacities;
- increase daily production through investments that reduce dependency of the daily production capacity on the reservoir pressure;
- maintain the natural production decline at maximum 1.5% /year;
- consolidate the position on the energy supply market;
- optimise and increase efficiency of the company's organisational structure;
- elaborate a predictable dividend distribution policy to help potential investors understand the company's financial structure;
- expand the business regionally by identifying new business opportunities;
- implement corporate governance principles and the Ethics and Integrity Code;
- develop reporting, control and risk management capacities;
- responsible and active involvement in corporate social responsibility actions.

III. REVIEW OF ROMGAZ GROUP BUSINESS

3.1. Business Segments

Romgaz Group undertakes business in the following segments:

- natural gas exploration and production;
- UGS activity (the Subsidiary);
- natural gas supply;
- special well operations and services;
- maintenance and transportation services;
- power generation and supply;
- natural gas distribution.

Exploration - Production

In Romania, Romgaz performs, as titleholder or co-titleholder, under petroleum agreements as follows:

- petroleum operations in 9 exploration-development-production blocks with 100% participating interest and in 4 blocks as co-titleholder under certain concession agreements;
- 139 commercial reservoirs and 12 non-commercial reservoirs with experimental production and 11 reservoirs operated together with Amromco;
- exploration and production rights in Slovakia.

Exploration

Since October 1997, the exploration activity has been carried out in 8 blocks located in Transylvania, Moldova, Muntenia, and Oltenia, in accordance with the Concession Agreement approved by Government Decision No. 23/2000.

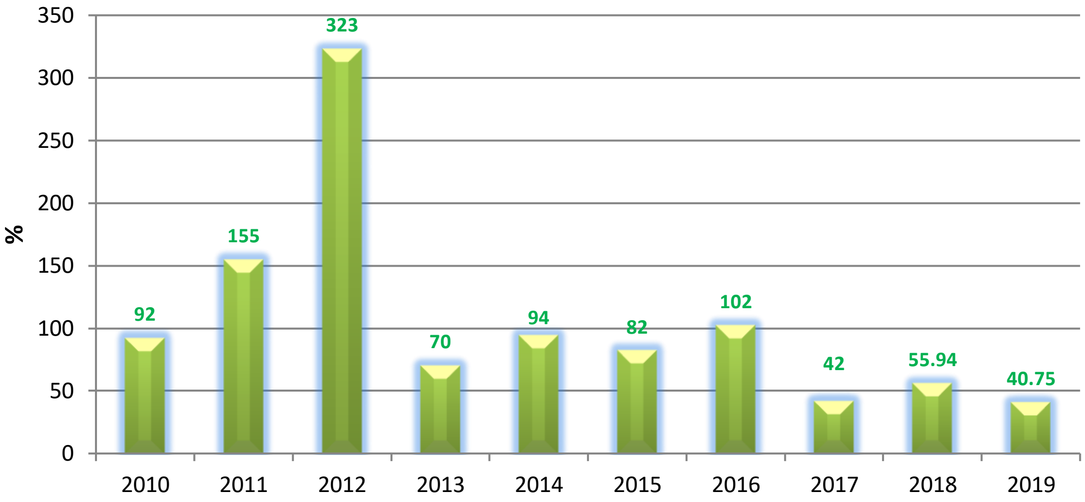
In 2019, six exploration wells out of ten were tested with gas and temporarily abandoned until the necessary infrastructure is constructed to turn these into experimental or final production. The success rate of 60% lies within the average margin of 35%-65% recorded in the international hydrocarbon production activity.

Well 7 Merii and well 4 Tapu turned 3,000 million cm from prospective resources to contingent resources.

Romgaz designs and plans all exploration works based on its own concepts by using modern professional software, prospectivity assessments of the geological areas displaying specific features within the blocks under concession. These are performed by using specific surface exploration methods to identify the areas with hydrocarbon accumulations (prospects), followed by exploration drilling to prove the presence of accumulations.

In 2012, the results materialised in the highest reserve replacement ratio of 323%.

The table below shows the evolution of the reserves replacement ratio during 2010-2019:



Reserves replacement ratio was influenced by the reduced volume of updated commercial fields and by postponing investments in the infrastructure necessary for commissioning production facilities.

Production

The 2019 annual program for petroleum operations considered the gas demand dynamics, reactivation, recompletion and workover operations, bringing into production of production wells and of those resulted from exploration activities, maintenance programs of compressor stations and of dehydration stations, commissioning of new compressor units and the dynamics of import and UGS injected/withdrawn gas flows.

The company's gas production in 2019 recorded a minimal decline, being 1.05% (5,277 million m^3 vs 5,333 million m^3) lower than the one recorded in 2018. According to estimates, this production ensured Romgaz a 56% market share of internal production gas deliveries for consumption and a 44% share of deliveries in Romania's total consumption.

The 5,277 million m^3 of production recorded in 2019 was influenced by:

1. investments made for extension/upgrading of surface facilities; commissioning of new wells on Caragele structure led to a production which represented 6.9% of Romgaz total production while condensate production equalled 10,677 tones, representing 61.5% of Romgaz total condensate production;
2. continuous production rehabilitation of the main mature fields: Filitelnic, Delenii, Laslău, Sădinca, Copsa Mica, Nadeş-Prod-Seleuş, Roman, Corunca Sud, Târgu Mureş, Grebeniş, Piscu Stejari-Hurezani;
3. performance of capitalisable repair and well recompletion works in 169 wells resulting in a production of 195.95 million m^3, namely 3.7% of the total production

Underground Gas Storage (UGS)

Beginning with 2019 there are 6 operational UGSs in depleted gas reservoirs in Romania. Romgaz owns and operates 5 UGSs having a total capacity of 3.965 billion m^3 and a working gas volume of 2.770 billion m^3.

Nationally, the ratio between the working gas volume and the annual consumption was about 22% in 2019. This level is in the first upper half of the international values chart of Europe.

In 2019 the ratio of stored gas volumes to the working volume of the UGSs was 69.31%.

The UGS activity performed by Depogaz Subsidiary is a business segment regulated by ANRE (National Authority for Energy Regulation) with regard to UGS operators' licensing, the access to the UGSs as well as setting the tariffs related to UGS activity.

Natural Gas Supply

After a thorough restructuring, the Romanian natural gas sector is currently split into independent activities. The Romanian natural gas market includes a NTS operator (Transgaz), producers (Romgaz and Petrom with a 97% market share), UGS operators, companies for the distribution and supply of gas to non-eligible customers, and suppliers on the wholesale market.

The natural gas market in Romania consists of the *competition segment*, which includes gas trading activities between suppliers and between suppliers and eligible consumers, and the *regulated segment*, which includes monopoly-like activities performed in accordance with framework contracts (transmission, underground storage, distribution and supply at a regulated price).
In terms of supply, Romgaz held, during 2012-2019, a national market share ranging between 37 and 46%:

	M.U.	2012	2013	2014	2015	2016	2017	2018	2019
National consumption	bcm	13.5	12.5	12.2	11.6	11.8	12.3	12.3	11.5
Romgaz traded volumes (domestic + import)	bcm	5.9	5.7	5.7	5.1	4.4	5.7	5.6	5.1
Romgaz market share	%	42.82	44.5	46.1	44.0	37.1	46.3	45.5	44.1

The above quantities include gas from own internal production, domestic gas purchased from third parties, 100% gas from Schlumberger joint venture and import gas. As compared to previous years, 2018 and 2019 deliveries include gas delivered to Iernut and Cojocna for electricity production, as well as technological consumption.

Well Workover, Recompletions and Special Operations

SIRCOSS was set up in 2003 in accordance with the GSM Resolution No. 5/June 13, 2003.

The branch performs two main types of activities:

- well workover, recompletion operations and production tests;
- special well operations.

All *well workover, recompletion operations and production tests operations* are performed by means of rig installations.

The second main activity consists of *special well operations*, namely services supplied by means of different transportable equipment for downhole or surface operations.

During the past years, most of services were supplied for the wells within the company's portfolio, yet, well workover and special well operations were also performed for other companies that have under concession and operate gas wells in Romania.

Transportation and Maintenance

STTM was established in October 2003, by taking over the means of transportation from Medias, Targu-Mures and Ploiesti branches.

The branch's scope of activity is the transportation of goods and people, the specific technological transportation, and the maintenance activity for the benefit of the company and of third parties.

Electricity Generation and Supply

CTE Iernut is an important junction point in the National Power Grid, located in the centre of the country, in Mures County, on the left bank of Mures River, between towns Iernut and Cuci, with easily accessible gas and industrial water sources and power discharge facilities.

CTE Iernut is operated by Sucursala de Producţie Energie Electrică (SPEE).

At the beginning of 2019, CTE Iernut had an installed capacity of 800 MW comprising 6 energy groups: 4 100 MW groups of Czechoslovakian manufacturing and 2 200 MW groups of Soviet manufacturing. The groups were commissioned between 1963 and 1967. Taking into consideration the beginning of investment works at 430 MW Combined Cycle Plant and the need to ensure proper conditions for carrying out works at the related cooling system, in January 2019, the commercial exploitation license was revoked for groups 2 and 3 of 100 MW, and in November 2019 for group 1 (of 100 MW) and 6 (of 200 MW). Therefore, at the end of 2019, SPEE Iernut holds commercial exploitation license for 2 groups: 1 100 MW group and 1 200 MW group.

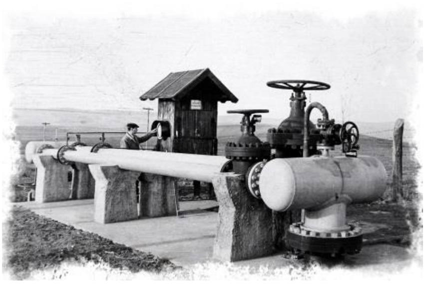
Cojocna Project is an outcome of the pressing need of finding ways to experimentally produce from a series of wells resulted from exploratory drilling, in order to determine, as detailed as possible, the production potential of such area. The wells were located far from each other and from the National Transmission System (NTS).

Therefore, gas from wells Palatca 1, Vaida 1 and 2 is used as fuel gas for two electricity generation units, each having 1.5 MW power.

Natural Gas Distribution

The natural gas distribution activity is a regulated activity carried out in Ghercesti and Piscu Stejari areas. Romgaz has concession agreements with the Ministry of Economy and Trade for Ghercesti area and with Piscu Stejari Town Hall for Piscu Stejari distribution. The activity is carried out by Targu-Mures Branch.

3.2. Brief History



Societatea Nationala de Gaze Naturale "ROMGAZ" SA is Romania's most important natural gas producer and supplier. The company's experience in the field of gas exploration and production exceeds 100 years. Its history began in 1909 when the first natural gas commercial reservoir was discovered, in the Transylvanian Basin, upon drilling of well Sarmasel-2.

The most important historic benchmarks are:

- **1909** • Natural gas discovery in Sarmasel (Transylvanian Basin)
- **1913** • First gas production recorded in Romania (113,000 m^3)
- **1925** • Setting up the National Gas Company "SONAMETAN"
- **1958** • First UGS in Romania at Ilimbav, Sibiu County
- **1972** • Use of compressors in the course of production
- **1976** • Maximum gas production obtained by Romgaz (29,834 million m^3)
- **1979** • Started to import natural gas from the Russian Federation
- **1991** • Centrala Gazului Metan was reorganized, by Government decision, to Regia Autonoma "ROMGAZ" RA
- **1998** • "ROMGAZ" RA becomes Societatea Naţională de Gaze Naturale "ROMGAZ" SA
- **2000** • SNGN "ROMGAZ" SA was reorganized in five independent companies (SC "Exprogaz" SA Mediaş, SNDSGN "Depogaz" SA Ploieşti, SNTGN "Transgaz" SA Mediaş, SC "Distrigaz Sud" SA Bucureşti şi SC "Distrigaz Nord" SA Tîrgu-Mureş
- **2001** • **The current SNGN "ROMGAZ" SA Medias was established**
- **2013** • Company shares are traded on Bucharest Stock Exchange and London stock Exchange (GDR's)
- **2015** • Unbundling the underground gas storage activity by setting up Filiala de Înmagazinare Gaze Naturale Depogaz SRL Ploieşti
- **2018** • As of April 1, 2018 Filiala de Înmagazinare Gaze Naturale Depogaz SRL Ploieşti became operational

3.3. Mergers and Reorganizations, Acquisitions and Divestment of Assets

Unbundling of underground gas storage activity

In compliance with European and national applicable laws, Directive 2009/73/EC[7] and Gas Law No 123/2012[8] Romgaz has to legally unbundle the gas storage activity from gas production and supply activities.

According to the provisions of article 141, paragraph 1 of the Law (which transcribes article 15, paragraph 1 of the Directive) a storage operator under a vertically integrated economic operator must be independent from other activities not related to transmission, distribution or underground storage activities at least from legal, organizational and decision-making perspective.

Therefore, considering the above mentioned matters, it is compulsory to legally unbundle the gas storage activity from the gas production and supply activities performed by Romgaz by establishing a separate company to act as independent storage operator.

The Extraordinary General Meeting of Shareholders approved by Resolution No.10/19.12.2014 (item 2) the setting up of "*SNGN ROMGAZ SA - Filiala de Înmagazinare Gaze Naturale "Depogaz" Ploieşti S.R.L.*" subsidiary.

The subsidiary became operational as of April 1, 2018.

Changes to the organizational structure

A series of changes to the organizational structure were performed in 2019:

- Decision No.5 of the Board of Directors of February 5, 2019 modified the organisational structure at the headquarters and the Rules of Organisation and Operation. The main changes are as follows:
  - Setting up new organisational units: Accounting Department, Regulations Department;
  - Reorganizing the Controlling and Risk Analysis Office and setting up a Controlling Office under the Accounting Department;
  - Setting up new offices: Preventive Financial Control, Strategic Analysis, Business Development, UE Funds and within it the Objectives Management and Strategy Office.
  - Disestablishing the Business Development Department and cancelling the related department director position;
  - Setting up of a new office under the name of "Business Development Office'
  - Changing the subordination of certain organisational units: Corporate Management Department, branches;
  - Cancelling certain management positions: deputy director general, Mechanic Department Director, Chief Drilling Engineer, Director of Energy Management Department, Director of Management Support Department;
  - Setting up the Patrimony Office;
- Decision No. 24 dated May 16, 2019 of the Board of Directors modified the organisational structure at the headquarters and SIRCOSS Medias and, consequently, the Rules of Organisation and Operation as follows:
  - headquarters: setting up a new organisational unit: "Drilling Department";
  - changing the subordination of certain organisational units: Mechanic Office, Administrative Office, Technical Regulations and Natural Gas

[7] Directive 2009/73/EC of the European Parliament and Council of July 13, 2009 concerning common rules of the internal market in the natural gas sector and repealing Directive 2003/55/EC
[8] Electricity and Gas Law no. 123 of July 10, 2012

Authorizations Office, Record of Petroleum Concessions Office, Petroleum Licenses Office;

- SIRCOSS Medias – setting up 2 well workovers and recompletion formations;

- Decision No. 33 dated September 4, 2019 of the Board of Directors modified the organisational structure of the headquarters, removing "Ploiesti Branch" from the company's organisational structure and setting up "Strategy, International Relations and EU Funds Department";
- Decision No. 38 dated October 21, 2019 of the Board of Directors modified the organisational structure of STTM Targu Mures and SPEE Iernut. The main changes are as follows:

  STTM Targu Mures

  - Reorganisation of car transportation and repair activities; Through reorganisation, at Medias, Targu Mures, Roman and Ploiesti working points administrative structures were set up, managing car transportation and repair activities coordinated by the same manager.

  SPEE Iernut

  - Mechanic Office and ISCIR (State Inspection for Control of Boilers, Pressure Vessels and Hoisting) - Repairs Monitoring Office merged under one organisational structure: Mechanic Office

No mergers of the company took place in financial year 2019.

3.4. Group Business Performance

3.4.1. Overall Performance

The Group's revenues are generated mainly from gas production and delivery (own gas production and delivery, gas produced by joint ventures, import gas deliveries and gas deliveries from other domestic producers), from supply of underground gas storage services, from production and supply of electric power and from other specific services.

Financial Results

** RON thousand **

Item no	Description	2018	2019	Ratio (2019/2018)
0	1	2	3	4=3/2x100
1	**Total Income, out of which:**	**5,048,815**	**5,235,436**	**103.70%**
	*operating income	4,991,422	5,194,679	**104.07%**
	*financial income	57,393	40,757	**71.01%**
2	Revenue	5,004,197	5,080,482	101.52%
3	**Total Expenses, out of which:**	**3,464,253**	**3,961,730**	**114.36%**
	*operating expenses	3,388,441	3,929,265	**115.96%**
	*financial expenses	75,812	32,465	42.82%
4	Share of associates' result	**622**	1,474	**236.98%**
5	**Gross Profit**	**1,585,184**	**1,275,180**	**80.44%**
6	Income tax	219,016	185,557	84.72%
7	**Net Profit**	**1,366,168**	**1,089,623**	**79.76%**

The total income of 2019 was higher by 3.70 % than the 2018 income.

Below are the compared economic-financial indicators for 2018 and 2019 and their detailed structure split by activity:

Compared economic-financial indicators * RON thousand *

Description	2018	2019	Variance (2019/2018)
1	2	3	4=(3/2-1)x100
Revenue	5,004,197	5,080,482	1.52%
Cost of commodities sold	(245,020)	(107,800)	-56.00%
Investment Income	53,279	38,124	-28.44%
Other gains or losses	(102,989)	(63,069)	-38.76%
Net losses from impairment of trade receivables	(19,941)	(81,221)	307.31%
Changes in inventories	(32,180)	80,008	n/a
Raw materials and consumables	(75,460)	(76,048)	0.78%
Depreciation, amortization and impairment	(708,142)	(1,358,250)	91.80%
Employee benefit expense	(621,330)	(670,408)	7.90%
Finance cost	(29,724)	(24,740)	-16.77%
Exploration Expenses	(247,123)	(24,564)	-90.06%
Share of associates' result	622	1,474	136.98%
Other Expenses	(1,409,447)	(1,551,642)	10.09%
Other Income	18,442	32,834	78.04%
Profit before tax	**1,585,184**	**1,275,180**	**-19.56%**
Income tax expense	(219,016)	(185,557)	-15.28%
Profit for the year	**1,366,168**	**1,089,623**	**-20.24%**

Structure of indicators split by activity-2018 * RON thousand *

Description	TOTAL 2018 including:	Gas production and deliveries	Underground Gas Storage	Electricity	Other activities	Settlement between segments
1	2	3	4	5	6	7
Revenue	5,004,197	4,522,558	355,135	388,514	356,486	(618,496)
Cost of commodities sold	(245,020)	(212,492)	(142)	(34,084)	(805)	2,503
Investment Income	53,279	74	456	10	52,739	-
Other gains and losses	(102,989)	(61,366)	2,970	(2,446)	(42,147)	-
Net losses from impairment of trade receivables	(19,941)	(20,103)	-	163	(1)	-
Changes in inventories	(32,180)	(13,380)	(21,606)	77	2,729	-
Raw materials and consumables	(75,460)	(54,882)	(21,530)	(1,213)	(11,033)	13,198
Depreciation, amortization and impairment	(708,142)	(529,727)	(98, 481)	(61,512)	(18,422)	-
Employee benefit expense	(621,330)	(390,737)	(57,578)	(34, 411)	(138,604)	-

Finance cost	(29,724)	(25,815)	(3,909)	-	-	-
Exploration Expenses	(247,123)	(247,123)	-	-	-	-
Share of associates' result	622	-	-	-	622	-
Other Expenses	(1,409,447)	(1,504,998)	(151,725)	(281,861)	(76,755)	605,892
Other Income	18,442	16,575	3,757	82	1,125	(3,097)
Profit before tax	**1,585,184**	**1,478,584**	**7,347**	**(26,681)**	**125,934**	-
Income tax expense	(219,016)	-	(754)	-	(218,262)	-
Profit for the year	**1,366,168**	**1,478,584**	**6,593**	**(26,681)**	**(92,328)**	-

Structure of indicators split by activity-2019 ** RON thousand **

Description	TOTAL 2019, including:	Gas production and deliveries	Underground gas storage	Electricity	Other activities	Settlement between segments
1	2	3	4	5	6	7
Revenue	5,080,482	4,709,795	454,370	237,759	288,883	(610,325)
Cost of commodities sold	(107,800)	(84,328)	(3)	(22,452)	(1,017)	-
Investment income	38,124	116	464	12	37,548	(16)
Other gains and losses	(63,069)	(73,663)	(501)	(816)	11,914	(3)
Loses from impairment of trade receivables	(81,221)	(81,208)	-	(6)	(7)	-
Changes in inventories	80,008	78,675	-	59	1,274	-
Raw materials and consumables	(76,048)	(51,100)	(31,215)	(955)	(10,071)	17,293
Depreciation, amortization and impairment	(1,358,250)	(848,836)	(485,078)	(7,135)	(17,201)	-
Employee benefit expense	(670,408)	(416,635)	(62,412)	(39,187)	(152,174)	-
Finance cost	(24,740)	(21,170)	(3,045)	-	(541)	16
Exploration expense	(24,564)	(24,564)	-	-	-	-
Share of associates' result	1,474	-	-	-	1,474	-
Other expenses	(1,551,642)	(1,703,856)	(198,547)	(154,849)	(88,165)	593,775
Other income	32,834	30,887	264	64	2,362	(743)
Profit before tax	**1,275,180**	**1,514,113**	**(325,703)**	**12,494**	**74,279**	**(3)**
Income tax expense	(185,557)	-	(7,741)	-	(177,81)	-
Profit for the year	**1,089,623**	**1,514,113**	**(333,444)**	**12,494**	**(103,53)**	**(3)**

Revenue

Compared revenue and the revenue weight on activity segments is shown in the table below:

Description	**2017**		**2018**		**2019**	
	RON mil	**% R**	**RON mil**	**% R**	**RON mil**	**% R**
Gas production and delivery activity	3,760.4	82.01	4,522.6	90.37	4,709.8	92.70
UGS activity	566.2	12.35	355.1	7.09	454.4	8.94

Electricity generation and delivery activity	545.3	11.89	388.5	7.76	237.8	4.68
Other activities	264.5	5.77	356.5	7.12	288.9	5.69
Settlement between branches	-551.3	-12.02	-618.4	-12.35	-610.3	-12.01
TOTAL Revenue	**4,585.2**	**100.00**	**5,004.2**	**100.00**	**5,080.5**	**100.00**

Financial Income

The financial income is lower by 28.99 % than the one recorded in the previous year. Financial income consists mainly of interests from cash in bank deposits and in state bonds.

Expenses

Description	Year 2018 (RON thousand)	Year 2019 (RON thousand)	Ratio (2019/2018)
1	2	3	4=3/2x100
Operating expenses	3,388,441	3,929,265	115.96%
Financial expenses	75,812	32,465	42.82%
Total expenses	**3,464,253**	**3,961,730**	**114.36%**

Financial Expenses

Financial expenses during 2019 are lower by 57.18% as compared to the previous year due to impairment recorded in 2018 in connection with the investment made by the Group in Electrocentrale Bucuresti.

Chapter 7 shows more details on the different expenses categories and a comparative assessment thereof.

Economic-Financial Results

Compared economic-financial results are shown in the table below (RON thousand):

Description	2018	2019	Ratio (2019/2018)
1	2	3	4=3/2x100
Operating results	1,602,981	1,265,414	78.94%
Financial results	(18,419)	8,292	45.02%
Share of associates' result	622	1,474	236.98%
Gross result	**1,585,184**	**1,275,180**	**80.44%**
Income tax	219,016	185,557	84.72%
Net Result	**1,366,168**	**1,089,623**	**79.76%**

Gross result during January – December 2019 in amount of RON 1,275,180 thousand is lower than the gross result of the similar period of 2018 by 19.56%.

The 2019 financial result is higher than the 2018 one, as 2018 was negatively affected by the impairment recorded in connection with the investment made by the Group in Electrocentrale Bucuresti.

Financial Performance is also emphasized by the evolution of indicators presented in the table below:

Indicators	Calculation Formula	M.U.	2018	2019
1	2	3	4	5
Working capital (WC)	C_{lt}-A_f = E+L_{nc}+Pr+S_i-A_f	RON mil	1,894	1,863
Working capital requirements (WCR)	(A_{st}-L+P_p) - (L_{crt}-Cr_{st}+I_{df})	RON mil	1,327	1,499
Net cash	WC-WCR = L-Cr_{st}	RON mil	567	364
Economic Rate of Return (ERR)	P_g/C_{lt}x100	%	19.01	16.59
Return on Equity	P_n/Ex100	%	17.82	15.19
Return on Sales	P_g/Rx100	%	31.68	25.10
Return on Assets	P_n/Ax100	%	14.96	13.20
EBIT	P_g+Ex_i-I_r	RON mil	1,532	1,237
EBITDA	EBIT+Am	RON mil	2,240	2,595
ROCE	EBIT/C_{emp}x100	%	18.37	16.10
Current liquidity	Ac/Lc	-	3.38	4.28
Asset Solvency	E/Lx100	%	83.95	86.92

where:

C_{lt}	long-term capital;	P_g	gross profit;
A_f	non-current assets;	P_n	net profit;
E	equity;	R	revenue;
L_{nc}	non-current liabilities;	A	total assets;
Pr	provisions;	Ex_i	interest expense;
S_i	investment subsidies;	I_r	interest income
A_{st}	short term assets;	Am	amortization and impairment;
L	liquidity position;	C_{emp}	capital employed (total assets–current liabilities)
Pp	Prepayments;	Ac	Current assets
Cr_{st}	short-term credit;	Lc	Current liabilities
I_{df}	deferred income	L	total liabilities

3.4.2. Sales

Sales' evolution and perspective

The entire quantity of gas traded by Romgaz was sold on the internal market. Romgaz traded quantities delivered on free market both by bilateral negotiation and on the centralized market. Quantities delivered during 2019 on the competitive market have been traded 55% on the Romanian centralized market.

Description		2017	2018	2019	2018/2017	2019/2018
Delivered gas	mil.cm	5,656.3	5,602.7	5,132.1	-0.95%	-8.40%
Sales to third parties	mil.cm	5,109.6	5,276.0	4,959.1	3.26%	-6.01%
Gas for electricity production in own power plant	mil.cm	546.7	346.1	173.0	-40.24%	-47.05%

From the total of quantities of gas delivered to third parties the following available means of trade have been used:

- gas delivered on the basis of contracts on regulated market: 16 TWh;
- gas delivered on the basis of contracts on centralized markets: 19.4 TWh;
- gas delivered on the basis of bilateral contracts on competitive market: 16.6 TWh.

Even if ROMGAZ's gas production increased, the volumes delivered in 2019 recorded a sensitive decrease, approximately 92% of the one recorded in 2018. With regard to gas deliveries from own production, these deliveries decreased to approximately 94.4%.

Gas delivered to third parties recorded a decrease of 6%. It is worth mentioning the increase of traded import gas by 30% compared to 2018. At the same time, the quantity of gas used at CET Iernut decreased by 53% as compared to 2018. The status of deliveries and sources is shown in the table from pages 4-5.

As regards the means of trading through Romanian centralized markets, Romgaz's weight was significant, approximately 30% of the total of gas traded on these markets with delivery in 2019 was sold by Romgaz. In terms of quantity, Romgaz traded over 19 TWh with delivery in 2019 on centralized markets, from the total of approximately 60 TWh, representing the total transactions performed on these markets with the same period of delivery.

Romgaz was also active on the day ahead market, respectively intraday market in order to optimize sales on one hand and to balance the portfolio, on the other hand, quantities sold on these markets being of approximately 0.7 TWh.

For 2020 the perspectives for the company's gas trades are characterized by:

- conclusion during 2019 of contracts with delivery in 2020 for approximately 50% of the sales estimates for this year;
- quantities were contracted both based on regulated contracts and on the competitive market. Through centralized markets, approximately 8 TWh were contracted with delivery in 2020;
- price capping for residential consumption and heat producers, as well as the other measures provided in GEO No. 114/2018[9] will cease starting with GEO no.1/2020, starting with July 2020.
- Current debates regarding the regulation of bidding methods on centralized markets;
- Withdrawal from UGSs, against the background of a mild winter, is at a very low level and considering the large quantities stored in 2019, we estimate that a significant gas quantity will remain in UGSs at the end of the withdrawal cycle;
- Implementation of projects that will increase the capacities of exporting gas from Romania to other countries (especially to Hungary and Bulgaria), which would lead to a proper interconnection of gas transmission networks from Romania and would represent an alternative in terms of gas trade. This aspect must be viewed in connection with the regulation framework that will be prepared by applying GEO No. 114/2018.

We estimate the maintenance of gas production and sales, corroborated with a decrease of energy production at CET Iernut in 2019 considering the works that will be performed to put the new power plant into operation.

[9] GEO No 114 of December 28, 2018 on setting up measures in the public investment sector and of fiscal-budgetary measures, amending and supplementing certain legislative acts and extending certain terms.

The competitive status and share in the market of the company's products and services

During 2019, the Romanian gas market continued its evolution with regard to the increase in liquidity and reselling on centralized markets as well as the positive evolutions regarding trade balancing through transactions on short term markets. The impact of GEO No.114/2018 led to a sharp increase of prices on the competitive market.

On gas market, as regards the sources, the competition was high between domestic and import sources. In fact, import volumes recorded a significant increase taking into consideration the decreasing import gas prices as well as the attractiveness of Romanian market regarding these sources.

According to the company's estimates, the national gas consumption dropped with approximately 6.7% as compared to 2018. The market share of domestic production recorded a decrease of 17% compared to 2018 (domestic gas for consumption). Most of additional import quantities compensated the decrease of national production.

In accordance with the data provided by the system operator, the national electricity production was of 59,454,280 MWh in 2019. On this market, Romgaz held a market share of 1.00% with a decrease of 45.12% compared to last year.

The yearly evolution of electricity production and market share:

Description	2017 (MWh)	2018 (MWh)	2019 (MWh)	2018/2017 (%)	2019/2018 (%)
Domestic production	63,747,760	63,933,510	59,454,280	0.29	-7.64
Romgaz production	1,863,788	1,165,189	590,129	-37.49	-49.35
Romgaz market share	2.924	1.822	1.00	-37.67	-45.12

As regards the generation sources, in 2019, the electricity was produced by (approximate levels, ANRE source, market reports):

- 30% hydro;
- 22 % coal;
- 18 % nuclear;
- 15% gas;
- 15 % renewable sources and other producers

Market Dependence

The situation of Romanian gas market allowed the company to have an extended portfolio of customers both on centralized markets and as regards the contracting by direct negotiation. Moreover, the company has a balanced portfolio as regards the ratio of the final consumer market (especially the power plants) to wholesale market where it sells gas to suppliers.

3.4.3. Prices and Tariffs

The regulatory framework for natural gas ***production***, transmission, ***distribution, supply and storage***, organization and operation of the gas sector, market access as well as criteria and procedures for granting authorizations and/or licenses in the natural gas sector is set by Law No. 123/2012.

Romgaz Group operates both on regulated market, performing underground gas storage and distribution activities, and on the free market, performing gas and electricity production and supply activities.

Underground Gas Storage

The revenues from the underground storage business and the storage tariffs are regulated since April 1, 2004, by *ANRGN Decision No. 1078/2003*, abrogated by *ANRE Order no. 22 of May 25, 2012* on approval of the Methodology for approving prices and setting regulated tariffs in the gas sector, published in the Official Gazette of Romania No. 379 of June 6, 2012.

The ANRE Order No. 14 of February 13, 2019 is currently in effect, approving the Methodology of establishing regulated tariffs for natural gas underground storage services.

The storage tariffs applied for the two compared periods are those approved by ANRE Order No. 58 of March 27, 2015 (between January 1, 2017 and March 31, 2018), ANRE Order No. 58 of March 29, 2018 (between April 1, 2018 and March 31, 2019) and ANRE Order No. 44 of March 29, 2019 (starting with April 1, 2019) respectively.

ANRE Order No.9 of March 23, 2016 and Order No. 19 of March 30, 2017 extended the term for applying Order No. 58/2015.

The storage tariffs applied are described in the table below:

Tariff Component	M.U.	Tariffs (01.01.2017-31.03.2018)	Tariffs (01.04.2018-31.03.2019)	Tariffs (starting with 01.04.2019)
Volumetric component for *gas injection*	RON/MWh	2.37	**1.68**	**1.90**
Fixed component for *capacity reservation*	RON/MWh/ storage cycle	13.68	**9.90**	**9.98**
Volumetric component for *gas withdrawal*	RON/MWh	1.87	**1.67**	**1.61**

Natural Gas Supply

The final gas price for the customer is the sum of the weighted average gas acquisition price, the tariffs of transmission, storage and distribution, and the trading component, according to the following formula:

Final price = Weighted average price of gas acquisition + Transmission tariff + Storage tariff + Distribution tariff + Trading component

The distribution tariffs depend on the distribution area and on the distribution system operator. Regulated prices and tariffs are calculated by the "*revenue-cap*" method for underground storage and gas transmission and by the "*price-cap*" method for regulated distribution and supply.

According to the provisions of Article 181, paragraph (5) of Law No. 123/2012, *the domestic gas acquisition price on the regulated market* is set by Government Decision, at the proposal of the competent ministry, and is updated by ANRE and ANRM, in accordance with the provisions of the Calendar for gradual deregulation of prices for the final customers.

The table below shows the average gas supply prices in the period 2017-2019:

Description	M.U.	2017	2018	2019
1	2	3	4	5
Average supply price for internal gas production[10]	RON/1000 cm	695.74	783.42	882.2
	RON/MWh	66.33	74.94	83.7
Average price for import gas	RON/1000 cm	898.27	1,134.84	1,468.8
	RON/MWh	83.81	105.65	136.9

[10] Including commodity gas and gas from the association with Schlumberger and without storage services costs

Natural Gas Distribution

Distribution tariffs and final regulated prices valid during the analysed period are approved by ANRE Orders, as follows:

- ANRE Order No. 57/2015 on amending ANRE Order No. 120/2014 on setting regulated tariffs for gas distribution services and approving prices for regulated gas supply performed by Societatea Natională de Gaze Naturale "ROMGAZ" - S.A. Medias, (as of July 1, 2015);
- ANRE Order No. 58/2016 on setting regulated tariffs for gas distribution service and approving prices for regulated gas supply performed by Societatea Nationala de Gaze Naturale "ROMGAZ" - S.A. Medias (as of October 1, 2016);
- ANRE Order No. 89/2017 on setting the regulated tariffs for gas distribution services and approving prices for regulated gas supply performed by Societatea Naţională de Gaze Naturale "ROMGAZ" - S.A. Medias (as of October 1, 2017);
- ANRE Order No. 85/2018 on setting the regulated tariffs for gas distribution services performed by Societatea Naţională de Gaze Naturale "ROMGAZ" - S.A. Medias (as of May 1, 2018);
- ANRE Order No. 146/2018 on setting the unitary income for 2019 and on approving regulated prices for regulated gas supply activity performed by Societatea Naţională de Gaze Naturale "ROMGAZ" - S.A. Medias (as of August 1, 2018).
- ANRE Order No. 146/2019 on setting the unitary income for 2019 and on approving regulated prices for regulated gas supply activity performed by Societatea Naţională de Gaze Naturale "ROMGAZ" - S.A. Medias (as of July 1, 2019).
- ANRE Order No.111/2019 on setting the regulated tariffs for gas distribution services performed by Societatea Naţională de Gaze Naturale "ROMGAZ" - S.A. Medias (as of July 2019).

The applied tariffs and prices are presented in the table below:

Description	**01.10.'17-30.04.'18**	**01.05.'18-31.07.'18**	**01.08.'18-30.06.2019**	**01.07.'19 -present**
Distribution tariffs (RON/MWh):				
*B1 consumption up to 23.25 MWh	52.70	52.75	52.75	
*B2 annual consumption between 23.26 and 116.28 MWh	47.91	47.96	47.96	
*B3 annual consumption between 116.29 and 1,116.78 MWh	47.01	47.07	47.07	
*B4 annual consumption between 1,116.79 and 11,627.78 MWh	46.21	46.26	46.26	
Distribution tariffs (RON/MWh):				
*C1 consumption up to 280 MWh				**52.87**
*C2 annual consumption between 280 and 2,800 MWh				**0.00**
*C3 annual consumption between 2,800 and 28,000 MWh				**50.00**
Final regulated prices (RON/MWH):				
*B1 consumption up to 23.25 MWh	119.10	119.10	152.23	
*B2 annual consumption between 23.26 and 116.28 MWh	114.31	114.31	147.44	
Final regulated prices (RON/MWh):				
*C1 consumption up to 280 MWh				**139.24**

3.4.4. Human Resources

On December 31, 2019 Romgaz Group had 6,251 employees and SNGN Romgaz SA had 5,738 employees. As of April 1, 2018 a number of 504 employees terminated their labour contracts concluded with the company continuing their activity under Depogaz Subsidiary.

The evolution of the number of employees between January 1, 2017 – December 31, 2019 is shown in the table below:

Description	2017	2018		2019	
		Romgaz Group	SNGN Romgaz SA	Romgaz Group	SNGN Romgaz SA
1	2	3	4	5	6
Employees at the beginning of the year	6,246	6,198	6,198	6,214	5,688
Newly hired employees	233	286	241	264	238
Employees who terminated their labour relationship with the company	281	270	751	227	188
Employees at the end of the year	6,198	6,214	5,688	6,251	5,738

The structure of employees at the end of 2019 was the following:

a) by level of education

- University 24.66 %
- Secondary education 28.55%
- Foreman education 2.96 %
- Vocational school 33.23 %
- Middle school 10.60 %

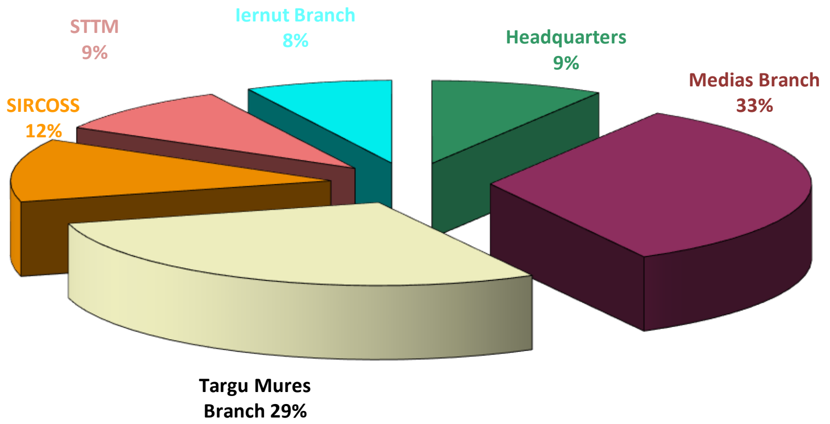
b) by age

- under 30 years 4.46 %
- 30-40 years 13.87 %
- 40-50 years 33.58 %
- 50-60 years 38.81 %
- over 60 years 9.27 %

c) by activities

- gas production 69.48 %
- production tests/well special operations 12.32 %
- health 1.41 %
- transportation 9.38 %
- electricity production 7.41 %.

Distribution of Romgaz employees by headquarters and by branches is shown in the figure below:



The structure of the company's employees from the headquarters and from branches is shown in the table below:

Entity	Workers	Foremen	Administrative Employees	Total
1	2	3	4	5
Headquarters	36		465	**501**
Mediaş Branch	1,485	89	338	**1,912**
Targu-Mures Branch	1,324	49	282	**1,655**
SIRCOSS	506	54	147	**707**
STTM	407	13	118	**538**
Iernut Branch	269	41	115	**425**
TOTAL	**4,027**	**246**	**1,465**	**5,738**

In 2019, the scope of the ***professional training*** activity was to increase competitiveness and professional performance by improving the professional training activity.

Thus, the following were taken into account:

→ training of administrative employees in various areas of activity, in cooperation with national and international training suppliers;

→ authorization/re-authorization, according to specialization and position;

→ skills improvement and vocational training of workers through internal training courses.

A number of 1,951 employees were trained during 2019 and the costs of such professional training and skills improvement training courses were of RON 1,988,322.

The annual training program was implemented as follows:

- 714 persons participated in professional training programs with professional subjects applicable to their activity;
- 1,103 persons participated in training courses to obtain authorization/re-authorization in accordance with their specialization and position;
- 122 persons participated in internal training courses;
- 12 persons participated in qualification courses at work place.

During 2019, the professional training activity focused mainly on sustaining the increase of adaptability to new economy requirements based on knowledge, in order to ensure and update the required competencies for employees working in the technical, economic, research-development field, etc.

Within Romgaz Group there are ***three trade unions***:

- "*Sindicatul Liber din cadrul S.N.G.N. Romgaz S.A.*", consisting of 5,930 members;
- "*Sindicatul Extracţie Gaze şi Servicii*", consisting of 5 members;
- "*Sindicatul Filiala Inmagazinare DEPOGAZ*", consisting of 279 members.

Thus, the total number of union members within Romgaz is 6,214 as compared to 6,251 representing the total number of employees. The union members/total number of employees ratio is 99.41%.

Relationship between manager and employees: following negotiations, the parties agreed to conclude a new Collective Labour Agreement. On November 27, 2019, the parties agreed to conclude a new Collective Labour Agreement for SNGN Romgaz SA, registered at Territorial Labour Inspectorate Sibiu under no. 18161/04.12.2019, valid from December 29, 2019 up to and including December 28, 2021.

For Depogaz, a Collective Labour Agreement is in effect, negotiated with "*Sindicatul Liber Romgaz*", to which "*Sindicatul Filiala de Inmagazinare Gaze Naturale*" adhered, being valid until March 27, 2021.

During 2019, ***there were two conflicts between the management and the trade union,*** finalized on December 31, 2019 (see Litigations: Items 51 and 379, points 3.4.7).

3.4.5. Environmental Aspects

In 2019, the environment protection activity continued to focus on ensuring compliance of Group's business with the applicable legal requirements on environment protection. Another aim was meeting specific objectives related to:

- Increase of awareness regarding compliance with legal requirements;
- Pursuing the accomplishment of all reports imposed by the environment legislation in force, by centralizing the information required and reported by Romgaz Branches and submitting it to public authorities;
- Rendering efficiency to the environment protection activity, a support for the management process.

The environment protection activities during 2019 focused on:

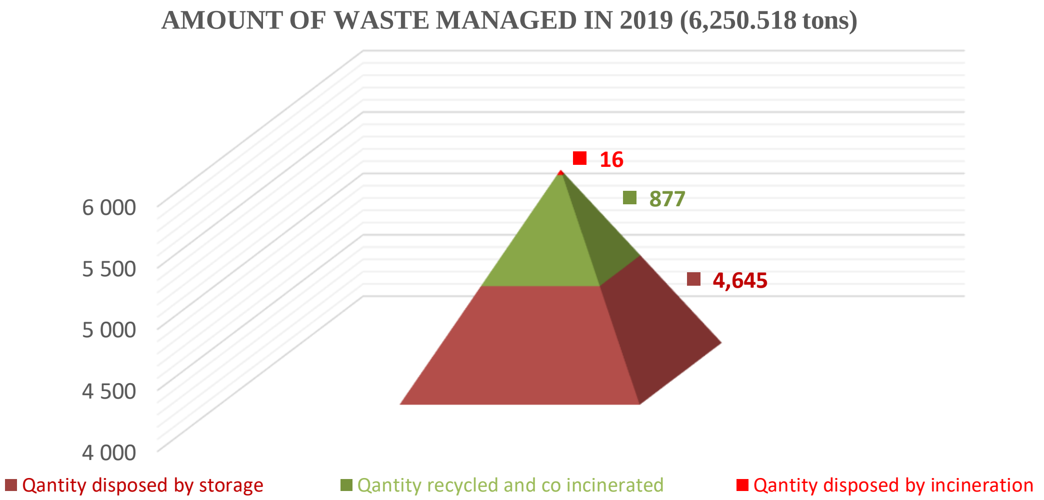
- Complying with permitting requirements:
    - Complying with legal requirements relating to environment permits for all 126 units. In this respect, the conformity degree is 100%. Thus, for 13 units the company has required and obtained the review of the permits, for 26 units reauthorisation was requested and obtained, for 33 units the annual endorsement was requested and obtained, for 41 units documents for abandoning gas production wells were submitted;
    - Complying with legal requirements regarding waste water management permits, for:
        - ✓ 81 units, for which the conformity degree is 100% to be noted that for 16 units re-authorization permits are in process of being obtained, for 2 units a

point of view for the necessity of obtaining authorization for waste water management was required;

- ✓ 36 units related to reservoir water injection systems / wells, out of which 12 are in process of obtaining re-authorization and for 1 unit the abandoning documentation was submitted;

A company-wide application is under development to monitor environment/water/injection permits, permanently analysing and continuously supervising compliance with legal requirements in the field of environment protection;

- ➢ Management of waste generated from own activity, according to the legal requirements in force. In 2019, the company managed a quantity of 6,250.518 tons of waste, out of which 877.814 tons were recycled and co-incinerated (862.180 tons were recycled and 15.634 tons were co-incinerated), 16.082 tons of waste were disposed by incineration and 4,645.384 tons of waste were disposed by storage.



In 2019, the "*Program for Prevention and Reduction of Waste Generated by S.N.G.N. Romagaz S.A."* pursued the accomplishment of the measures thereunder and this can be viewed by accessing the following link: https://www.romgaz.ro/ro/content/program-de-prevenire-si-reducere-cantitatilor-de-deseuri.

The Program aims at continuously identifying the objectives, targets and action policies the company is required to comply with in its waste management activity in order to fulfil the company's strategic objectives.

- ➢ Monitoring the compliance with legal requirements on environment protection. In 2019 Romgaz did not exceed the limits permitted by regulations in force, with the effluents discharged into surface water bodies or sewage networks;
- ➢ In 2019, three external environment complaints were recorded, as follows:
  - Pollution with oil products of pavement, balustrade and decorative stone from planters inside Beoma company, near Mures gas dehydration station. On May 3, 2019, an intervention team was set up and proceeded with cleaning the surfaces affected by oil pollution. Connection with Boema owners was kept in order to finalise the cleaning process of affected surfaces and of affected decorative stone;

- Discomfort generated by the gas cooling systems of Mures gas compression station, in Corunca. Two noise measurements were performed, one during day and the other one during night, as measures with certain term provided in the findings note drawn up by the commissioners of the Environmental Guard. Test reports did not identified exceedances of equivalent continuous weighted sound pressure level;
- Discomfort generated by gas compression machines at gas compression station Cristuru Secuiesc. Measurements were carried out to determine the sound level on Septemeber 12, 2019, between 10^{00}-23^{00} and on September 13, 2019, between 23^{00}-02^{00}. Measurements were performed in 8 perimeter points (the limit within the premises, SE outside the warehouse at 150 m, SE outside the warehouse at 350 m, 2 measurements at 250 m SW and at 450 m SW at the limit of houses and at 300 m W). The results show a sound level exceeding the levels allowed by SREN ISO1996/2-08, as results from the measurement bulletins, site plan, zone framing plans. In order to decrease the noise pollution at Cristuru Secuiesc work point the proposal was to install sound absorber panels in order to keep the noise level within the limits permitted by the legislation in force;

- In 2019, Romgaz continued to monitor the compliance with permanent or multiannual measures of implementation provided in the Remedial Report (maintenance of the perchlorethylene consumption under 1 tonne/year, for each location, so as to comply with the provisions of GD No. 699/2003 on establishing certain measures for decreasing emissions of volatile organic compounds resulting from the use of organic solvents in certain activities and installations, locating industrial units at safe distances from protected receivers, reducing fugitive emissions in the areas with calibration tanks, metallic tanks and concrete reservoirs for temporary storage of reservoir waters – by equipping the tanks with ecologic dispersion systems, periodic payment of the contribution towards the "Closing Fund", until reaching the value of mandatory provision, for the Ogra specific waste facility, supervising the annual monitoring frequency for Dumbravioara drilling waste facility, closed in 2003, etc).
- Planning and organizing the internal environmental inspection activity in order to verify compliance with the legal requirements applicable to inspected activities. In 2019, 58 internal environmental inspections were planned and conducted by Romgaz headquarters environmental inspectors, at the authorized units of branches, following which 10 non-conformity reports were prepared, 8 of which being closed for a certain provided term, 2 opened (in a certain provided term). Thus, Romgaz activity complies with the applicable legal environmental requirements, the conformity degree identified following the implementation of a procedural assessment method for 2019 being 99%, representing a very good value indicating potential for reaching 100%.
- Assessing the conformity level regarding environmental protection requirements and contractual requirements of contractors and subcontractors of drilling works contracted by Romgaz, during 2019;
- Accomplishing the actions/measures programs for prevention and/or limitation of the impact on the environment for 2019, by modernizing the reservoir water storages, mounting waste water systems, transforming abandoned wells in reservoir water injection wells, etc.

In 2019, the Environmental Guard and the Water Basins Administrations carried out 45 inspections at Romgaz locations. Following such inspections, the company had no sanctions.

CO_2 Certificates

By GD. No. 1096/2013 on approving the mechanism for the free of charge transitory allocation of greenhouse gas emissions certificates to electric power producers for 2013-2020, including the National Investment Plan (NIP), the Romanian Government intends to finance replacement of old thermoelectric installations from a fund supplied from sales of greenhouse gas emissions certificates, investments receiving a non-reimbursable funding of 25% of the value of eligible expenses based on financing contracts, within available funds, according to the order of financing request and approval.

By means of Annexes:

- Annex no. 1: provides the eligible installations for free of charge transitory allocation and the number of annually allocated certificates for 2013-2020;
- Annex no. 3: National Investment Plan beneficiaries,

Romgaz is included in the above mentioned annexes and launched in 2017 the investment from the National Investment Plan.

Therefore, pursuant to Annex no.1 of the Order, a number of 137,441 certificates were allocated to SPEE Iernut for 2019. Payment of the consideration for the greenhouse gas emission certificates free of charge and transitory allocated for 2019 was made in December 2019 pursuant to the legislation in force.

In order to comply with the legal requirements of GD No. 780/2006, updated (article 8, letter e) the requirement to reimburse, by April 30 of the following year, to the one for whom the monitoring of greenhouse gas emissions was made, a number of greenhouse gas emission certificates equal to the total number of emissions from such installations, SPEE Iernut acquired, in March 2019, 370,000 certificates in order to achieve compliance for 2018.

3.4.6. Occupational Safety and Health

During 2019, the competent state institutions, namely the Territorial Labour Inspectorates carried out 8 inspections. No deficiencies were noted.

Individual protection equipment was acquired, based on the framework agreements and subsequent contracts, for all the employees of the company.

According to the Collective Labour Agreement, additional voluntary health insurances were acquired for all employees. The contract for voluntary health insurances concluded by the company expired on December 27, 2018 and on January 30, 2020 a new contract was signed.

3.4.7. Litigations

The summarized breakdown of litigations where Romgaz is involved as of December 31, 2019 is the following:

- 964 litigations, out of which:
  - 817 cases where Romgaz is plaintiff;
  - 143 cases where Romgaz is defendant;
  - 4 cases where Romgaz is civil party/injured party;
- The (approximate) total value of the files where Romgaz is plaintiff amounts RON 2,866,527,931;

- The (approximate) total value of the files where Romgaz is defendant amounts RON 455,780,132;
- The (approximate) total value of the files where Romgaz is civil party amounts RON 3,768,366.

The detailed list of litigations can be viewed on Romgaz website www.romgaz.ro – Investor Relations – Annual Reports – 2019.

3.4.8 Legal acts concluded under article 52 of the GEO No. 109/2011

Pursuant to articles 52 paragraph (6) of **GEO no. 109/2011** "*The legal acts concluded under paragraph (1) and (3) shall be specified in the quarterly and annual reports of the Board of Directors ... in a special chapter ….*"

Paragraph (3) letter b) provides as follows:
(3) *the Board of Directors ... informs the shareholders, during the first general meeting of shareholders following conclusion of the legal act, on any transaction concluded by the public company with:*
………………………………………………………………………………………….
b) another public company or with the public supervisory authority, if the transaction has, individually or in a series of transactions, a value of at least the RON equivalent of EUR 100,000".

Article 82 paragraph (1) of **Law No. 24/2017**[11] provides that "*The administrators of issuers of whose securities are admitted for transactions on a regulated market have the obligation to promptly report any legal act concluded by the issuer with the administrators, employees, shareholders that control, as well as with the persons with whom these act together, the value of which represents at least the RON equivalent of EUR 50,000* ."

Therefore, Romgaz prepares current reports any time it concludes a legal act as mentioned above, which are sent to Bucharest Stock Exchange and published on its website.

Half yearly, Romgaz financial auditor prepares a " *Limited Insurance Independent Report on the information included in the current reports issued by SNGN Romgaz SA in accordance with the requirements of Law No. 24/2017 (article 82) and Regulation No. 5/2018 of the Financial Supervision Authority*". The report is sent to Bucharest Stock Exchange and published on its website.

Current reports prepared by the company in accordance with article 82 of Law no. 24/2017 include also legal acts concluded in accordance with the provisions of article 52 of GEO No. 109/2011.

Taking into consideration that current reports are public documents, posted on Bucharest Stock Exchange website, as well as that the current quarterly reports with the legal acts concluded in each quarter, reports audited by the company's financial audit, are published on company's website, for more details on concluded legal acts please access company's website www.romgaz.ro, under Investor Relations – News and Events – Current Reports-Contracts ("Auditor Report").

[11] Law No. 24 of March 21, 2017 on market operations and issuers of financial instruments

IV. GROUP'S TANGIBLE ASSETS

4.1. Main Production Facilities

The occurrence and thereafter the development and gradual diversification of what was truly going to be the Romanian natural gas infrastructure has an important benchmark, ***year 1909***, when the first gas reservoir was discovered by drilling well 2 Sarmasel (Mures County).

During the immediately following years, a gas infrastructure unique in Europe for those times started to outline at a small scale, consisting of the following assets:

- gas transmission pipeline, the first of this kind in Europe, built in 1914, connecting towns Sarmasel and Turda (Cluj County), and
- gas compressor station from Sarmasel; built in 1927- the first one in Europe.

It is notable that the country's large gas structures were discovered after 1960 and in parallel, a complex infrastructure started to be developed, at national scale, dedicated exclusively to the gas extraction process and later to the injection and underground storage process. These large gas structures located in the Transylvanian basin supply considerable gas quantities even today.

Exploration - Production

The infrastructure related to field production and to gas storage in depleted fields turned into underground storages, is today a particularly complex system.

As a whole, the infrastructure of the company developed continuously before and after 1989. The development of the production capacities reached the peak during 1970–1980 when the annual production was extremely high, both due to the consumption demand in those times and to the considerable reservoir energy of most of the discovered gas fields.

Part of the company's production infrastructure (assets) resulted from the nationalisation of June 1948.

Currently, no natural or legal person, from the country or from abroad, claimed any asset of Romgaz.

Although operational, most of the production facilities are several decades old, therefore, a rehabilitation and modernisation process started a few years ago consisting of installing, replacing or upgrading gas delivery/take over fiscal panels, gas dehydration stations, gas compressor stations.

The production facilities relating to the company's infrastructure are summarized below:

1. Gas wells (currently producing wells, wells temporarily shut-in for reactivation or recompletion operations, wells for reservoir water injection);

2. Pipelines (gathering pipelines connecting the well clusters, waste water pipelines, industrial water pipelines);

3. Gas heaters (radiators);

4. Gas separators (underground and surface separators);

5. Flow metering panels (technological flow metering panels for almost every gas field, fiscal flow metering panel located at the interface with the NTS);

6. Gas dehydration (conditioning) stations:

7. Gas compression units:

- low capacity portable compressors installed at the well head or at the cluster,
- booster compressors for one or more fields, and

- gas compressor stations, usually consisting of two or more units, which can be intermediate or final compressor stations (outlet to the NTS);

8. Industrial or reservoir water pumping stations;
9. Other facilities (buildings, workshops, storehouses, electric lines, well access roads etc.).

Production facilities are used at their maximum capacity (close to 100%).

Currently, 162 gas fields are producing out of which 150 are well defined blocks (including those 11 fields operated together with Amromco) and the rest of 12 are blocks with experimental production.

Production from these fields is obtained through approximately 3240 wells and through almost the same number of technological surface facilities consisting mainly of flowlines, gas heaters (where applicable) liquid separators and gas flow metering panels.

From the total number of wells, 26% of the wells produce at depths below 2,000 m. Pressure and flow limits of production wells are maintained by 127 compressor units, of which 93 units are grouped in 20 compressor stations, and 17 units are the so-called booster compressors while 17 units are compressors located near gas wells being well cluster compressors.

One technical demand required by applicable laws is the quality of gas, which is 100% fulfilled by means of 74 gas dehydration stations.

Another component of the company's infrastructure, namely the technical-information system, consists of all information equipment and programs (software) used to monitor the parameters related to gas research, production and storage activities.

Underground Storage

Depogaz holds Licence No. 1942/2014 for the operation of 5 underground gas storages, developed in depleted gas fields, their aggregate capacity representing about 90.51 % of the total storage capacity of Romania.

The capacity of the underground gas storages operated by Depogaz, by storages, is presented in the table below:

Storage	Active capacity		Withdrawal capacity	Injection capacity
	Mil.St.m^3/cycle	TWh/cycle	GWh/day	GWh/day
Bălăceanca	50	0.545	13.176	10.980
Bilciureşti	1,310	14.326	152.782	109.130
Gherceşti	150	1.634	21.40	21.400
Sărmăşel	900	9.599	79.035	68.497
Urziceni	360	4.017	50.157	33.438
TOTAL	**2,770**	**30.121**	**316.55**	**243.445**

1. Balaceanca Storage

Balaceanca Storage facility is located at approximately 4 km from Bucharest.

The fixed assets contributing to the storage process are as follows:

- 24 wells of which 21 injection/withdrawal wells and 3 piezometric wells;
- surface infrastructure includes:
  - Balaceanca gas compressor station;
  - 8.4 km gathering pipelines;
  - 4 separators;
  - 4 technological gas metering facilities;

- 1 gas dehydration station;
- 15 gas heaters;
- communication system and fiber-optic data acquisition system;
- 1 bi-directional fiscal metering system.

2. Bilciuresti Storage

Bilciuresti Storage facility is located in Dambovita County, approximately 40 km W-NW of Bucharest.

The fixed assets contributing to the storage process are as follows:

- 61 wells of which 57 injection/withdrawal wells, 3 piezometric wells, 1 waste water injection well;
- surface infrastructure includes:
  - Butimanu gas compressor station;
  - 6 gas dehydration stations;
  - 26.5 km gathering pipelines for 57 injection/withdrawal wells;
  - 50 gas heaters;
  - 24 separators;
  - 14 technological gas metering facilities;
  - 37.5 km gathering pipelines;
  - bi-directional fiscal metering system;
  - waste water injection station.

3. Ghercesti Storage

Ghercesti Storage facility is located in Dolj County, near Craiova.

The fixed assets contributing to the storage process are as follows:

- 85 wells;
- surface infrastructure includes:
  - 135.7 km gathering pipelines for 79 injection/withdrawal wells;
  - 22.6 km gathering pipelines;
  - 13 separators;
  - 12 technological gas metering facilities;
  - 1 gas dehydration station;
  - communication system and fiber-optic data acquisition system;
  - bi-directional fiscal metering system.

4. Sarmasael Storage

Sarmasel Storage facility is located near Sarmasel, approximately 35 km NW of Tirgu-Mures, 35 km north of Ludus and 48 km east of Cluj-Napoca.

The fixed assets contributing to the storage process are as follows:

- 63 wells;
- surface infrastructure includes:
  - Sarmasel gas compressor station;
  - 26.7 km gathering pipeline for 63 wells;
  - 13.8 km gathering pipelines;
  - 59 separators;
  - bi-directional fiscal metering system.

5. Urziceni Storage

Urziceni Storage facility is located in Ialomita County approximately 50 km NE of Bucharest.

The fixed assets contributing to the storage process are as follows:
- 32 wells of which 31 injection/withdrawal wells and 1 piezometric well;
- surface infrastructure includes:
  - Urziceni gas compressor station;
  - 19.5 km of gathering pipelines for 32 wells;
  - 3.3 km gathering pipelines;
  - 6 technological gas metering facilities;
  - 31 gas heaters;
  - 1 gas dehydration station;
  - optic fibre data acquisition system;
  - bi-directional fiscal metering system.

Cetatea de Balta Storage

Pursuant to Romgaz Decision No. 545 dated December 24, 2018, fixed assets belonging to Cetatea de Balta and taken over from Filiala de Inmagazinare Gaze Naturale Depogaz Ploiesti SRL were transferred to Medias Branch and starting with January 1, 2019, upon ANRM's approval, Romgaz resumed production of resources from production unit Sarmatian III of Cetatea de Balta commercial field.

Workover and Special Operations

Well workover, recompletions and well production tests represent all the services performed with workover rigs, as well as equipment for specific support operations such as: cement plug drilling installations, mud tank equipped with agitator, sand control-sand blender, DST- cased hole testing of productive layers, shale shaker, mud pumps.

Special Well Operations are performed with the following equipment: cementing unit, slickline, wireline, coiled tubing unit, liquid nitrogen converter, liquid nitrogen tank truck, cement container, filter unit, equipment for discharge and measurement with two-phase separation, equipment for discharge and measurement with three-phase separation, equipment for tubing investigation, echometer, tubing cutting, packer assembling device, hydraulic packer recovery tool, well fire-fighting equipment.

Future well workover and special well operations are required in order to stop production decline, taking into consideration the continuous need for such works and the large number of works performed in the past.

Transportation and Maintenance

The car fleet of STTM consists of 626 motor vehicles as follows:
- Passenger carriers: cars (88), minibuses (13), buses (2) and large buses (2);
- passengers and goods utility cars < than 3.5 t (10) and > than 3.5 t (110) respectively;
- vehicles for goods transportation: dumpers (21), cesspit emptier (34), platform trucks (18), tank trucks (3);
- vehicles for heavy transportation: truck-tractors (1) and semitrailer trucks (13);
- lifting and handling machinery (autocranes): (24);
- other special vehicles: mobile laboratory for equipment testing and checking (1);
- heavy machinery: bulldozers (8), caterpillar shovels (2), wheel loaders (14), motor grader (3), compactor (3), front end loaders (9);

- other machinery: tractor trucks (67), fork lift trucks (12), motorised cleaning vehicle (3) etc.;
- other vehicles: trailers for heavy transportations, trailers and semitrailers for tractors (75).

Considering the dynamics of the gas exploration – production activity performed by Romgaz, in order to achieve the activities on medium term (approx. 5 years) the perspective to develop STTM must be achieved by permanently determining methods and measures resulting from the provision of quality services and in terms of economic efficiency.

Electricity Generation

The main scope of activity of SPEE Iernut is to produce electricity. With an installed capacity of 800 MW, including 6 power units: 4 units of 100 MW and 2 units of 200 MW, grouped in 5 combustion units - Type I, as follows:

- 4 Czechoslovakian SKODA power units with an installed capacity of 100 MW: IMA1, IMA2, IMA3, IMA4;

- 2 Soviet power units with an installed capacity of 200 MW each (group no.5 and group no.6): IMA5.

The units were commissioned between 1963 and 1967 when there were no environmental restrictions such as the current ones.

Following Romania's accession to the European Union and implicitly the transposition of European directives on environmental prevention and protection, CTE Iernut undertook measures in order to comply with the newly imposed requirements, mainly those related to compliance with the emission limit values of NOx emissions from combustion units.

The power plant is connected to the main road E60 by a 1.5 km long road and to the national railway system at Cuci by a 2 km railway both owned by the CTE Iernut.

Taking into consideration the ongoing contract no. 13384/31.10.2016 "*Development of CTE Iernut though the construction of a new combined cycle gas turbine power plant*" and in order to comply with the environmental requirements and the conditions imposed by the Integrated Environmental Authority, the following procedures have begun during 2019:

1. Decommissioning of IMA2 and IMA3 starting with February 2019-is now finalized;
2. Decommissioning of its own industrial railway (approximately 2 km) – ongoing procedure;
3. Decommissioning of IMA1 and Group no.6 (part of IMA5) starting with October 2019 – finalized;
4. Preparing/upgrading/modernizing the auxiliary installations which will serve the new CCGT (combined cycle gas turbine) power plant under construction.

4.2. Investments

Investments play an important part in maintaining the production decline, which is achieved by discovering of new reserves, by improving the current recovery rate, and by rehabilitation, development and modernization of existing facilities.

In 2019, ***Romgaz Group*** invested RON 891.6 million that is 25% (RON 296.9 million) lower than 2018 investments, representing approx. 67% from the scheduled investments.

The ***Company*** invested during 2015 – 2019 approximately *RON 4.23 billion*, as follows:

Year	2015	2016	2017	2018	2019	Total

Value (thousand RON)	937,916	497,716	781,768	1,150,349	866,218	**4,233,967**

For 2019, Romgaz forecasted the achievement of an investment program with a total budget of *RON 1,245.00 million*, based mostly on objectives aiming to compensate the natural decline and electricity generation, such as:

- continuing geological research works by performing exploration drillings for the discovery of new gas reserves;
- development of the production potential by adding new facilities on existing structures (drilling of wells, surface facilities, drying stations, compressor stations, compression in gas fields), improving the performance of facilities and equipment to increase production safety, reducing energy consumption and optimise gas field production;
- modernization and upgrading of constructions, installations and equipment, as well as acquisition of new equipment and performing facilities specific for the core activity;
- procurement of specific machinery to ensure the technological transportation and maintenance of core activities and ensuring optimal use of road infrastructure in gas fields.

In absolute figures, the investment costs for 2019 reached RON 866,218 thousand representing:

- 75.3% as compared to the achievements for 2018;
- 69.6% of the scheduled level.

The investments were financed as follows:

- from own sources and sources obtained from the National Investment Plan (approx. 22% from eligible expenses) for "*The Development of CTE Iernut Power Plant by building a new combined cycle CCTG power plant*"; and

- exclusively from own sources for the other approved investment objectives.

As regards physical achievements for the analysed period, the objectives initiated in the previous year were achieved, and preparatory works were carried out (design, obtaining lands, approvals, agreements, authorizations, acquisitions). The Company started the works for part of the new objectives and performed modernisation works and repairs that can be capitalized at the producing wells.

The value of fixed assets commissioned during the reporting period was RON 487.23 million.

The table below shows the investments made in 2019, as compared to those scheduled and accomplished in 2018, the table is similar to Annex 4 to the Income and Expenditure Budget:

RON thousand

Item No.	Investment chapter	2018	2019		% '19/'18
			Program	Achieved	
0	1	2	3	4	5=4/2x100
1.	**Investments in progress – total, out of which:**	771,449	566,992	547,104	70.92
1.1	Natural gas exploration, production works	771,063	565,512	545,917	70.80
1.2	Maintaining UGS capacity	0	0	0	0.0

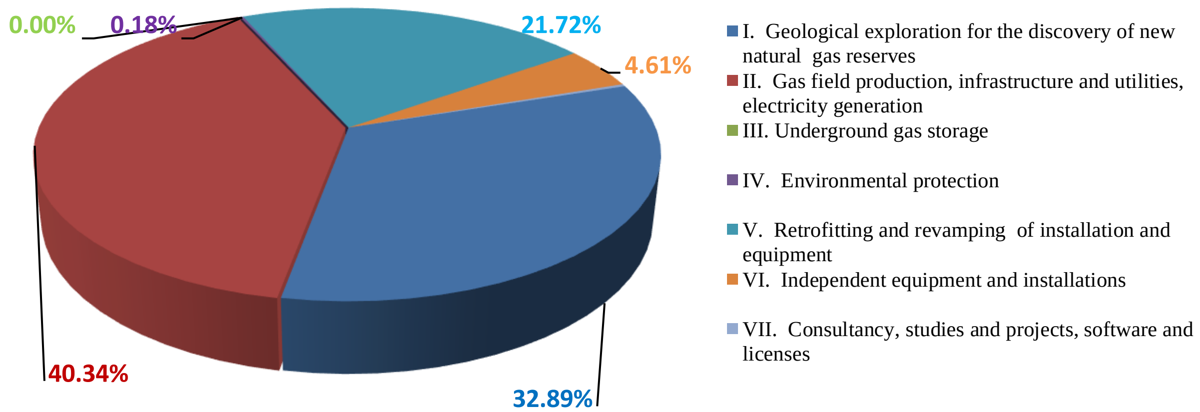
1.3	Environment protection works	386	1,480	1,187	307.51
2.	**New investments – total, out of which:**	**166,990**	**256,563**	**88,797**	**53.18**
2.1	Natural gas exploration, production works	162,606	251,366	88,444	54.39
2.2	Maintaining UGS capacity	2980	0	0	0.00
2.3	Environmental protection works	1,404	5,197	353	25.14
3.	**Investment in existing tangible assets**	**156,228**	**267,946**	**188,138**	**120.43**
4.	**Equipment (other acquisitions of tangible assets)**	**55,424**	**139,082**	**39,903**	**72.00**
5.	**Other investments (studies, licenses, software, financial assets etc.)**	**258**	**14,417**	**2,276**	**882.17**
*****	**TOTAL**	**1,150,349**	**1,245,000**	**866,218**	**75.30**

The table below shows the achieved investments according to Romgaz Investment Program for 2019:

RON thousand

Investment Categories	**Program 2019**	**Achieved on 31.12. 2019**	**%**
1	2	3	4=3/2x100
I. Geological exploration works to discover new methane gas reserves	385,189	284,916	73.97%
II. Exploitation drilling works, putting into production of wells, infrastructure and utilities and electricity generation	431,689	349,445	80.95%
III. Maintaining UGS capacity	0	0	0%
IV. Environmental protection works	6,677	1,540	23.06%
V. Retrofitting and revamping of installation and equipment	267,946	188,138	70.21%
VI. Independent equipment and installations	139,082	39,903	28.69%
VII. Expenses related to studies and projects	14,417	2,276	15.79%
TOTAL	**1,245,000**	**866,218**	**69.58%**

The chart below shows the investments for 2019:



The summary of the achieved investment projects is shown below:

Item No.	Main Projects	Planned	Achieved
1.	Drilling, exploration	27 wells	9 completed wells; 4 wells drilling in progress; 14 wells under procurement for drilling works; 21 wells with completed technical design, in the process of obtaining the approvals, lands and organisation of drilling procurement procedure;
2.	Drilling design	-	10 wells under design or design acquisition;
3.	Performance of exploration drilling	3 wells	3 completed wells;
4.	Construction of surface facilities – at shut-in wells	6 surface facilities under construction for putting into production 10 wells 15 new surface facilities for bringing into production 16 shut in wells; budget to prepare 57 surface facilities for putting into production 64 wells;	4 surface facilities completed for putting into production 5 wells; 5 surface facilities under construction for putting into production 6 wells; 15 surface facilities for connecting 22 wells, in the process of obtaining land/permits, agreements, authorisations; Technical design is currently prepared for the surface facilities to connect 16 wells.
5.	Well recompletion operations, reactivation and capitalizable repairs	Works at approx.160 wells, correlated with the annual program agreed by ANRM	In 2019, works were performed for a total of **169 wells** (**87** wells at Medias Branch and **82** wells for Tg. Mures Branch), works performed in-house by S.I.R.C.O.S.S.
6.	Electricity generation	Continuing works at CTE Iernut	Continuing the performance of the Execution Contract
7.	Partnerships/Associations	**Raffles Energy SRL** - putting into experimental production well 1 Voitinel discharging the gas in a G2P (gas to power) power plant	-retesting well 1 Voitinel with positive results and therefore the well was put under conservation; -analysis for putting the well into production.
		Lukoil - preparatory works and drilling of an exploration well Trinity 1X in Block 30EX Trident;	-Continuing in 2019 preparatory works for drilling; -Well Trinity 1X Trident was drilled in 30 EX Trident Block in Q3
		Amromco - drilling 5 wells; - 3D seismic surveys in blocks Bibesti and Zatreni;	-completed drilling of exploration well Bibesti 213, works started in 2018; - putting in production well Bibesti 213;

	- recompletion operations at 6 wells; - works and surface facilities for wells proposed to be drilled; - abandoning wells that received the permit in this respect; - design and permits	-surface works and drilling of well Zatreni 100; -drilling and putting into production well Balta Alba 121; -recompletion operations for 2 wells; -works related to abandonment of 2 wells; -permits and approvals for drilling well Balta Alba 122 and for installing compressors for wells Bibesti 213 and Bibesti 214.
	Slovacia - the budget was approved only for the first four months of the year	-relinquished exploration in two blocks in 2018; - taking into account the strong opposition of institutions and population against drilling in the interest area, we analysed the possibility of withdrawing from the partnership.

Development of CTE Iernut

One of Romgaz main strategic directions, provided in "*The Development Strategy for 2015-2025*", is consolidation of the company's position on the energy supply markets. In this case, in the field of electricity generation, Romgaz proposed to have *"a more efficient activity by making investments to increase the efficiency of the Thermoelectric Plant (CTE) Iernut to a minimum of 55%, respecting the environmental requirements (NOx, CO_2) and increasing the exploitation safety".*

Thus, a very important objective is the "*The Development of CTE Iernut Power Plant by building a new combined cycle CCTG power plant",* with a deadline for completion in Q 1, 2020.

In 2019 the following equipment was supplied:

- main parts of steam turbines;
- excitation transformers;
- in pressure lubrication system;
- recirculating pumps;
- condense pumps for steam turbines ST13 and ST23;
- water pumps for HRSG 21 and HRSG 22;
- high alloy steel valves < Ø4";
- condensers for the steam turbines ST13 and ST23;
- ball cleaning system for steam turbine condensers ST13 and ST23;
- water pumps for HRSG11 and HSRG12;
- Ex2100 static excitation system for steam turbines ST13 and ST23;
- heaters for gas stations 11, 12, 21, 22;
- generator for gas turbines.

Construction works were performed for the electric building and the control room, machine hall, water treatment station, water pumping and cooling station, foundations and upper works for equipment, as well as several surface facilities.

The main reasons causing delays in achieving the objectives included in the 2019 investment program, with direct influences on the achievements, were the following:

- drilling works were not completed on time due to difficulties encountered during drilling scheduled wells;
- the procedures for procuring drilling works related to 8 wells were cancelled due to challenges in court;
- the well construction program was modified for wells: 76, 79 and 79 Rosetti , Visani 65, Vizireni 61 and Jirlau 2;
- difficulties related to obtaining land (lack of ownership documents and/or owners' refusal to lend or sell the land) for performing well modernisation works and recompletion operations as scheduled;
- long-time interval to obtain the approvals and agreements issued by water, environmental property register, agricultural related institutions, with direct effects upon the issuance of the construction authorization for the construction of surface facilities;
- resume the procurement procedure for independent vehicles due to the lack of offers;

The investments that were not achieved/delayed in 2019 will continue to be performed in 2020.

In 2019, ***Depogaz*** Subsidiary had an approved investment plan of RON 79,085 thousand (without the gas cushion for Sarmasel storage in amount of RON 54,665 thousand) and achieved investments of RON 25,364 thousand, representing 32%, as follows:

Item No.	Description	Schedule	Results
1.	Underground gas storage activities	4,800	2,276.3
2.	Modernisation and upgrading of installations and equipment, surface facilities, utilities	62,130	20,462.2
3.	Independent equipment and machinery	3,145	2,212.8
4.	Costs with consultancy, studies and projects, softs, licences and patents etc.	9,010	412.4
*	**TOTAL**	**79,085**	**25,363.7**

The investments were financed entirely from own sources.

For the reporting period, the fixed assets were commissioned in amount of RON 35,619 thousand.

The main objectives included in the investment program for 2019 were:

- modernisation of wells: RON 19,627.91 thousand;
- modernisation of Ghercesti storage facility: RON 1,767.94 thousand;
- modernisation of telecommunication system: RON 867.30 thousand;
- system for real-time determination of gas composition for the gas delivered to the market: RON 517 thousand;
- compensations and land procurement: RON 508.36 thousand;
- gas heaters: RON 499.50 thousand;

- study related to Bilciuresti storage facility: RON 250 thousand;
- safety power supply for Sarmasel compressor station: RON 239.79 thousand;
- modernisation of gas metering system Balaceanca: RON 218.83 thousand;
- modernisation of technological metering system Sarmasel storage facility: RON 174.150 thousand;
- hydrocarbon dew point analyser: RON 110 thousand;
- methanol injection facility: RON 89.50 thousand.

V. SECURITIES MARKET

Romgaz – company listed on Bucharest Stock Exchange and London Stock Exchange

Government Decision No. 831/2010[12] approved "*the sale by secondary initial public offering of shares representing 15% of S.N.G.N. Romgaz S.A. share capital by the Ministry of Economy, Trade and Business Environment, through the Office Ownership and Privatization in Industry*".

On November 12, 2013, the company was listed on the Bucharest Stock Exchange (BVB) and on London Stock Exchange (LSE). As of this date, the shares of the company have been traded on the regulated market governed by BVB under the symbol "***SNG***", and on the regulated market governed by LSE as GDRs issued by the Bank of New York Mellon (1 GDR = 1 share) under the symbol "***SNGR***".

No.	Description	2013	2014	2015	2016	2017	2018	2019
1.	Number of shares (x1000)	385,422.4	385,422.4	385,422.4	385,422.4	385,422.4	385,422.4	385,422.4
2.	Market capitalisation[13]							
	*million RON	13,178	14,018	10,483	9,636	12,064	10,714	14,299
	*million EUR	2,952	3,127	2,315	2,122	2,589	2,297	2,992
3.	Maximum price (RON)	35.60	36.37	36.55	27.55	33.95	38.20	38.40
4.	Minimum price (RON)	33.80	32.41	26.30	21.60	25.10	27.80	27.35
5.	Year-end price (RON)	34.19	35.36	27.20	25.00	31.30	27.80	37.10
6.	Net profit per share (RON)	2.58	3.66	3.10	2.66	4.81	3.53	2.83
7.	**Gross** dividend per share (RON)	2.57	3.15	2.70	5.76*)	6.85**)	4.17***)	1.61****)
8.	Dividend yield (7./5.x100)	7.5%	8.9%	9.9%	23.04%	21.88%	15.00%	4.34%
9.	Exchange rate (RON/EUR)	4.4639	4.4834	4.5285	4.5411	4.6597	4.6639	4.7785

*) The gross dividend per share of RON 5.76 is composed of the gross dividend per share for financial year 2016 in amount of RON 2.40/share, and the additional gross dividend of RON 1.42/share resulted from the distribution of retained earnings and the additional gross dividend of RON 1.94/share assigned under the provisions of Article II and III of Government Emergency Ordinance No.29/2017, distributed from the company's reserves, representing own financing sources.

**) The gross dividend per share of RON 6.85 is composed of the gross dividend per share for financial year 2017 in amount of RON 4.34 per share, and the additional gross dividend of RON 0.65 share resulted from the distribution of retained earnings and the additional gross dividend of RON 1.86 /share assigned under the provisions of Article II and III of Government Emergency Ordinance No. 29/2017, distributed from the company's reserves representing own financing sources.

***) The gross dividend per share is 4.17 RON is composed of the gross dividend per share for financial year 2018 in amount of RON 3.15 per share, and the additional gross dividend of RON 0.08/share resulted from the distribution of retained earnings and the additional gross dividend of RON 0.94/share assigned under the provisions of Article 43 of Government Emergency Ordinance No 114/2018.

****) proposed dividend of RON 1.61 is composed of the gross dividend per share for financial year 2019, in mount of 1.39 RON/share and the additional gross dividend of 0.22 RON/share resulted from the distribution of retained earnings representing the impairment value of fixed assets and the value of fixed assets and abandoned investment

[12] GD No. 831 of August 4, 2010 on the approval of the privatisation strategy by public offering of Societatea Naţionala de Gaze Naturale "Romgaz" – S.A. Mediaş and of the mandate of the public institution involved in the development of such process.
[13] Calculated based on the closing price on the last trading day of the year, namely based on the exchange rate communicated by the National Bank of Romania and valid in the last trading day of the year.

projects in the reporting years that were financed from "*the share of expenses necessary for the development and modernisation of gas production*" according to GD No. 168/1998 as subsequently amended and supplemented.

In 2019, on the regulated market governed by BVB the trading price of shares reached a historical maximum of 38.40 RON/share, at the end of four days namely on October 22, December 6, 9 and 16, 2019.

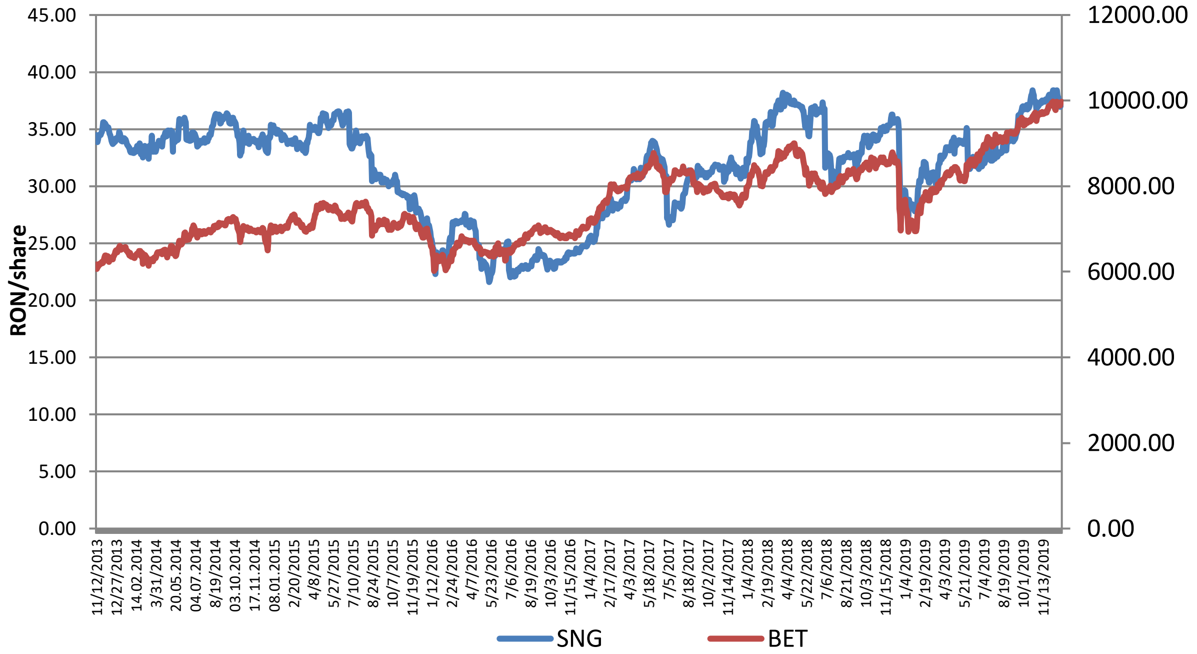
At the beginning of 2019 the share price continued the descending trend recorded at the end of 2018, as a consequence of GEO no.114/2018 *on establishing fiscal, budgetary and public investment measures, amending and supplementing some pieces of legislation and extending some deadlines.* The lowest price per share of 27.35 RON/share was recorded on January 14, 2020. Thereafter, the share price increased considerably, exceeding the limit of RON 30 at the beginning of February and recorded a monthly average value of 33.58 RON/share. This ascending trend of the share price can be noticed by comparing the year-end price (RON 37.10) with the trading price recorded in the first day (RON 27.40), namely +30.63%.

GDR's trading prices on LSE recorded the same ascending trend similar to shares. Therefore, the minimum price was 6.80 USD/GDR recorded on January 14, 2019 and the maximum price of 8.80 USD/GDR was reached in the last period of the year, namely December 19, 2019. In 2019, the average GDR's price was 7.84 USD/GDR, recording between the first and last trading day of the year an increase of 25.71%.

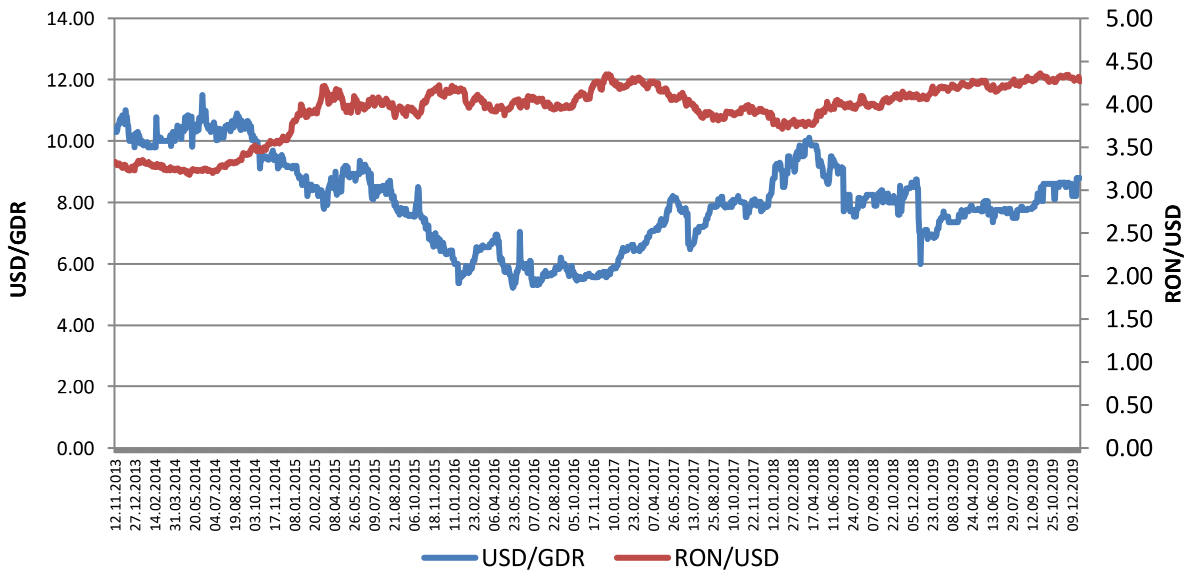
Since the listing day up to present, Romgaz has been considered an attractive company for investors and holds a significant position in the top of local issuers, being included in BVB indices by the end of 2019, as follows:

- Second place, by market capitalization, in the top of Premium BVB issuers. With a market capitalization amounting to RON 14,299.17 million (respectively EUR 2,991.89 million) on December 31, 2019; Romgaz is the second largest listed company in Romania, being preceded by OMV Petrom with a capitalization of RON 25,319.91 million, namely EUR 5,297.82 million;
- Fourth place as regards the total amount of transactions in 2019, in the top of local issuers in the main segment of BVB (RON 987.10 million), ranked after Banca Transilvania, Fondul Proprietatea and BRD;
- Weight of 10.96% and 10.29% in BET index (top 15 issuers) and namely BET-XT index (top 25 issuers), 30.00% in BET-NG index (energy and utilities) and 10.69% in BET-TR index (BET Total Return).

Performance of Romgaz shares between listing and December 31, 2019 compared to the BET index, is shown below:



Performance of GDRs traded on London Stock Exchange and RON/USD exchange rate movements are shown below:



5.1. Dividend Policy

The General Meeting of Shareholders determines the value of dividends to be distributed to shareholders considering the specific legal provisions.

Therefore, **Government Ordinance No. 64/2001**[14] approved by *Law No. nr.769/2001* as amended, provides at Article 1, par. (1), let. f) that the profit after the deduction of profit tax is distributed *minimum* 50% as dividends.

[14] Government Ordinance No. 64/August 30, 2001 on distribution of profit in majority state-owned companies as well as in autonomous regies

By way of derogation from provisions of Law No. 31/1990 providing that the dividends must be paid no later than six months after the approval of the annual financial statements, the state-owned companies are required, according to the provisions of Government Ordinance nr.64/2001, to pay the due dividends to the shareholders *within 60 days* from the legal deadline for the submission of the annual financial statements of the competent fiscal authorities.

According to **Government Emergency Ordinance No. 29/2017**[15]:

- "*The amounts distributed in the previous years from other reserves under the provisions of Art. 1 para (1) let. (g) of Government Ordinance No.64/2001 [...], existing at the date of entry into force of this Emergency Ordinance, can be redistributed as dividends [...]*" - Art.II;
- "*After the approval of the financial statements of 2016, the entities provided in Art. 1, par. (1) of the Government Ordinance No.64/2001, [...], the retained earnings existing in the balance account on December 31, can be distributed as dividends*" - Art.III par. (1).

According to Article 43 of ***Government Emergency Ordinance No. 114/2018*** *"The economic operators, partially or wholly state owned, applying the provisions of Government Ordinance No. 26/2013, distribute and pay under the law, within 60 days since the approval of the financial statements for 2018, under the form of dividends or payments to the state budget, in case of autonomous regies, 35% of the amounts distributed to other reserves, under the conditions of Article 1, par. (1), let. g) of the Government Ordinance No. 64/2001, found as cash in hand and at bank accounts, as well as the one related to short term investments as of December 31, 2018 and which on the same date are not committed, under procurement contracts, to be used as own financing sources".*

Report on the macroeconomic situation for 2019 and its projection for 2020 – 2022, elaborated by the Ministry of Public Finance, provides that the budgetary planning considered, among others:

- the impact generated by Article 43 of GEO no. 114/2018;
- enforcing in 2019 the measures for allocating minimum 90% from the achieved net profit as dividends.

The table below shows the status of dividends for years 2016-2019:

Description	2016	2017	2018	2019 proposal
Dividends	2,220,033,024	2,640,143,440	1,607,211,408	620,530,064
Gross dividends per share (RON/share)	**5.76***)	**6.85****)	**4.17*****)	**1.61******)
Dividend distribution rate (%)	141.24	103.70	117.64	56.95
Number of shares	385,422,400	385,422,400	385,422,400	385,422,400

*) The gross dividend per share of RON 5.76 is composed of the gross dividend per share for financial year 2016 in amount of RON 2.40/share, and the additional gross dividend of RON 1.42/share resulted from the distribution of retained earnings and the additional gross dividend of RON 1.94/share assigned under the provisions of Article II and III of Government Emergency Ordinance No.29/2017, distributed from the company's reserves, representing own financing sources.

**) The gross dividend per share of RON 6.85 is composed of the gross dividend per share for financial year 2017 in amount of RON 4.34 per share, and the additional gross dividend of RON 0.65 share resulted from the distribution of retained earnings and the additional gross dividend of RON 1.86 /share assigned under the provisions of Article II and III of Government Emergency Ordinance No. 29/2017, distributed from the company's reserves representing own financing sources.

[15] Government Emergency Ordinance No. 29 of March 30, 2017 to amend Art. 1 par. (1) let. g) of Government Ordinance No. 64/2001 on the distribution of profits in national companies, and trading companies with full or majority state capital, as well as in autonomous regies, and to amend Art. 1 par. (2) and (3) of Government Emergency Ordinance no.109/2001 on corporate governance of public enterprises.

***) The gross dividend per share is 4.17 RON is composed of the gross dividend per share for financial year 2018 in amount of RON 3.15 per share, and the additional gross dividend of RON 0.08/share resulted from the distribution of retained earnings and the additional gross dividend of RON 0.94/share assigned under the provisions of Article 43 of Government Emergency Ordinance No 114/2018.

****) proposed dividend of RON 1.61 is composed of the gross dividend per share for financial year 2019, in mount of 1.39 RON/share and the additional gross dividend of 0.22 RON/share resulted from the distribution of retained earnings representing the impairment value of fixed assets and the value of fixed assets and abandoned investment projects in the reporting years that were financed from "*the share of expenses necessary for the development and modernisation of gas production*" according to GD No. 168/1998 as subsequently amended and supplemented.

In 2019, OGMS Resolution No.3/April 25, 2019 approved the distribution of dividends in total gross amount of RON 1,607,211,408 (4.17 RON/share), representing dividends for financial year 2018 (3.15 RON/share) and additional dividends (1.02 RON/share).

The Government of Romania mandated the state representatives in the General Meeting of Shareholders/Board of Directors of national companies and majority or entirely state owned companies and of autonomous regies, to take all the necessary measures for the distribution of a minimum share of 90% of the net profit achieved in 2018 as dividends/payments to the state budget. The Government made this decision through Memorandum No. 20/4737/18.03.2019 issued by the Ministry of Public Finances.

The internal regulation "Dividend Policy" was approved by the company's Board of Directors in March 2017 and is currently published on the company's webpage www.romgaz.ro, at "*Investor Relations – Corporate Governance – Reference Documents*".

VI. COMPANY MANAGEMENT

6.1. Board of Directors

The selection and appointment of members in the Board of Directors was accomplished in compliance with the provisions of GEO No.109/2001 on corporate governance of public companies, as subsequently amended and supplemented, approved by Law No.111/2016 and by Enforcement Guidelines (GD No. 722/2016).

The members of the Board of Directors on January 1st, 2019 were as follows:

Item No.	Name	Position in the Board	Status*)	Professional Qualification	Institution of Employment
1	Nistoran Dorin Liviu	chairman/member**	non-executive independent	engineer	Evolio
2	Ungur Ramona	member/chairman***	non-executive independent	economist	-
3	Volintiru Adrian Constantin	member	executive non-independent	economist	SNGN Romgaz SA
4	Grigorescu Remus	member	non-executive independent	PhD in Economics	Universitatea "Constantin Brâncoveanu"
5	Ciobanu Romeo Cristian	member	non-executive independent	PhD engineer	Universitatea Tehnică Iaşi
6	Jude Aristotel Marius	member	non-executive non-independent	MBA legal adviser	SNGN "Romgaz" SA
7	Jansen Petrus Antonius Maria	member	non-executive independent	economist	London School of Business and Finance

*) - *members of the Board of Directors submitted the independent statements in compliance with the provisions of Romgaz Corporate Governance Code.*
**) – *chairman until May 13, 2019.*
***) – *chairman as of May 14, 2019.*

During 2019, the Board of Directors underwent several changes. Thus, on **June 26, 2019**, by OGMS Resolution No.6/2019, the company shareholders appointed by cumulative vote the following persons as members of the Board:

- Stan-Olteanu Manuela-Petronela
- Havrilet Niculae
- Ciobanu Romeo-Cristian
- Parpala Caius-Mihai
- Harabor Tudorel
- Cimpeanu Nicolae
- Jansen Petrus Antonius Maria

Mr. Ciobanu Romeo-Cristian and Mr. Jansen Petrus Antonius Maria were reconfirmed as board members continuing their four years mandate, following a selection process carried out in 2018, according to OGMS Resolution no.8 of July 6, 2018. The other board members were appointed as interim members for a four-month period.

Following the selection procedure, the Board of Directors had the following composition:

Item no.	Name	Position in the Board	Status*)	Professional Qualification	Institution of Employment
1	Stan-Olteanu Manuela-Petronela	chairman	non-executive non-independent	legal adviser	General Secretariat of the Government
2	Havrileţ Niculae	member	non-executive non-independent	engineer	Ministry of Energy
3	Ciobanu Romeo-Cristian	member	non-executive independent	PhD engineer	Universitatea Tehnică Iaşi
4	Parpală Caius-Mihai	member	non-executive independent	engineer	ANAR - Administraţia Bazinală de Ape Mureş – Sistemul de Gospodărire al Apelor Arad
5	Hărăbor Tudorel	member	non-executive independent	economist	-
6	Cîmpeanu Nicolae	member	non-executive independent	economist	OMV Petrom Global Solutions S.R.L.
7	Jansen Petrus Antonius Maria	member	non-executive independent	economist	London School of Business and Finance

*) - *members of the Board of Directors submitted the independent statements in compliance with the provisions of Romgaz Corporate Governance Code.*

Company's shareholders approve by Resolution No. 8 of **October 28, 2019** to extend the mandates of interim board members by two months from the date of their mandate expiration, in compliance with article 64^1 para (5) of GEO No. 109/2011.

On **December 23, 2019,** the company's shareholders approved by OGMS Resolution No. 11/2019 revocation of the following members of the Board:

- Stan-Olteanu Manuela-Petronela
- Havrilet Niculae
- Parpala Caius-Mihai
- Harabor Tudorel
- Cimpeanu Nicolae

and election of the following interim Board members with a mandate of four months:

- Jude Aristotel Marius
- Stan-Olteanu Manuela-Petronela
- Harabor Tudorel
- Marin Marius Dumitru
- Balazs Botond.

Consequently, the Board of Directors has the following members:

Item no.	Name	Position in the Board	Status*)	Professional Qualification	Institution of Employment
1	Stan-Olteanu Manuela-Petronela	chairman	non-executive non-independent	legal adviser	General Secretariat of the Government
2	Jude Aristotel Marius	member	non-executive non-independent	MBA in Law legal adviser	SNGN Romgaz SA
3	Hărăbor Tudorel	member	non-executive independent	economist	-
4	Marin Marius-Dumitru	member	non-executive independent	PhD engineer	MDM Consultancy Deva
5	Balazs Botond	member	non-executive non-independent	legal adviser	SNGN Romgaz SA
6	Ciobanu Romeo-Cristian	member	non-executive independent	PhD engineer	Universitatea Tehnică Iaşi
7	Jansen Petrus Antonius Maria	member	non-executive independent	economist	London School of Business and Finance

*) - *members of the Board of Directors submitted the independent statements in compliance with the provisions of Romgaz Corporate Governance Code.*

The Curricula Vitae of the current Board members are to be found on the company's webpage www.romgaz.ro, at "*Investor Relations – Corporate Governance – The Board of Directors*".

According to the information supplied by each director, ***there is no agreement, understanding or family relationship*** between them and another person that contributed to their appointment as directors.

As of December 31, 2019, among the members of the Board only Mr. Balazs Botond ***held shares in the company***, namely 11 shares representing 0.00000285% of the share capital.

6.2. Upper Management

Volintiru Adrian Constantin - Chief Executive Officer (CEO)

The Board of Directors appointed Mr. Volintiru Adrian Constantin as Chief Executive Officer of the Company for 4 years by Resolution No. 45 of October 1, 2018.

Bobar Andrei – Chief Financial Officer (CFO)

The Board of Directors appointed Mr. Bobar Andrei as Chief Financial Officer by Resolution no. 30 of November 2, 2017.

The Board of Directors appointed Mr. Bobar Andrei by Resolution no. 39 of August 28, 2018 as Chief Financial Officer for a limited period, from August 28, 2018 until November 2nd, 2021.

Mr. Bobar Andrei unilaterally terminated the Contract of Mandate by giving on 22 August 2019 Notification no. 28593 relating to the 30-day contract termination notice, in compliance with contractual provisions. The notice period ended on September 21, 2019. Upon the appointment of Mr. Andrei Bobar as CFO his Individual Employment Contract was suspended; on September 19, 2019, the CEO issued Resolution no. 530 which effected the reactivation of Mr. Bobar's Individual Employment Contract and his position as Finance Director of the Company.

The Board of Directors appointed Mr. Veza Marius Leonte as interim Chief Financial Officer until December 28, 2019, by Resolution No. 39/November 4, 2019.

Other persons discharging managerial responsibilities:

Name	Position
ROMGAZ - headquarters	
Tataru Argentina	Deputy Director General
Paraschiv Nelu	Deputy Director General
Veza Marius Leonte	Accounting Director
Bobar Andrei	Finance Director
Dediu Mihaela Carmen	Exploration-Appraisal Director
-	Production Director
Boiarciuc Adrian	Information Technology Director
Lupa Leonard Ionuţ	Procurement Director
Chertes Viorel Claudiu	Director for Technical Regulations
Ciolpan Vasile	Energy Trade Director
Endre Ioo	Legal Department Director
Stan Ioan	Human Resources Director
Cindrea Corin Emil	HQSE Director
Radu Cristian Gheorghe	Strategy, International Relations, European Funds Director
Mediaş Branch	
Dobrescu Dumitru	Director
Achimeţ Teodora Magdalena	Economic Director
-	Production Director
Man Ioan Mihai	Technical Director
Târgu Mureş Branch	
Roiban Claudiu	Director
Dimbean Catalin	Economic Director
-	Production Director
Baciu Marius Tiberiu	Technical Director
Iernut Branch	
Balazs Bela	Director
Oros Cristina Monica	Economic Director
Oprea Maria Aurica	Trading Director

Bircea Angela	Technical Director
SIRCOSS	
Rotar Dumitru Gheorghe	Director
Bordeu Viorica	Economic Director
Gheorghiu Sorin	Technical Director
STTM	
Cătană Cristian Victor	Director
Ilinca Cristian Alexandru	Economic Director
Cioban Cristian Augustin	Operation-Development Director

The members of the upper management, except the chief executive officer and the chief financial officer are employees of the company, having an individual labour contract for an indefinite period.

The management and operating personnel are employed, promoted and dismissed by the chief executive officer based on the powers delegated to him by the Board of Directors.

The Board of Directors and the upper management of Depogaz is provided on the website: https://www.depogazploiesti.ro/ro/despre-noi/conducere

According to our information, ***there is no agreement, understanding or family relationship between the members of the above mentioned upper management and another person that contributed to their appointment as members of the upper management.***

The table below shows the number of ***shares held by the members of the upper management*** as of December 31, 2019:

Item no.	Name and Surname	Number of shares held	Weight in the share capital (%)
0	1	2	3
1	Rotar Dumitru Gheorghe	20,611	0.00534764
3	Ştefan Ioan	2,945	0.00076410
4	Obrejan Dan Nicolae	286	0.00007420
6	Andrea Nicolae	200	0.00005189
7	Dincă Ispasian Ioan	48	0.00001245
10	Balasz Bela Atila	38	0.00000986

To the best of our knowledge, the persons mentioned at 6.1 and 6.2 above, ***have not been involved in litigations or administrative proceedings*** related to their activity in Romgaz ***in the last 5 years***, nor in proceedings related to their capacity of fulfilling the duties, except for the litigations arising out of the application of Decision No.26/2016 of the Court of Accounts – Sibiu Chamber of Accounts, having as scope the recovery of the amounts paid as regular overtime pay to the managing personnel (see items 155, 158, 161-165, 167, 169, 170, 196, 282, 292, 368 of the "Litigations" posted on www.romgaz.ro Investor Relations-Annual Reports-2019).

VII. CONSOLIDATED FINANCIAL-ACCOUNTING INFORMATION

7.1. Statement of Financial Position

The consolidated financial statements of the Group have been prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS) as adopted by the European Union and the provisions of the Ministry of Finance Order No. 2844/2016. For the purposes of preparing these consolidated financial statements, the functional currency of the Company is deemed to be the Romanian Leu (RON). IFRS, as adopted by the EU, differs in certain respects from IFRS as issued by the IASB. However, the differences have no significant impact on the Group's consolidated financial statements for the years presented.

The consolidated financial statements have been prepared on a going concern basis in accordance with the historical cost convention.

The table below presents a summary of the statement of consolidated financial position as of December 31, 2019:

Indicator	31.12.2017 (thousand RON)*)	31.12.2018 (thousand RON)	31.12.2019 (thousand RON)	Variance (2019/2018)
0	1	2	3	4=(3-2)/2*100
ASSETS				
Non-current assets				
Property, plant and equipment	6,221,699	6,279,748	5,543,177	-11.73%
Other intangible assets	8,629	4,970	9,164	84.39%
Investments in associates	22,676	23,298	24,772	6.33%
Deferred tax assets	69,965	127,491	230,947	81.15%
Other financial assets	69,678	9,812	5,388	-45.09%
Right of use asset	-	-	8,590	n/a
Total non- current assets	**6,392,647**	**6,445,319**	**5,822,038**	**-9.67%**
Current assets				
Inventories	389,515	245,992	311,013	26.43%
Trade and other receivables	816,086	826,046	638,158	-22.75%
Contract costs	-	583	312	-46.48%
Other financial assets	2,787,261	881,245	1,075,224	22.01%
Other assets	305,913	168,878	42,485	-74.84%
Cash and cash equivalents	227,167	566,836	363,943	-35.79%
Total current assets	***4,525,942***	***2,689,580***	***2,431,135***	***-9.61%***
TOTAL ASSETS	***10,918,589***	***9,134,899***	***8,253,173***	***-9.65%***
EQUITY AND LIABILITIES				
Equity				
Issued capital	385,422	385,422	385,422	0.00%
Reserves	2,312,532	1,824,999	1,587,409	-13.02%
Retained earnings	6,277,486	5,458,196	5,201,222	-4.71%
TOTAL EQUITY	**8,975,440**	**7,668,617**	**7,174,053**	***-6.45%***
Non-current liabilities				
Retirement benefit obligation	119,482	139,254	114,876	-17.51%
Provisions	682,041	510,114	366,393	-28.17%
Deferred income	-	21,128	21,244	0.55%
Lease liability	-	-	8,285	n/a

Total non-current liabilities	***801,523***	***670,496***	***510,798***	***-23.82%***
Current liabilities				
Trade payables and other liabilities	606,109	186,702	109,910	-41.13%
Contract liabilities	-	46,381	42,705	-7.93%
Current tax liabilities	128,520	68,001	64,342	-5.38%
Deferred income	970	8,442	3,729	-55.83%
Provisions	76,923	93,645	82,701	-11.69%
Lease liability	-	-	694	n/a
Other liabilities	329,104	392,615	264,241	-32.70%
Total current liabilities	***1,141,626***	***795,786***	***568,322***	***-28.58%***
TOTAL LIABILITIES	***1,943,149***	***1,466,282***	***1,079,120***	***-26.40%***
TOTAL EQUITY AND LIABILITIES	***10,918,589***	***9,134,899***	***8,253,173***	***-9.65%***

*) restated

NON CURRENT ASSETS

The total non-current assets decreased by 9.67% by the end of 2019, compared to the end of 2018, meaning by RON 623.28 million, from RON 6,445.32 million on December 31, 2018 to RON 5,822.04 million, on December 31, 2019, despite the total investments achieved in 2019 of RON 891.58 million. The decrease is due to depreciation, amortization and net impairment of RON 1,358.25 million, but also due to the decrease of the wells decommissioning provision that generated a decrease of non-current assets of RON 135.01 million.

The increase of 84.39% recorded in Other Non-Current Assets during 2019 is due to the development of the Group's IT systems.

With regard to Other Financial Assets, the Group recorded in 2019 a loss of RON 4.5 million from the assessment related to investment in Electrocentrale Bucuresti, being fully adjusted.

Investments in associates are accounted for in the consolidated financial statements by the equity method which implies that the investment is initially recognized as cost and adjusted afterwards, depending on the post-acquisition modifications, in the apportioned share of the Group in the associate's net assets in which the investment had been made. The Group's profit or loss includes its share of the associate's profit or loss.

In 2019, International Financial Reporting Standard 16 "Leases" entered into force and replaced International Accounting Standard 17 "Leases" (IAS 17). According to the new standard, the lessee accounts finance lease contracts and operating lease (rent) contracts in the same manner. As such, the lessee records a "right of use" asset for the underlying asset subject to the lease contract simultaneously with the recognition of a lease liability. The Group has no finance leases. The "right of use" assets derive from lease contracts concluded by the Group; previously, these contracts were reported in form of rent-related expenses.

Deferred tax asset

Deferred tax asset is based on the temporary differences between the accounting value and the tax value of balance sheet items. These temporary differences may be taxable, meaning they will result in taxable values when determining the taxable result of future periods, or deductible, meaning they will result in values that are deductible when determining the taxable result of future periods.

Taking into account the impairment recorded for the fields operated by the Group, for abandoned investment projects and for storage assets, the temporary difference between the accounting and the tax value of the assets increased, which generated a rise in the deferred tax asset on December 31, 2019 as compared to December 31, 2018.

CURRENT ASSETS

Inventories

Inventories increased at the end of 2019, as compared to December 31, 2018 by 26.43% as a result of an increased gas stock in storages. The value of the gas stock on December 31, 2019 increased compared to the end of the previous year by 94.62% due to the increase by 51.1% of the gas volumes stored in 2019 as compared to 2018 and due to the decrease by 46.25% of the withdrawn gas volume.

Trade and other receivables

Trade receivables decreased in 2019 as compared to December 31, 2018 by 22.75% as a result of lower gas quantities delivered in December 2019 as compared to December 2018, by approximately 16.64% but also due to net impairment losses for trade receivables of RON 81.22 million.

Cash and cash equivalents. Other financial assets

On December 31, 2019, cash and cash equivalents and other financial assets (bank deposits and purchased state bonds) were RON 1,439.2 million, as compared to RON 1,448.1 million at the end of 2018.

Other assets

Other assets decreased due to recovery in 2019 of RON 123.2 million of the receivables representing excise duties related to technological consumption for the period 2010-2016.

The Group received in 2019 a favourable decision related to a litigation with ANAF.

During December 2016-April 2017, there was a partial fiscal inspection to review the VAT for the period December 2010 – June 2011, and to review the income tax for the period January 2010-December 2011. The scope of the inspection were the discounts granted by Romgaz to interruptible consumers for the delivery of internal gas between 2010-2011. This category was established by the transmission system operator, TRANSGAZ. The notice of assessment set additional payment obligations in amount of RON 15,284 thousand, as well as late payment penalties of RON 3,129 thousand. In 2019, the court ruled in favour of Romgaz so that the adjustment of RON 18.4 million was cancelled.

EQUITY

The Group's own equity reduced in 2019 by 6.45% (RON 494.6 million) as compared to the end of 2018, due to distributing to shareholders as dividends the result of 2018 and part of the result of the previous years and certain reserves, in compliance with the resolution of the Group's general meeting of shareholders.

NON-CURRENT LIABILITIES

At the end of 2019, non-current liabilities decreased by 23.82% as compared to December 31, 2018, mainly due to the decrease of the decommissioning provision for wells with RON 146.23 million (-27.57%). In 2019, the Group re-analysed well abandonment costs based on which this provision is calculated. Following this analysis, the provision decrease generated an income of RON 51.8 million and a decrease of non-current assets with RON 135.01 million.

CURRENT LIABILITIES

Current liabilities decreased by RON 227.47 million from RON 795.79 million recorded on December 31, 2018 to RON 568.32 million at the end of 2019.

Trade payables and other liabilities

Trade payables decreased compared to December 31, 2018 by 41.13% due to fewer works performed at Iernut power plant towards the end of 2019, as compared to the end of 2018, liabilities to the contractor decreased by RON 85.26 million.

Other liabilities

Other liabilities recorded a decrease by 32.7% as a result of the following:

- decrease of the Group's petroleum royalty liability (decrease by RON of 71.69 million, as a result of a lower reference price communicated by the National Agency for Mineral Resources in Q4 2019 as compared to Q4 2018);

- decrease of the windfall tax liability by RON 10.78 million, due to the decrease of the average gas price delivered in December 2019 by approximately 11.54% as compared to December 2018 and due to the gas quantities delivered during this month compared to the same period of 2018, by approximately 16.64%;

- decrease of the VAT liability by RON 26.34 million due to lower sales during December 2019 as compared to December 2018;

- payment to Schlumberger of a liability taking into account that the association agreement expired in 2018 (RON 22.5 million).

The Group ***did not issue bonds or other debt instruments*** in financial year 2019.

Provisions

On December 31, 2019, current provisions recorded a decrease by 11.69% as compared to December 31, 2018. This decrease is due, mainly, to the decrease of the provision for greenhouse gas emission certificates (RON 16.7 million).

7.2. Statement of Consolidated Comprehensive Income

The Group profit and loss account summary for the period January 1 – December 31, 2019, as compared to the similar period of the years 2018 and 2017, is shown below:

Indicator	Year 2017 (RON thousand) *)	Year 2018 (RON thousand)	Year 2019 (RON thousand)	Variance (2019/2018)
0	1	2	3	4=(3-2)/2*100
Revenue	4,585,186	5,004,197	5,080,482	1.52%
Cost of commodities sold	(61,095)	(245,020)	(107,800)	-56.00%
Investment income	22,350	53,279	38,124	-28.44%
Other gains and losses	(122,068)	(102,989)	(63,069)	-38.76%
Impairment losses on trade receivables	-	(19,941)	(81,221)	307.31%
Changes in inventory of finished goods and work in progress	(186,651)	(32,180)	80,008	n/a
Raw materials and consumables used	(64,329)	(75,460)	(76,048)	0.78%
Depreciation, amortization and impairment expenses	(552,446)	(708,142)	(1,358,250)	91.80%
Employee benefit expense	(562,894)	(621,330)	(670,408)	7.90%

Finance cost	(18,791)	(29,724)	(24,740)	-16.77%
Exploration expense	(183,121)	(247,123)	(24,564)	-90.06%
Share of associates 'result	1,375	622	1,474	136.98%
Other expenses	(1,101,933)	(1,409,447)	(1,551,642)	10.09%
Other income	364,169	18,442	32,834	78.04%
Profit before tax	**2,119,752**	**1,585,184**	**1,275,180**	**-19.56%**
Income tax expense	(316,118)	(219,016)	(185,557)	-15.28%
Profit for the period	**1,803,634**	**1,366,168**	**1,089,623**	**-20.24%**

*) restated

Revenue

In 2019, Romgaz reported a consolidated revenue of RON 5.1 billion as compared to RON 5.0 billion achieved in 2018.

The increase resides from a 4.4% rise of revenue from sales of gas produced by Romgaz and of gas purchased for resale, as well as gas from joint ventures, an increase by 11% of revenues from storage services and an increase by 115.7% of revenues from gas condensate sale, despite the decrease of revenues from electricity sales by 50.95%.
As for the quantities, the Group reports for 2019 as compared to 2018:

- 3.4 % less gas sales;
- provided gas injection services in storages by 51.4% higher, gas withdrawal services from storages by 34.8% lower, reserved a higher storage capacity by 42.51% for 2019 – 2020 storage cycle as compared to the previous cycle, partly due to minimum stock obligations established by ANRE;
- sold by 120.4% more gas condensate; and
- produced by 49.4% less electricity.

Cost of Commodities Sold

In 2019, cost of commodities sold decreased by 56% as compared to the previous year, mainly due to the decrease by 70.8% of the gas quantity purchased from import for resale.

Investment Income

Investment income represent income from placing Group's liquidities in bank deposits or in state bonds.

Other Gains and Losses

Net losses are lower due to receiving a favourable decision on a litigation with ANAF, as mentioned before in the section related to the Group's financial position. The adjustment of RON 18.4 million was reduced by releasing it to income.

In 2019, the Group recorded a net loss of financial investments measured at fair value through profit and loss of RON 4.5 million, as compared to the net loss of RON 40.8 million in 2018. In both periods, the loss was generated by the decrease of the value of the 2.49% share in Electrocentrale Bucuresti capital, which on December 31, 2019 was measured at RON 0.

In 2019, the Group wrote-off non-current assets of RON 68.0 million. Nonetheless, the effect in result of these written off assets is insignificant, the Group recording an income corresponding to the release of the impairment for these assets, as presented in the expenses with amortisation and impairment.

Impairment losses on trade receivables

In 2019, the Group recorded net impairment losses of receivables of RON 81.2 million, due to the risk of non-collecting some receivables from insolvent clients. The Group was forced by decisions of the courts to deliver gas to such customers considered ”captive” by the insolvency law. Subsequent to the issuance of these decisions, the Group did not record any additional outstanding receivables from these customers, but, according to IFRS, it recorded adjustments for the impairment of the receivables according to the estimated risk of non-collection.

Therefore, for receivables uncollected in due date, the Group recorded a net impairment of RON 34.08 million, and from the analysis of non-collection risk of current receivables, it recorded an impairment of RON 47.1 million. When calculating the impairment adjustments, the Group took into account the collections of 2020 until the issue date of financial statements.

Changes in Inventory

The gas quantity injected in 2019 was higher than the quantity withdrawn from storages, thus generating favourable changes in inventory (income), unlike the year 2018 when the injected quantity was lower than the withdrawn quantity generating unfavourable changes in inventories (loss). The quantity of gas injected in storages in 2019 as compared to 2018 increased by 51.1% while the withdrawn quantity decreased by 46.25%.

Depreciation, amortization and impairment expenses

In 2019, the depreciation and amortization of non-current assets was of RON 520.96 million, lower by 11.89% as compared to the previous year. Following the impairment recorded in 2018 for the assets associated with gas fields and current power plant Iernut, the depreciable amount of the assets decreased by RON 189 million, generating lower depreciation expenses.

In 2019, the Group recorded net impairment losses for assets of RON 837.3 million due to:

- the abandonment of certain investment projects in wells (RON 250.3 million, of which RON 55.9 million related to Trinity-1X Well from EX 30 Trident Block in the Black Sea);
- some insignificant recent investments in projects started in previous years (RON 88.9 million);
- a net adjustment of RON 71.2 million pursuant to a gas field impairment testing conducted on December 31, 2019. For performing this test, the Group took into account the events subsequent to December 31, 2019, namely ANRE issued for consultation a draft order ruling that Romanian gas producers that record a significant production are obliged to make available on the centralised gas market 30% of their gas production at a price that represents maximum 95% of the price of the Central European Gas Hub. The Group's management believes that this obligation will be translated into a law and therefore the estimated gas sale price for the following period decreased as compared to the price used for calculating the preliminary results.
- Recording an adjustment of RON 388.1 million for assets used in storage activities. Company's shareholders decided to increase Depogaz share capital in kind with the assets that are used for the storage activity. Following this decision, the Board of Directors approved the increase of the share capital of Depogaz by RON 871.8 million, representing the transfer in kind of assets, less the gas cushion. Before this decision, there were no indications of asset impairment, because their value was recovered based on the rent invoiced by the Company to the subsidiary. Based on the two decisions, there have been identified indications of asset impairment, under the evaluation report performed in 2019 following the shareholder's resolution no. 14/2018. The adjustment of RON 388.1 million resulted following the impairment test.

Employee benefit expense

Increase of employee benefit expenses by 7.9% as compared to 2018, both due to salaries indexation by the inflation rate and to the incentives granted for special results according to the human resource policy.

Exploration expenses

Exploration expenses recorded in 2019 in amount of RON 24.6 million decreased by 90.06% compared to the previous year.
The decrease is due to lower exploration expenses (seismic surveys) by RON 96.0 million. Exploration expenses also include the costs of wells written off. In 2019 the cost of these decommissioned investments was RON 23.1 million, compared to RON 149.6 million in 2018. These costs are mainly offset by net impairment income from impairment adjustments.

Other expenses

In 2019 other expenses increased by 10.09% as compared to 2018. The increase of RON 142.2 million is mainly due to higher windfall tax and the introduction of monetary contribution levied from the licence holders in the field of electricity and natural gas of 2% of the revenue achieved from the activities covered by the licences granted by ANRE (+ RON 169.38 million).

Other expenses also include a net income of RON 51.76 million from the decrease of the wells decommissioning provision. In 2019, the Group re-analysed the costs generated by well abandonment works, which generated a decrease in the provision for the production wells.

Other income

Other income increased by 78.04% in the year ended on December 31, 2019 as compared to the same period of 2018, due to the increase of income from compensations, fines and penalties for uncollected amounts according to contractual terms or noncompliance of suppliers with execution terms (+ RON 9.26 million). Out of the total income from penalties of RON 20.41 million, the amount of RON 14.40 million was not collected until December 31, 2019; the Group recorded an impairment loss for these receivables.

7.3. Statement of Consolidated Cash Flows

Statements of cash flows recorded in the period 2017 – 2019 are shown in the table below:

thousand RON

INDICATOR	2017*)	2018	2019
Cash flow from operating activities			
Net Profit for the year	**1,803,634**	**1,366,168**	**1,089,623**
Adjustments for:			
Income tax expense	316,118	219,016	185,557
Share from associates' result	(1,375)	(622)	(1,474)
Interest expense	3	-	543
Unwinding of decommissioning provision	18,788	29,724	24,197
Interest revenue	(22,350)	(53,279)	(38,124)
Net loss on disposal of non-current assets	74,401	62,961	68,046
Change in decommissioning provision recognized in profit or loss, other than unwinding	22,978	(34,390)	(51,760)
Change in other provisions	11,389	30,152	(5,402)
Net impairment of exploration assets	(45,100)	(118,809)	208,350
Exploration projects written-off	135,350	149,620	23,051
Net impairment of property, plant and equipment and intangibles	24,489	235,661	628,943

Depreciation and amortization	573,057	591,290	520,957
Amortization of contract costs	-	1,291	651
Impairment of investments in associates	(12,462)	-	-
Net impairment of other financial assets	(21)	-	-
Change in investments at fair value through profit and loss	-	40,782	4,424
Losses from disposal of other financial investments	12,308	-	-
Net receivable write-offs and movement in allowances for trade receivables and other assets	38,575	20,048	67,297
Other gains and losses - leasing	-	-	(52)
Net movement in write-down allowances for inventory	8,147	(2,052)	5,125
Liabilities written off	(610)	(58)	(89)
Subsidies income	(150)	(269)	(81)
Cash generated from operations before movement in working capital	**2,957,169**	**2,537,234**	**2,729,782**
Movement of working capital			
(Increase)/Decrease in inventory	178,363	143,114	(38,428)
(Increase)/Decrease in trade and other receivables	(180,285)	(8,156)	116,143
(Increase)/Decrease in trade and other liabilities	105,975	(194,681)	(78,115)
Cash generated from operations	**3,061,221**	**2,477,511**	**2,729,382**
Interest paid	(3)	-	-
Income tax paid	(309,956)	(334,324)	(297,059)
Net cash generated by operating activities	**2,751,263**	**2,143,187**	**2,432,323**
Cash flows from investing activities			
Payments for investment increase in associates	(144)	-	-
Net collections/(payments) related to financial assets	104,970	1,917,569	(203,972)
Interest received	20,909	49,338	43,470
Proceeds from sale of non-current assets	207	961	1,305
Acquisition of non-current assets	(479,797)	(948,588)	(694,349)
Acquisition of exploration assets	(231,496)	(205,371)	(173,563)
Proceeds from disposal of associates	298	-	-
Net cash used in investing activities	**(585,053)**	**813,909**	**(1,027,109)**
Cash flows from financing activities			
Dividends paid	(2,220,003)	(2,638,535)	(1,607,246)
Subsidies received	413	21,108	-
Repayment of lease liability	-	-	(861)
Net cash used in financing activities	**(2,219,590)**	**(2,617,427)**	**(1,608,107)**
Net Increase/(Decrease) in cash and cash equivalents	**(53,380)**	**339,669**	**(202,893)**
Cash and cash equivalents at the beginning of the year	**280,547**	**227,167**	**566,836**
Cash and cash equivalents at the end of the year	**227,167**	**566,836**	**363,943**

*) restated

VIII. CORPORATE GOVERNANCE

Corporate governance accommodates continuously to the requirements of a modern economy, to increasing globalization of social life and to investors and interested parties need for information on companies business.

As a national company Romgaz has to comply with GEO No. 109 of November 30, 2011 on public companies corporate governance, as amended and supplemented (the "Ordinance"), approved by Law 111/2016 and Government Decision no. 722 of September 28, 2016 on Methodological Norms for establishing the financial and nonfinancial performance criteria and variable component of remuneration of Board members, or if applicable, of the supervisory board members, and of managers and members of the directorate.

The Ordinance sets up a number of principles and provisions to ensure their application.

Ordinance provisions are observed by the company, and are included in the Company's Articles of Incorporation, as amended and approved by the company's shareholders in the following resolutions no. 19 of October 18, 2013; no. 5 of July 30, 2014, no. 8 of October 29, 2015, no.9 of October 28, 2016 and no.4 of August 9, 2017 (latest update of the Articles of Incorporation).

The updated Company's Articles of Incorporation is posted on the webpage www.romgaz.ro, at "*Investor Relations – Corporate Governance - Reference Documents*".

Since November 12, 2013, Romgaz shares have been traded on the regulated market governed by BVB, at category I, under the symbol "*SNG*", as well as on the London Stock Exchange (where GDRs are traded) under the symbol "*SNGR*".

On January 5, 2015, after the Financial Supervisory Authority approved the proposals to amend BVB's regulations, Romgaz was admitted into the PREMIUM category of BVB regulated market.

As issuer of securities traded on the regulated market, Romgaz has to fully comply with the corporate governance standards provided by applicable national regulations, namely the Corporate Governance Code of BVB, posted on the internet webpage www.bvb.ro, at "*Investor Relations – Regulations - BVB Regulations*".

The Corporate Governance system was and will be continuously improved according to rules and recommendations applicable to Companies listed on Bucharest Stock Exchange and on London Stock Exchange.

Some of the *already implemented measures include*:

- drafting a new Corporate Governance Code, in accordance with the new Corporate Governance Code of BVB applicable since January 4, 2016 – the document was approved by Romgaz Board of Directors by Resolution no.2/January 28, 2016. The Corporate Governance Code was updated and shall be submitted for approval of the Board of Directors.

  The Company's Articles of Incorporation is posted on the webpage www.romgaz.ro, at "*Investor Relations – Corporate Governance – Reference Documents*".

- Board of Directors approval and update of the Internal Rules for the advisory committees during the meetings held on March 24, 2016 (for all committees) and March 23, 2017 (update of the Internal Rules of the Strategy Committee) and May 14, 2018 (update of the Internal Rules of the Audit Committee). The Internal Rules of the Nomination and Remuneration Committee was updated to include all legal amendments on corporate governance (Law No. 111/2016 and GD No. 722/2016) and it will be submitted for approval of the Board of Directors.

- Update of the Terms of Reference of the Board of Directors to include the latest legal changes on corporate governance. The Terms of Reference were approved by the Board of Directors on March 23, 2017 and updated subsequently in January 2018 and in February 2019;
- Approval of Romgaz Policy related to remuneration and the Policy related to the assessment of Board members on March 12, 2019;
- Approval of Romgaz Policy related to transactions with affiliates and the draft statement of Board members' commitment to develop and implement the internal management control system and the risk management policy on March 20, 2019;
- Draft/update a series of internal regulations/policies in compliance with BVB Corporate Governance Code;
- Include in the Board of Directors' Report a chapter dedicated to corporate governance referring, among others, to : the applicable Corporate Governance Code, the duties of the executive management and of the three advisory committees of the Board of Directors (Nomination and Remuneration Committee and Audit Committee and the Strategy Committee), aspects related to remuneration of members of the Board and of managers, measures to improve the corporate governance, aspects related to internal control and risk management system and aspects related to social responsibility;
- Include in the Board of Directors' Report a section referring to compliance with the provisions of BVB Corporate Governance Code (Annex 1);
- Diversify communication ways with shareholders and investors by posting on the website press releases addressed to market players, half year and quarterly financial statements, annual reports, procedures to follow for access and participation to GMS, and by setting up of an "*Infoline*" for shareholders/investors to respond to their requirements and/or questions;
- Establish a specialized department dedicated to investor and shareholder relations;
- Conclude professional liability insurances for Board members and managers and appointment a person to monitor such contracts;
- Starting the procedures necessary for adopting and implementing the National Anticorruption Strategy. Therefore, a Commission has been established, responsible with the implementation of the strategy provisions; the Chief Executive Officer adopted the Statement of Adherence to the National Anticorruption Strategy and Integrity Plan for 2017, 2018 and 2019, documents published on the internet website at "*Investor Relations – Corporate Governance – Transparency*".

  Among the measures to be implemented, we mention the remuneration policy for the executive management, with a fixed and variable component that depends on the results of their evaluation. According to the Corporate Governance Code of London Stock Exchange, long-term bonus schemes should be submitted for shareholders' approval (GMS).

Aspects related to shareholders

The shareholders structure is presented within Chapter II "*Parent Company at a Glance*"

Romgaz respects and protects the rights and legitimate interests of the shareholders. The company undertakes all necessary efforts to facilitate the exercitation of shareholders' rights in relation with the company under the law and in compliance with the Articles of Incorporation.

A separate document on the rules and procedures of the GMS setting the framework for the way GMS is organized and carried out was drafted and is about to be submitted for the approval of the Board of Directors in the following period.

General Meeting of Shareholders

The General Meeting of Shareholders is summoned by the Board of Directors, whenever necessary, in accordance with the legal provisions. The convening notices and afterwards, the GMS resolutions, are sent to Bucharest Stock Exchange, London Stock Exchange and to the Financial Supervisory Authority in compliance with the regulations of the capital market and are published on the company's website at "*Investor Relations – General Meeting of Shareholders*".

The Ordinary General Meeting of Shareholders has the following main competencies:

a) to approve the company's strategic objectives;
b) to discuss, approve or amend, as the case may be, the annual financial statements of the company based on the reports submitted by the Board of Directors and the financial auditor, and to set the dividend;
c) to discuss, approve or request, as the case may be, the addition or review of the company's management plan, under legal provisions;
d) to set the income and expenditure budget for the following financial year;
e) to appoint and revoke Board members and to set their remuneration;
f) to make an opinion on the governance of the Board of Directors;
g) to appoint and to dismiss the financial auditor and to set the minimum term of the financial audit contract;
h) to approve contracting bank loans, whose value exceeds, individually or cumulated with other bank loans in progress over a financial year, EUR 100 million, equivalent in RON;
i) to approve the documents for establishing guarantees, other than guarantees for the company's non-current assets, with individual or cumulated value with other established guarantees other than guarantees in progress for the company's non-current assets over a financial year of EUR 50 million, equivalent in RON.

The Extraordinary General Meeting of Shareholders has the following main competencies:

a) to change company's legal form;
b) to move the headquarters;
c) to change the Company's scope of activity;
d) to establish companies, as well as conclude or amend incorporation documents of the companies where Romgaz is partner;
e) to conclude or amend joint venture contracts where the company is contracting party;
f) to increase the share capital;
g) to reduce the share capital or to restore it by issuing new shares;
h) to merge with other companies or to spin-off the company;
i) the anticipated winding up of the company;
j) to convert shares from a category into the other;
k) to convert one category of bonds into another one or in shares;
l) to issue bonds;
m) to conclude the documents related to the acquisition of non-current assets whose value exceeds, separately or cumulatively, during a financial year, 20% of the total non-current assets of the company, except for receivables;
n) to conclude the documents related to disposal, exchange and set up of guaranties referring to non-current assets whose value exceeds, separately or cumulatively, during a financial year, 20% of the total non-current assets, except for receivables;

o) to conclude the documents related to rental of tangible assets to the same contractors or to persons involved or acting together, for a period longer than 1 (one) year, whose value exceeds, separately or cumulatively, 20% of the total non - current assets, except for receivables at the document conclusion date;
p) any other change in the articles of incorporation or any other resolution that requires the approval of the extraordinary general meeting of shareholders.

Board of Directors

Romgaz is a joint-stock company governed under an one-tier system.

The Board of Directors consists of 7 (seven) members elected by the general meeting of shareholders, in compliance with legal applicable provisions and the provisions of the Articles of Incorporation, one of its members is appointed Chairman of the Board.

Board of Directors composition complies with the legal criteria/conditions on the share of non-executive and independent members, the studies and competencies, experience and gender diversity (criteria detailed in the Board of Directors Terms of Reference).

Board of Directors composition on December 31, 2019 is presented in Chapter VI "*Company management*". According to the independency declarations sent to the company, four board members declared to be independent and three as non-independent. The independence of Board members is determined based on the criteria detailed in Romgaz Corporate Governance Code (art.6).

Aspects on board members' rights, obligations and competencies, as well as aspects related to Board Meetings are detailed in the Articles of Incorporation and in the Board of Directors Terms of Reference.

Until December 31, 2019, the Board of Directors did not make a self- assessment for 2019.

Advisory Committee

In its activity, the Board of Directors is supported by three advisory committees, namely: the nomination and remuneration committee, the audit committee and the strategy committee.

The Audit Committee has legal competencies provided in Article 65 of Law No. 162/2107[16] consisting mainly in monitoring the financial reporting process, the internal control systems, the internal audit and risk management systems within the company, as well as in controlling the statutory audit activity related to annual financial statements and managing the relationship with the external auditor.

The Nomination and Remuneration committee has, basically, the competence to set the procedures for selecting the candidates for the board member and manager positions, and to make proposals for the position as board member and to get involved in the selection and recruitment procedure of managers, and to make proposals for their remunerations. During the financial year, the committee has also the obligation to elaborate an *annual report on the remuneration and other benefits awarded to directors and managers*.

The main scope of the strategy committee is to coordinate drafting/updating and monitoring of the company's development strategies, correlated with the national and European energy strategy, to analyse the implementation of such strategies and the measures needed to reach the objectives set, and to monitor the business diversification projects by carrying out some investment objectives.

[16] Law No. 162 of July 15, 2017 on the statutory audit of annual financial statements and of annual consolidated financial statements and of amending pieces of legislation

The detailed presentation of duties and responsibilities of each advisory committee can be found in their respective Internal Rules published on the company's webpage www.romgaz.ro at "*Investor Relations – Corporate Governance – Reference Documents*".

On December 31, 2019, the advisory committees' structure was the following:

I) Nomination and Remuneration Committee:

- Balazs Botond (chairman)
- Hărăbor Tudorel
- Stan-Olteanu Manuela-Petronela

II) Audit Committee

- Jansen Petrus Antonius Maria (chairman)
- Ciobanu Romeo Cristian
- Jude Aristotel Marius
- Marin Marius Dumitru
- Hărăbor Tudorel

III) Strategy Committee

- Hărăbor Tudorel (chairman)
- Stan-Olteanu Manuela-Petronela
- Jansen Petrus Antonius Maria
- Marin Marius Dumitru
- Jude Aristotel Marius
- Ciobanu Romeo Cristian
- Balazs Botond.

Information regarding the Board of Directors' meetings and the Advisory Committees meetings held in 2019

The Board of Directors held in 2019 35 meetings, in compliance with the legal and statutory provisions, out of which:

- 18 meetings with physical attendance of board members;
- 8 conference-call meetings; and
- 9 electronic vote meetings.

The attendance at the Board of Directors' meetings:

First and last name	Number of meetings during the mandate	*P*		*PA*		*NP*	
		No.	%	No.	%	No.	%
Ciobanu Romeo Cristian	**35**	27	77.1			8	22.9
Jansen Petrus Antonius Maria	**35**	31	88.6			4	11.4
Jude Aristotel Marius	**22**	22	100.0				
Nistoran Dorin-Liviu	**21**	19	90.4			2	9.6
Grigorescu Remus	**21**	20	95.2			1	4.8
Volintiru Adrian Constantin	**21**	20	95.2			1	4.8
Ungur Ramona	**21**	21	100.0				
Stan Manuela Petronela	**14**	14	100.0				
Harabor Tudorel	**14**	11	78.6			3	21.4
Havrilet Nicolae	**14**	10	71.4			4	28.6
Parpala Caius	**14**	14	100.0				
Cîmpeanu Nicolae	**13**	13	100.0				

Marin Marius	**1**	1	100.0
Balazs Botond	**1**	1	100.0

where:
P = participate
PA = power of attorney
NP = did not participate

Board members' attendance at Advisory Committees' meetings:

***Nomination and Remuneration Committee**: 9 meetings*	
First name and last name	**physical attendance**
Grigorescu Remus	5
Ungur Ramona	5
Nistoran Dorin Liviu	5
Stan-Olteanu Manuela-Petronela	4
Hărăbor Tudorel	4
Parpală Caius Mihai	4
Ciobanu Romeo Cristian	2

***Audit committee**: **8** meetings*	
First name and last name	**physical attendance**
Jansen Petrus Antonius Maria	8
Ungur Ramona	6
Jude Aristotel Marius	6
Ciobanu Romeo Cristian	4
Nistoran Dorin Liviu	2
Havrileţ Nicolae	2
Hărăbor Tudorel	2
Cîmpeanu Nicolae	2

***Strategy Committee**: **2** meetings*	
First name and last name	**physical attendance**
Ciobanu Romeo Cristian	2
Havrileţ Nicolae	2
Cîmpeanu Nicolae	2
Jansen Petrus Antonius Maria	2
Parpală Caius Mihai	2

Chief Executive Officer

In compliance with the company's Articles of Incorporation "*the Board of Directors shall assign, totally or part of, the management competences of the Company to one or more managers, appointing one of them as Chief Executive Officer*" Article 24, paragraph (1), "manager" meaning "*the person to whom the Board of Directors delegated authority to manage the company"* Article 24, paragraph (12).

The Board of Directors decided by Resolution No. 45 of October 1, 2018 to appoint Mr. Volintiru Adrian Constantin as Chief Executive Officer for a four years mandate.

By Resolution no. 49 from October 9, 2018, the Board of Directors established the duties delegated to the Chief Executive Officer as follows:

A. *Duties related to internal management*:

a) Carries out the Company's main activity and development directions established by the Board of Directors;
b) Carries out the Company's' development strategies and/or policies approved by the Board of Directors;
c) Monitors the way the accounting and financial control policies are carried out and approves the financial statements and financial planning reports;
d) Concludes legal acts on behalf, in the interest and on the account of the Company, according to Law No. 31/1990. For contracts with an equivalent value between 1,000,000 Euro and 10,000,000 Euro it is required to inform the Board of Directors within 30 days. Contracts with a value higher or equal with the equivalent of 10,000,000 Euro are approved by the Board of Directors;
e) Organizes the Company's' personnel selection, hires, awards, sanctions and fires, as the case may be, the Company's' personnel in compliance with the provisions of labour legislation and the provisions of the labour contract;
f) appoints, suspends and/or revokes the units' managers and executive directors hired by the company and negotiates their base salaries.
g) Submits for approval of the Board of Directors the Organisation and Operation Rules of the Company and the organizational chart;
h) Approves the Company's' organizational and functional chart as well as the other internal documents which regulate the Company's' activity at employees level;
i) Negotiates the Collective Labour Agreement (CLA) and the individual labour agreements in compliance with the provisions of the CLA – salary and social expenses and fund limits provided in the income and expenditures budget approved by the Company's General Meeting of Shareholders;
j) Establishes the personnel's competencies, attributions, duties and responsibilities on departments, except for executive board members and managers that signed a contract of mandate;
k) Analyses business opportunities with internal and external partners in compliance with the Company's interest;
l) Ensures efficiency of the internal control system and the management system in compliance with the legislation in force;
m) Organizes and manages the Company's activities, coordinates and controls them in order to ensure the lawful usage of financial, material and human resources, in accordance with the accounting system approved by the Company's Board of Directors and the applicable legal provisions and the provisions of the Contract of Mandate;
n) Represents the Company with full and discretionary rights in general meetings and boards of directors of third companies where the Company is partner/shareholder, excepting naming and revoking the members of their boards of directors which is possible through special mandate from the Board of Directors.
o) May delegate the power to represent the company for specific documents by its decisions with the prior approval of the Board of Directors;
p) Ensures and promotes the Company's image;
q) Fulfils any other duties provided in the applicable legal frame in compliance with the law.

B. *Responsibilities and duties related to representation of the company*:

- represents the company when concluding/issuing legal documents;
- represents the company in pre-contractual, administrative and/legal procedures;

- fulfils any accessory duties, namely any acts and special operations necessary and useful for achieving the above mentioned duties.

The Chief Executive Officer has both the obligation to inform periodically the Board of Directors on the manner of achieving the assigned duties, as well as the right to request and to obtain instructions on the manner of exercising the assigned duties.

Internal Audit

Internal audit activity is organised and conducted in compliance with:

- Law 672/2002 on the internal public audit, as subsequently amended and supplemented;
- Own methodological norms, issued under GD No. 1086/2013 on approving the General Norms on exercising the internal public audit;
- Order of the Minister of Public Finance No. 252/2004, Code of ethics of the internal auditor, as subsequently amended and supplemented;
- SNGN Romgaz SA Internal Audit Charter.

Therefore, in compliance with Law 672/2002 the internal public audit aims at improving management by the following:

- assurance activities, that represent fair examinations of evidence, carried out in order to make an independent assessment of risk management, control and governance processes;
- advisory activities for adding value and improving governance processes without undertaking management responsibilities;

With respect to the internal public audit, the audit types are those:

- that represent a detailed assessment of management and internal control systems in order to establish if these are economically, effective and efficiently operational to identify deficiencies and to make recommendations for corrective actions – system audit;
- that examine if the criteria set for implementing the objectives and duties of the company are correct in order to evaluate the results and assesses if the results are consistent with the objectives – performance audit.

In order to achieve its objectives, the Internal Public Audit Department has among its main duties to draft the Annual Internal Public Audit Plan.

The annual plan is prepared based on the risk assessment associated to different activities, programs/projects or operations, as well as by taking into account the suggestions of the Chief Executive Officer, Board of Directors and the recommendations of the Romanian Court of Accounts.

Moreover, it performs internal public audit activities to assess if the financial and control management systems are transparent and consistent with the criteria of lawfulness, regularity, economy, efficiency and effectiveness.

Romgaz sets and maintains permanently and operational the internal audit function which is carried out independently from other functions and activities.

According to the effective laws, the Internal Audit Department is directly subordinated to the Chief Executive Officer but reports also to the Board of Directors through the Audit Committee.

Internal auditing mission, attributions and responsibilities are defined in the Internal Audit Charter approved by the Chief Executive Officer.

The charter sets at least:

- the position of the internal audit within the company;

- the manner for accessing company's documents in order to fulfil audit missions and defines their scope of activity.

The internal audit activity is independent and objective ensuring the company on the control level of operations; it is carried out in compliance with the approved procedures.

In order to observe and to meet the above mentioned conditions and subject to the *Activity Plan of the Internal Public Audit Department 2019* no. 39006/18.12.2018, endorsed by the Audit Committee and approved by the Chief Executive Officer in 2019, the audit mission consisted of five assurance audit missions for confirming regularity/conformity of procedures and operations with the regulatory framework. The assurance audit mission was performed by comparing reality with the established reference system. One audit mission was carried out to provide advice by identifying the obstacles that hinder the normal course of processes, to establish causes, determine the consequences and to provide solutions for eliminating such obstacles. Additionally, the upper management requested three exceptional ad-hoc missions for regularity/conformity.

The missions have been performed in the following fields:

- ✓ budget;
- ✓ public procurement;
- ✓ specific functions;
- ✓ internal management control system
- ✓ financial-accounting;
- ✓ information technology.

The missions analysed the actions with financial effects on the budget evaluating observance of applicable principles, procedures and methodological rules. The missions evaluated the degree of effectiveness and fulfilment of policies, programs and actions by functional units, aiming at their continuous improvement.

The table below shows the assurance level for each audit mission carried out in 2019, as follows:

Item no.	Audited activity	Global assessment result	Mission type
1.	Assess the manner of carrying out the procurement and monitoring compliance of contractual clauses related to security services.		planned
2.	Asses the activity of S.N.G.N. ROMGAZ S.A. Technical-Economic Council		planned
3.	Assess the performance of project "The Development of CTE Iernut Power Plant by building a new combined cycle CCTG power plant"		planned
4.	Assess the Corruption Prevention System – 2019		planned
5.	Verify the settlement of drilling works performed in case of incidents or accidents		planned
6.	Identify the tasks, namely undertaking responsibilities with respect to natural gas pipeline management		planned
7.	Analyse the performance of the procurement procedure related to "*Geophysical surveys in open hole*"		Ad-hoc
8.	Notify the management on aspects found by the Court of Accounts noted in Control Report 12444/6.05.2016 related to deficiencies found in the gas trading activity		Ad-hoc
9.	Notify the management on the petroleum operations performed in the Republic of Slovakia		Ad-hoc

High assurance level
Medium assurance level
Low assurance level

Internal auditing is conducted permanently in order to provide an independent evaluation of operations, control and its management processes, it evaluates the potential risk exposure of various business segments (asset security, compliance with laws and contracts, integrity of operational and financial information etc.) makes recommendation for improving the systems, controls and procedures to ensure efficiency of operations and observes the proposed corrective actions and the results.

The audit activities carried out take into account the National Anti-Corruption Strategy 2016 – 2020 and the actions to enforce it. The strategy defines the necessity of performing, at least once in two years, an internal audit of the corruption prevention system at all public authorities starting with 2018.

Against this background, we carried out in 2019 an audit mission to evaluate the corruption prevention system with the scope to deliver assurance to the company with respect to the implementation level of prevention measures provided by applicable laws stated in Annex 3 of GD No. 583/2016 required for approving the National Anti-Corruption Strategy 2016 – 2020 for the period January 1, 2016 – June 10, 2019.

As a general note, we state that during the reported period, Romgaz focused on compliance of internal integrity rules and on a continuous self-assessment of the implementation level of internal anti-corruption measures, as described in the National Anti-Corruption Strategy 2016 – 2020 and other secondary laws (Order No.600/2018 on approving the Internal Management Control Code of public companies).

Risk Management and Internal Control

Company's Policies and Objectives related to Risk Management

In accordance with the Corporate Governance Code, an important role played by the company's management is to ensure that an efficient risk management system is in place.

One major concern of the management is to raise the awareness on the objectives of the risk management process and on the necessity to be directly involved in the risk management process, as well as on the alignment to the latest practices in the field by complying with the applicable law, standards and norms related to such process.

The Board of Directors approved in March 2019 the draft Statement of BoD commitment for developing and implementing the internal management control system and the risk management policy.

The company's risk management system is implemented in accordance with:

- Government Ordinance no.119/1999 (Article 4) on the internal control and the preventive financial control;
- Law no. 234 of December 7, 2010 amending and supplementing Government Ordinance No. 119/1999;
- International Standard ISO 31010:2011: "*Risk management – risk assessment techniques*";
- International Standard ISO 31000:2018: "*Risk management: Guidelines*";
- Romanian Standard SR Guidelines 73:2010: "*Risk management-Vocabulary*".
- General Secretariat of Government No. 600 of April 20, 2018 for approval of Public Entities Internal Management Control Code.

Consequently, in compliance with the risk management process, the company systematically analyses, at least once a year, the risks related to its objectives and activities and prepares adequate remedy plans in order to mitigate the possible consequences of such risks, and appoints employees responsible for implementing those plans.

Moreover, the company's risk management system is an integral part of the decision making process by setting the requirement to use a risk management analysis when drafting any document (technical projects, execution projects).

The main benefits of the risk management process are the improvement of the company's performance by identifying, analysing, assessing and managing all risks within the company, in order to minimize the negative risk consequences or to increase the positive risk consequences, as the case may be.

A risk management department has been established for an efficient assessment of the company's risks. One major task of this department is drafting the company's documents in terms of risk management: Risk Register, Risk Report, Measure Implementation Plan and the Company's Risk Profile.

Three role levels are set up in the risk management system:

- *base level,* represented by those who identify risks and by the risk managers (head of each organizational unit) who are responsible for preparing risk management documents related to the level of the unit they manage;
- middle level, represented by the company's middle management forming together with the heads of the organizational units the Risk Management Commission that facilitates and coordinates the management process within the respective direction/department/division;
- high level, represented by the executive upper management through the Monitoring Commission that approves the company's risk appetite and risk profile in accordance with its objectives.

General scope of the risk management activity:

1. setting the general uniform framework for risks identification, analysis and management;
2. providing the appropriate tool for a controlled and efficient risk management;
3. describing the manner in which control measures are set and implemented in order to prevent the occurrence of negative risks.

Some of the analysed risk categories are: financial risks, market risks, occupational health and safety risks, personnel risks, risks related to IT systems, legal and regulatory risks.

All risks are analysed from following perspectives:

- the specificity of the risk;
- causes of risk occurrence;
- consequences further to risk materialization;
- occurrence probabilities;
- risk materialization impact;
- risk exposure;
- risk response strategy;
- recommended control (remedy) measures;
- residual risks remaining after remedy of initial risks.

Risk exposure

The Company is exposed to a variety of **financial risks**: market risk (which includes foreign currency risk, inflation risk, interest rate risk), credit risk, liquidity risk. The Company's risk management program is focused on the financial markets' unpredictability and seeks to minimize, within some limits, the potential negative consequences on the Company's financial performance. However, this approach does not prevent the losses that occur outside these limits in case of significant variations on the market. The Company does not use derivatives to cover the exposure to certain risks.

The Company faces *foreign exchange risks* following the exposure to different foreign currencies. The foreign exchange risk occurs from future transactions and from recorded receivables and payables.

The financial assets exposing the Group to a potential credit risk comprise mainly trade receivables. The Group's policies provide for gas sales to clients with low credit risk. Moreover, sales have to be secured either by advanced payments or by letters of bank guarantee. The net value of the receivables following the impairment of doubtful debts, represents the maximum value exposed to credit risk. The Group has a credit risk concentration related to its four largest clients representing together 83.12% from the net receivables balance on December 31, 2019 (the largest four clients: 87.96% on December 31, 2018). Despite the above mentioned policies, the Group is compelled by court order to supply gas to insolvent clients considered "captive" according to insolvency laws. In respect of these clients, the Group makes estimates of the lifetime expected credit losses and records appropriate impairment losses.

Even though the collection of receivables might be affected by economic factors, the management believes that there is no significant risk of loss for the Group, besides the impairment of doubtful debts, already established.

The responsibility for the *liquidity risk* resides to the company's management establishing a suitable framework for liquidity risk management for the Company's short, medium and long-term financing and for complying with the provisions for liquidity risk management. The Company manages liquidity risk by maintaining an adequate level of the reserves by continuous monitoring of the forecasts and present cash flow and by connecting the profile of financial assets maturity with those of the financial debts.

The risk management system evaluates continuously the ***commercial risks*** faced by the Company. A new vision is about to be implemented in this respect so that the market risks impact, quantitative as well as price risks, to which the Company is naturally exposed in its trading activity, will be systematically and continuously evaluated and quantified, evaluated and minimized/remedied, as the case may be.

The main risks identified are quantitative (volatility of demand/offer ratio on the market) with consequences in underselling and overselling, as well as price risks, inherent on a volatile market, emerging under the aspect of liquidity but also influenced by a multitude of internal factors (regulating/political) and also external factors related to import sources and weather conditions.

Currently, one of the main risk factors with direct consequences on the company's commercial outcome is the political and regulations risk. The Company uses all available instruments in order to minimize/remedy this risk by means of dialogue with the competent authorities, in the phase of drafting the regulating documents as well as afterwards in the phase of enforcement. The regulation framework suffered in the previous years major changes of the regulatory framework in order to adopt a European market model regarding the Network Code. However, the Group is exposed to unfavourable changes of the primary and/or secondary laws. For example, the successive modifications of Law 123/2012, of the Energy and Gas Law, especially the obligation to sell gas at a capped price (GEO No.114/2018 and GEO No. 19/2019), as well as cancelling such provisions by GEO No.1/2020. Other amendments to Law 123/2012 regulate trading on the competitive market, especially provisions related to trading obligations. The amendments that were made or are going to be made to the primary laws, as well as secondary rules of ANRE may lead to major changes to the company's commercial activities and may influence the financial exposure caused by legislative volatility.

Taking into account the latest commercial aspects, quantitative risks were generated by weather conditions, recording unusual high temperatures that led to lower demands. These risks may spread over longer periods causing a decrease of the market demand considering that large quantities of stored gas cannot be sold.

External risk factors (the context of the regional and even of the global energy market) may provide supply alternatives for the Romanian market, generating a quantitative commercial risk.

In order to reduce the risk, the company asses commercial risks, monitors and remedies, as the case may be, by using specific commercial means (sale alternatives, management of quantities, storage management, sale strategies).

Internal control

In Romgaz, the internal control system operates in a continuously changing control environment that requires the adjustment of control at the level of every activity, differentially and integrative, established in relation to the company's interests.

Internal control is a process carried out by personnel at all levels, Board of Directors, upper management, entire personnel.

Romgaz internal management control system is developed and implemented in order to reach the following objectives:

- compliance with legal regulation, with internal rules, with contracts and administrative and jurisdictional decisions applicable to the company's activity;
- fulfilling Romgaz objectives under effectiveness, economy and efficiency conditions;
- protect Romgaz patrimony against losses due to errors, waste of money, fraud or abuse;
- development and maintenance of collection, storage, processing, updating and distribution of financial and management data and information, as well as of proper systems/procedures to inform the public.

The internal/management control system is drafted, implemented, developed and assessed in compliance with the provisions set in Government Ordinance No. 119/1999 and with the standards provided by SGG Order No. 600/2018.

2019 internal control management system development/enhancement actions:

- ➢ adherence to the principles and fundamental values promoted by the National Anticorruption Strategy 2016-2020. SNGN Romgaz Integrity Plan was adopted by Decision No.28/17.01.2019 posted on the company's website - correlated with the Development Program of the Internal Management Control for 2019;
- ➢ to raise awareness on and to educate employees on anti-corruption measures; the company prepared a document highlighting several essential concepts of the National Anticorruption Strategy. The documents was addressed to all employees;
- ➢ analyses and identifies the sensitive job positions at every organisational unit compliant with Procedure PS–16 Inventory of sensitive job positions Ed3/revised/05.12.2018. The risks identified following the analysis were centralized and submitted to the monitoring committee, which drafted the Inventory of sensitive job positions and the List of persons in these positions;

- in order to raise awareness on and to educate employees with respect to anti-corruption and correlated with intensified internal management control system activities, the company initiated between September 23 – November 30, 2019 an action for implementing the internal management control system and the anticorruption strategy;
- drafting and updating Romgaz Risk Register.

According to the self-assessment results for the implementation of Internal/Management Control System, in 2019 (in relation to the 16 internal/management control standards provided in Order no. 600/2018), the Internal/Management Control System is compliant.

Ethics and Integrity Code

Romgaz's Code of Conduct was first prepared in 2013.

The current Ethics and Integrity Code was approved by BoD Resolution No.47/October 1, 2018. The code was prepared in order to comply with the legal requirements on corporate governance, internal control and National Anticorruption Strategy.

The Ethics and Integrity Code sets values, principles and rules of ethical conduct ensuring the proper climate for carrying out professional activities, maintaining the company's goodwill, earning the partners' respect and trust.

The code regulates the following important aspects: the conflict of interests, trading the company's shares, compliance with laws on competition, integrity and prevention of corruption deeds, preventing and reporting frauds, money laundering, etc.

The Ethics and Integrity Code can be accessed by any stakeholder at www.romgaz.ro "*Investor Relations – Corporate Governance – Reference Documents*"

Corporate Social Responsibility

Romgaz activities in the field of social responsibility are performed voluntarily, beyond the legal responsibilities, the company being aware of its role in society.

Social responsibility means for Romgaz a business culture including business ethics, customer rights, economic and social equity, environmental friendly technologies, fair treatment of workforce, transparent relationship with the public authorities, moral integrity and investment in the community.

Moreover, Romgaz supports a sustainable development of the society and community, through financial support/ total or partial sponsorship for some actions and initiatives in the following main fields: education, social, sport, health and environment.

Granting financial support/partial or total sponsorship for actions and initiatives, within the budgeted limits, Romgaz has shown a pro-active attitude of social responsibility and increased the awareness of the parties involved as regards to the importance and benefits of social responsibility actions.

In 2019, Romgaz supported, totally or partially, actions and initiatives stipulated in Government Emergency Ordinance ("GEO") no.2/2015, complying with the budget, as follows:

Expenses/activities	Achieved (RON)
Total of sponsorship expenses, out of which	**19,500,000**
• Expenses with sponsorships in medical and health fields – Article XIV letter a)	7,800,000
• Expenses with sponsorships in education and sport fields – Article XIV letter b) – total, out of which:	7,800,000

○ For Sports Clubs	5,850,000
• Sponsorships for other actions and activities – Article XIV letter c)	3,900,000

The detailed description of the projects as regards the sponsorship provided in GEO no.2/2015 is included in the *Annual Report on Social Responsibility and Patronage for 2019* published on www.romgaz.ro at "*Investor Relations - Corporate Governance - Social Responsibility*".

The projects carried out in 2019 had besides the positive impact on the environment and community, an important benefit for the company by inspiring the organisational culture and the goodwill being a responsible employer, and also an involved social partner, promotor of a transparent and open relationship. This is positively reflected in Romgaz image, domestically and internationally, both for investors, government and local authorities and for other stakeholders.

When supporting/performing projects, actions, social responsibility initiatives, Romgaz took into consideration the provisions of Sponsorship Policy and Sponsorship Guide applicable in 2019, published on the company's website at Social Responsibility. (https://www.romgaz.ro/en/content/social-responsibility-0)

Remuneration Policy and Criteria of the Executive and Non-Executive Members of the Board of Directors and of managers

Legal Framework

The remuneration policy and criteria of the executive and non-executive members of the Board of Directors are based on the following norms:

- Law no. 31/1990 on trading companies, as subsequently amended and supplemented;
- GEO no. 109/2011 on corporate governance of public entities, as subsequently amended and supplemented, approved by Law no.111/2016;
- The company's Articles of Incorporation, approved by the Extraordinary General Meeting of Shareholders no. 9/October 28, 2016 and no.4/ August 9, 2017 (latest update of the Articles of Incorporation);
- SNGN Romgaz SA remuneration policy, approved by the Board of Directors by Resolution No.13 of March 12, 2019;
- Resolution No. 9/ December 20, 2017 of the Ordinary General Meeting of Shareholders approving the director agreements for interim members of the Board of Directors;
- Resolution No. 8/ July 8, 2018 of the Ordinary General Meeting of Shareholders approving the form of the contract signed with the board members elected for a 4 years mandate;
- Resolution No.6/ June 26, 2019 of the Ordinary General Meeting of Shareholders approving the contract of mandate signed with the elected interim board members;
- Resolution No.8/ October 28, 2019 of the Ordinary General Meeting of Shareholders approving for interim board members the mandate extension by two months starting with the expiration date;
- Resolution No.11/ December 23, 2019 of the Ordinary General Meeting of Shareholders approving the contract of mandate signed with the board members elected for a four months mandate;

- Resolution No. 14/ August 26, 2013 of the Ordinary Meeting of Shareholders establishing the general limits for the remuneration of the chief executive officer, active member of the BoD;
- Resolutions No. 7/ February 22, 2018 and No. 29/ June 14, 2018 approving the contracts of mandate of the interim chief executive officers;
- Resolution No. 45/ October 2018 appointing the chief executive officer for 4 years and approving the contract of mandate;
- Resolution No. 35/ December 14, 2017 approving the contract of mandate of the Chief Financial Officer;
- Resolution No. 39/ August 28, 2018 approving the contract of mandate of the Chief Financial Officer for a limited period from 28.08.2018 until 02.11.2021.

For compliance with the Requirements of BVB Corporate Governance Code and GEO no. 109/2011, Romgaz drafted the Policy on remuneration, which shall be submitted for approval of the Board of Directors.

The structure of the remuneration granted to non-executive board members

The fixed monthly remuneration as well as the variable one were established according to applicable legal provisions (detailed in the 2019 Annual Report on remunerations and other benefits granted to SNGN Romgaz SA board members and managers) and provided in the Director Agreement of each board member, as approved by the applicable GMS resolution.

The fixed monthly remuneration for 2019 was established at a monthly gross allowance equal two times the average over the last 12 months of the monthly gross average salary for the activity carried out according to the company's activity field as communicated by the National Institute of Statistics previously to the appointment.

The variable remuneration provided in the director's agreement will be established and granted depending on fulfilment of objectives included in the governing plan and of financial and non-financial performance indicators approved by the General Meeting of Shareholders in 2020.

The variable element, as well as the performance objectives and indicators revision conditions will be included in an addendum to the directors' agreement.

The structure of the remuneration granted to executive board members, namely the Chief Executive Officer

As active member of the Board of Directors, the Chief Executive Officer concluded both a director agreement for the membership in the Board and a contract of mandate for the position as Chief Executive Officer. The Chief Executive Officer was entitled strictly to payment of the remuneration according to the contract of mandate.

The structure of the remuneration granted to managers

The monthly fixed remuneration, as well as the *variable remuneration* were granted under the legal applicable provisions (detailed in the Annual Report 2019 on remunerations and other benefits granted to SNGN Romgaz SA board members and managers), being provided in the contract of mandate of each manager, and approved by Board resolutions.

The monthly fixed remuneration for 2019 was set at a monthly gross allowance six times the average over the last 12 months from the monthly gross average salary for the work carried out in accordance with the company's core business as communicated by the National Institute of Statistics, prior to appointment. The fixed allowance is updated at the beginning of each year based on the data provided by the National Institute of Statistics.

The variable remuneration established depending on the fulfilment of financial and non-financial performance indicators and objectives, will be included in an addendum to the contract of mandate. In 2019 the Chief Executive Officer and the Chief Financial Officer did not benefit of variable remuneration.

NON-FINANCIAL STATEMENT

Romgaz prepares a ***separate report*** for financial year 2019, that will be public on the company's website by the end of June 2020, according to the Finance Minister Order no. 2844/2016[17] (chapter 7, item 42, para (1)).

[17] Order of the Ministry of Public Finances no.2844 of December 12, 2016 on approving Accounting Regulations compliant with the International Financial Reporting Standards

IX. PERFORMANCE OF DIRECTORS' AGREEMENTS/CONTRACT OF MANDATE

Directors Agreements

The directors agreements of board members appointed by the General Meeting of Shareholders in 2018 for a four year mandate were effective in 2019, as well as the directors agreements of interim board members that were appointed in 2019 for four months. The director agreements approved by the General Meeting of Shareholders do not include performance criteria and indicators.

By Resolution No.8/July 6, 2018 the Ordinary General Meeting of Shareholders appointed following the cumulative vote, the members of the Board of Directors for a four-year mandate.

Following drafting and approval of the Governing Plan, the General Meeting of Shareholders was called to negotiate and approve the financial and non-financial performance indicators to be included in the directors' agreements by an addendum thereto.

By Resolution No.4 /May 15, 2019, the General Meeting of Shareholders *"did not approve the key financial and non-financial performance indicators, resulting from SNGN Romgaz SA Governing Plan prepared for 2018-2022".*

The General Meeting of Shareholders appointed following the cumulative vote, by Resolution No.6/June 26, 2019 the members of the Board of Directors, set the fixed monthly gross allowance and approved the contract of mandate for interim board members.

Company's shareholders appointed by Resolution No.11/December 23, 2019 the interim board members, set the fixed monthly gross allowance and approved their contract of mandate.

The director agreement does not include key financial and non-financial performance indicators, as a consequence the board members do not benefit from the variable component.

Contract of Mandate

The Board of Directors appointed on June 14, 2018 under Resolution No. 29, Mr. *Volintiru Adrian Constantin* as Chief Executive Officer for four months, and the Board of Directors appointed under Resolution No. 45 of October 1, 2018 Mr. Volintiru Adrian Constantin as Chief Executive Officer for a four-year mandate.

The Board of Directors appointed on November 2nd, 2017 under Resolution No. 30 Mr. *Bobar Andrei* as Chief Financial Officer and on August 28, 2018 under Resolution No. 39 as Chief Financial Officer for a limited period, from August 28, 2018 until November 2nd, 2021.

Mr. Bobar Andrei unilaterally terminated the Contract of Mandate by giving on 22 August 2019 Notification no. 28593 relating to the 30-day contract termination notice, in compliance with contractual provisions. The notice period ended on September 21, 2019. Upon the appointment of Mr. Andrei Bobar as CFO his Individual Employment Contract was suspended; on September 19, 2019, the CEO issued Resolution no. 530 which effected the reactivation of Mr. Bobar's Individual Employment Contract and his position as Finance Director of the Company.

The Board of Directors appointed Mr. Veza Marius Leonte as interim Chief Financial Officer until December 28, 2019, by Resolution No. 39/November 4, 2019.

The contracts of mandate concluded between the Board of Directors and the Chief Executive Officer, and the Chief Financial Officer, respectively, do not provide for performance indicators and criteria. These will be negotiated and included in the contracts of mandate, for mandate term, by an addendum after completion and approval of the Governing Plan.

SIGNATURES:

Chief Executive Officer,	Chief Financial Officer,
VOLINTIRU ADRIAN CONSTANTIN	VEZA LEONTE MARIUS
....	....

Table on compliance with BVB Code of Corporate Governance

BVB CGC Provisions		Compliance	Noncompliance / Partial compliance	Reason for noncompliance/ explanation on compliance
1		2	3	4
A.1	All companies should have in place Regulations of the Board of Directors that include the terms of reference / the responsibilities of the Board and the company's key management positions, and that apply, among others, the General Principles in section A.	x		
A.2	The BoD Regulations should include provisions for the management of conflict of interest. The members of the Board should notify the Board on any conflicts of interest which have arisen or may arise and should refrain from taking part in the discussion (including by absence, except where such absence prevents quorum to be attained) and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.	x		
A.3	The BoD should comprise at least five members.	x		
A.4	The majority of the members of the BoD should be non-executive; not less than two non-executive members of the BoD should be independent. Each independent member of the BoD shall submit a statement at the time of his/her nomination for election or re-election, as well as whenever a change in his/her status occurs, indicating the elements on which it is deemed independent in terms of its character and his judgment.	x		
A.5	A Board member's other relatively permanent professional commitments and engagements, including executive and non-executive Board positions in companies and non-profit organizations, should be disclosed to shareholders and to potential investors prior to his/her nomination and during his/her mandate.	x		
A.6	Any member of the BoD should submit to the Board information on any relationship with a shareholder who holds, directly or indirectly, shares representing more than 5% of all voting rights. This also applies to any relationship which may affect the member's position on matters decided by the Board.	x		
A.7	The company should appoint a Board secretary responsible for supporting the work of the BoD	x		
A.8	The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the chairman or the nomination committee and, if so, summarize key action points and changes resulting from it. The company should have a policy/ guidelines regarding the evaluation of the BoD containing the		x partially	The section on *Statement on corporate governance* in the Annual Board of Directors' Report includes mentions on the evaluation of the BoD. Romgaz prepared the *Board Evaluation Policy*

	BVB CGC Provisions	Compliance	Noncompliance / Partial compliance	Reason for noncompliance/ explanation on compliance
	1	2	3	4
	purpose, criteria and frequency of the evaluation process.			and it was approved by BoD on 12 March 2019. Following approval, the Policy was published on the company's web site. The assesment of BoD members has not been performed because in 2019 there were three Boards of Directors. Two of these Boards of Directors included provisional members, and with the composition modified (including the composition of NRC) all these directors have not been appointed in accordance with the provisions of OUG 109/2011.
A.9	The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (personally and in their absence) and a report of the Board and committees on their activities.	x		
A.10	The corporate governance statement should contain information on the precise number of the independent members of the Board of Directors.	x		
A.11	The BoD should set up a nomination committee comprised of non-executives, which will lead the nominaton process for Board members and make recommendations to the Board. The majority of the members of the nomination committee should be independent	x		
B.1	The Board should set up an Audit Committee and at least one member should be an independent non-executive. The Audit Committee should be comprised of at least three members and the majority should be independent. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the Committee. At least one member of the Audit Committee should have a proven and appropriate auditing and/or accounting experience.	x		
B.2	The Chairperson of the Audit Committee should be an independent non-executive member.	x		

BVB CGC Provisions		Compliance	Noncompliance / Partial compliance	Reason for noncompliance/ explanation on compliance
1		2	3	4
B.3	Among its responsibilities, the Audit Committee should perform an annual assessment of the internal control system.		x partilly	The responsibility for monitoring the effectiveness of the company's internal control, internal audit and risk management systems is specified in the ToR of the Audit Committee. For 2019 the Audit Committee performed the annual assessment of the internal control system.
B.4	The assessment mentioned in section B.3 should consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the Audit Committee of the Board, and management's responsiveness and effectiveness in dealing with the failures and weak points identified during the internal control and submit relevant reports to the Board.	x		See explanaition in section B.3
B.5	The Audit Committee should review conflicts of interests in transactions of the company and its subsidiaries with affiliated parties.		x partially	This provision is already mentioned in Art. 8, par. 2 of Romgaz CCG. The ToR of the Audit Committee approved by the BoD in the meeting of May 14, 2018 includes provisions on such obligation. Moreover, Romgaz has developed a *Policy on related party transactions* and this was approved by the BoD on March 20, 2019. Following approval it was published on the company's website. For 2019, the Audit Committee performed evaluation on conflicts of interest, where appropriate.
B.6	The Audit Committee should evaluate the efficiency of the internal control system and risk management system		x partially	The responsibility for monitoring the effectiveness of the company's internal control systems, internal audit and risk management systems is specified in the ToR of the Audit Committee. For 2019, the Audit Committee performed the

BVB CGC Provisions		Compliance	Noncompliance / Partial compliance	Reason for noncompliance/ explanation on compliance
1		2	3	4
				annual assessment on the internal control system and on the risk management system.
B.7	The Audit Committee should monitor the application of statutory and generally accepted standards of internal auditing. The Audit Committee should receive and evaluate the reports of the internal audit team.	x		
B.8	The Audit Committee should report periodically (at least annually) or adhoc to BoD with regard to the reports or analyses undertaken by the committee.	x		
B.9	No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related parties	x		
B.10	The BoD should adopt a policy ensuring that any transaction of the company with any of the companies in close relationship, with a value equal to or higher than 5% of the company’s net assets (as stated in the latest financial report), is approved by the Board based on a mandatory opinion of the Audit Committee and fairly disclosed to the shareholders and potential investors, to the extent such transactions fall under the category of events subject to disclosure requirements.	x		The provision is already mentioned in Art. 9 of ROMGAZ CCG and it will be implemented by the *Policy on related party transactions*, as approved by the BoD on March 20, 2019. Following approval, the policy was published on the company’s website.
B.11	The internal audits should be carried out by a separate structural division (internal audit department) within the company or by hiring an independent third-party entity.	x		
B.12	The Internal Audit Department should functionally report to the BoD via the Audit Committee. For administration purposes and for the scope related to the obligations of the management to monitor and mitigate risks, the Internal Audit Department should report directly to the Director General.	x		
C.1	The company should publish on its website the Remuneration Policy. The Remuneration Policy should be formulated so as to allow the shareholders to understand the principles and arguments underlying the remuneration of the members of the Board and of the General Director. Any significant change occurred in the Remuneration Policy should be posted in due time on the company's website. The company should include in its Annual Report a statement on the implementation of this Policy during the annual period under review. The Report on Remuneration should present the implementation of the Remuneration Policy for persons identified in this Policy during the annual period under review.	x		The provision is already mentioned in Art. 11, par. 5 of ROMGAZ CCG. The section *Statement on corporate governance* in the Annual Board of Directors’ Report includes mentiones regarding the implementation of the Remuneration Policy and the remuneration of the Board of Directors members and of the directors. A separate document on *Remuneration Policy* was

BVB CGC Provisions		Compliance	Noncompliance / Partial compliance	Reason for noncompliance/ explanation on compliance
1		2	3	4
				drafted and approved by the BoD on March 12 2019. Following approval, the policy was published on the company's website. The Annual Report on Remuneration is presented together with the Annual Board of Directors' Report. It presents details of the principles applied for the determination of the remuneration of the Board Members and directors.
D.1	The company should establish an Investors Relation Department - indicating to the public the responsible person/persons or the organizational unit. Besides the information required by the legal provisions, the company should also include on its website a dedicated Investor Relations section, both in Romanian and English, with all the relevant information of interest for investors, including:	x		
D.1.1	Main corporate regulations: the articles of incorporation, general meeting of shareholders procedure;		x partially	Items on the GMS organization are presented to shareholders at each meeting. A separate document on the *GMS Procedure and Rules* was prepared and it will be submitted for BoD approval in a meeting subsequent to this statement of conformity.
D.1.2	Professional CVs of the members of the company's governing bodies, other professional commitments of Board member's, including executive and non-executive Board positions in companies and non-profit organizations.	x		
D.1.3	Current reports and periodic reports (quarterly, semi-annual and annual reports) – at least those specified in Note D.8- including current reports with detailed information related to non-compliance with the Bucharest Stock Exchange Code of Corporate Governance;	x		
D.1.4	Information related to GMS: the agenda and supporting materials; the procedure approved for the election of BoD members, the arguments for the proposal of candidates for the election to the Board together with their professional CVs; shareholders' questions related to the agenda and the company's answers, including the decisions taken by the GMS;	x		

BVB CGC Provisions		Compliance	Noncompliance / Partial compliance	Reason for noncompliance/ explanation on compliance
1		2	3	4
D.1.5	Information on corporate events (such as payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of rights of a shareholder) including the deadlines and principles applicable to such operations. Such information will be published within a period of time allowing investors to take investment decisions;	x		
D.1.6	The names and contact data of the persons who should be able to provide knowledgeable information on request;	x		
D.1.7	Corporate presentations (for example presentations for investors, presentations on quarterly results, etc.), financial statements (quarterly, semi-annual, annual), audit reports and annual reports.	x		
D.2	The company should have a policy for the annual distribution of dividends or other benefits to shareholders, proposed by the Director General and adopted by the BoD as the company's Guideline on net profit distribution. The principles of the policy on annual distribution of dividends to Shareholders shall be published on the company's website.	x		
D.3	The company shall adopt a policy with respect to forecasts, whether they are made public or not. The Policy on forecasts should determine the forecasts' frequency, period and content and should be published on the company's website.	x		
D.4	GSM rules should not restrict the participation of shareholders in general meetings and the exercising of their rights. The modification of rules will become effective no sooner than the following shareholders' meeting.	x		
D.5	The external auditors should attend the shareholders' meetings when their reports are presented there.	x		External auditors are invited to attend GMS meetings when their reports are presented in said meeting.
D.6	The BoD should submit to the GMS a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.	x		
D.7	Any professional, consultant, expert or financial analyst, may participate in the shareholders' meeting upon prior invitation from the BoD. Accredited journalists may also attend the GMS, unless the Chairman of the Board decides otherwise.	x		

BVB CGC Provisions		Compliance	Noncompliance / Partial compliance	Reason for noncompliance/ explanation on compliance
1		2	3	4
D.8	The quarterly and semi-annual financial reports should include information in both, Romanian and English, regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms.	x		
D.9	The company should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these occasions should be published on the company's website in the IR section at the date of the meetings/teleconferences.	x		
D.10	If the company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the company is part of its business mission and development strategy, it should publish the policy guiding its activity in this area.	x		

Legend:

GMS	= General Meeting of Shareholders
BVB	= Bucharest Stock Exchange
BoD	= Board of Directors
CCG	= Code of Corporate Governance
ROMGAZ CCG	= Code of Corporate Governance of S.N.G.N. ROMGAZ S.A., as approved on January 28, 2016
CV	= Curriculum Vitae
ToR	= Terms of Reference

S.N.G.N. ROMGAZ S.A. GROUP

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS ADOPTED BY THE EUROPEAN UNION AND THE ORDER OF THE MINISTRY OF PUBLIC FINANCE 2844/2016

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of SNGN ROMGAZ S.A.

Report on the Audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of SNGN ROMGAZ S.A. (the Company) and its subsidiary (together "the Group") with official head office in Mediaş, Piaţa Constantin I. Motaş. nr. 4, cod 551130, Sibiu county, Romania, identified by sole fiscal registration number RO 14056826, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of comprehensive income, of changes in shareholders' equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2019 and of its financial performance and its cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 ("Regulation (EU) No. 537/2014") and Law 162/2017 („Law 162/2017"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated financial statements" section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) as issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the consolidated financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

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

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

Key audit matter	How our audit addressed the key audit matter
Estimation of gas reserves used in the calculation of depreciation and amortisation The Group's disclosures about estimation of gas reserves are included in Note 2 (Use of Estimates) to the financial statements.	
Estimation of the gas reserves is a focus area in our audit because it has a significant impact on the financial statements, as the reserves are the basis for production estimates used in the Group's cash flow forecasts for impairment testing and they are also the basis for unit of production depreciation and amortization for the core assets in the Upstream segment. The estimation of gas reserves requires the Group's management and engineers to make significant judgement and assumptions.	We assessed the management's estimation process in the determination of gas reserves. Specifically, our work included, but was not limited to, the following procedures: - We performed a detailed understanding of the Group's internal process and related documentation flow and key controls associated with the gas reserves estimation process; - We analysed the certification process for technical and commercial specialists who are responsible for gas reserves estimation; we also assessed the competence, capabilities and objectivity of management specialists; - We tested whether significant increases or reductions in gas reserves were made in the period in which the new information became available and in compliance with the standards of the National Agency for Mineral Resources ("ANRM");

	- We compared the gas reserves with the assumptions used in the cash flows for the impairment testing of production assets and in the accounting for depreciation and amortization for the core assets in the Upstream segment We further assessed the adequacy of the Group's disclosures about impairment testing and calculation of depreciation and amortization.
Impairment testing of production assets in the Upstream Gas segment The Group's disclosures about its impairment testing are included in Note 2 (Use of estimates) and in Note 12 (Property, Plant and Equipment) to the financial statements	
The impairment test is significant to our audit because the assessment process is complex, requires significant management judgment and is based on assumptions that are affected by expected future market conditions. Furthermore, the carrying value of the production assets and the common infrastructure and corporate assets allocated to each cash generating unit (CGU) from the Upstream segment's property, plant and equipment of RON 2,710 million as at 31 December 2019 is significant. International Financial Reporting Standards require an entity to assess whether indicators of impairment exist. Management considered that the recent changes brought by new legislation in 2019, as well as recent changes in market conditions, constitute impairment indicators and, consequently, has carried out an impairment test for the production assets in the Upstream Gas segment which resulted in an additional impairment of RON 71 million.	In respect of impairment testing, our work included, but was not limited to, the following procedures: - We analysed and evaluated the management's assessment of the existence of impairment indicators (triggering events); - We reviewed the allocation of the carrying value of common infrastructure and corporate assets to each CGU (field) - We evaluated the management's assessment of the recoverability of the carrying value of property, plant and equipment of the cash generating unit for which triggering events were identified; - We tested the reasonability of future yearly production volumes per field based on actual ANRM reports and appendixes (future production plan per field is made based on ANRM approved plan for each field); - On a sample basis, we compared the remaining reserves per field from impairment test as of 31 December 2019 with the latest ANRM approved reserve reports;

	- We compared the main assumptions used in the impairment test (gas prices, operating costs, production volumes, gas reserves and discount rate) with the current forecasts approved as part of the Group's mid-term planning process; - We assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year; - We involved our internal valuation specialists to assist us in evaluating the key assumptions and methodologies used by the Group for the impairment testing of upstream productions assets (e.g. checked the mathematical accuracy of the model, its conformity with the requirements of the International Financial Reporting Standards and discount rates used, etc) We also assessed the adequacy of the Group's disclosures in the financial statements.
Impairment testing of the property, plant and equipment to be transferred to Depogaz from the Gas storage segment The Group's disclosures about its impairment testing are included in Note 2 ("Use of estimates") and in Note 12 (Property, Plant and Equipment) to the financial statements	
The impairment test is significant to our audit because the assessment process is complex, requires significant management judgment and is based on assumptions that are affected by expected future market conditions. Furthermore, the carrying value of the property, plant and equipment to be transferred to Depogaz from the Gas storage segment in amount of RON 701 million as at 31 December 2019, is significant. International Financial Reporting Standards require an entity to assess whether indicators of impairment exist. In 2018, Romgaz SA decided to transfer most of the gas storage activity related assets to its fully owned subsidiary Depogaz at market	We evaluated and tested management's assessment of the triggering events for potential additional impairment. Specifically our work included, but was not limited to the following procedures: - We analyzed and evaluated the management's assessment of the existence of impairment indicators (triggering events), specifically the external valuation report concluded in 2019; - We reconciled the carrying value of property, plant and equipment to be transferred to Depogaz included in the valuation report to the Fixed asset register tested

value, in form of in kind contribution. For this purpose, an external valuation report was made by an independent external valuator in 2019. The valuation report indicated that fair values of some individual assets from the property, plant and equipment to be transferred to Depogaz are lower than their carrying amount. Management considered that this information constitutes an impairment indicator and, consequently, recorded impairment for those items of property, plant and equipment to be transferred to Depogaz with an individual fair value lower than their carrying amount. This resulted in an impairment of RON 388 million.	- We assessed the allocation of property, plant and equipment to the gas storage segment based on their nature and location. - We evaluated the reasonableness of management's assumption of future revenues by analysing the ANRE regulated tariffs and based on current depositing capacities - We compared the main assumptions used in the impairment test (depositing tariffs, operating costs, deposited volumes, and discount rate) with the current forecasts approved as part of the Group's mid-term planning assumptions; - We assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year; - We involved our internal valuation specialists to assist us in: o evaluation of the key assumptions and methodologies used by Romgaz Group for the impairment testing of property, plant and equipment to be transferred to Depogaz from the gas storage segment (e.g: checked the mathematical accuracy of model and its conformity with the requirements of the International Financial Reporting Standards, discount rates used, etc) o assessment of the key assumptions and methodologies used by the external appraiser for determining the fair values of the property, plant and equipment to be transferred to Depogaz from the gas storage segment o comparison the valuation of land and buildings against market values. o evaluation of the competence, capabilities and objectivity of external valuator;

	We also assessed the adequacy of the Group's disclosures in the financial statements.
Estimation of decommissioning provisions The Group's disclosures about decommissioning obligations are included in Note 2 (Use of estimates) and Note 19 (Provisions) to the financial statements.	
The Group's core activities regularly lead to obligations related to dismantling and removal of equipment and installations, asset retirement and soil remediation activities. The decommissioning provision is important to our audit because of its magnitude (carrying value of RON 384.2 million at 31 December 2019) and because management makes estimates and judgments in determining the respective provisions. The key estimates and assumptions relate to the envisaged future dismantling costs, forecasted inflation rates and discount rates to determine the present value of the obligations.	Our work in respect of management's estimation of decommissioning and restoration provisions included, but was not limited to, the following procedures: - We performed a detailed understanding of the Group's estimation process and the related documentation flow and assessed the design and implementation of the controls within the process; - We compared the current estimates of decommissioning, costs with the actual costs incurred in previous periods; - We reviewed the timing of works to be performed for surface and subsurface decommissioning for wells; - We inspected supporting evidence for any material revisions in cost estimates during the year; - We involved our valuation specialists to assist us in performing industry bench marking and analysis over discount rates and inflation rates; - We tested the mathematical accuracy of management's decommissioning and restoration provision calculations; - We assessed the competence, capabilities and objectivity of management specialists We also assessed the adequacy of the Group's disclosures in the financial statements relating to decommissioning obligations.

Other information

The other information comprises the Annual Report (which includes the Directors' Consolidated Report, the Report on Payments to Governments for mining activities and the Corporate Governance Statement), but does not include the consolidated financial statements and our auditors' report thereon. The Corporate responsibility and sustainability report will be published separately at a later date. Management is responsible for the other information.

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 on the other information obtained prior to the date of our auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Order of the Minister of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of 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.

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

Auditor’s Responsibilities for the Audit of the 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 auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- 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 auditors’ 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 auditors’ 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

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

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

a) in the Directors' Consolidated Report we have not identified information which is not consistent, in all material respects, with the information presented in the Group consolidated financial statements as at December 31, 2019;
b) the Directors' Consolidated Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 – 19 and 26-28;
c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the consolidated financial statements as at December 31, 2019, we have not identified information included in the Directors' Consolidated Report that contains a material misstatement of fact.

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

Appointment and Approval of Auditor

We were appointed as auditors of the Group by the General Meeting of Shareholders on 06 December 2018 to audit the consolidated financial statements for the financial year ended December 31, 2019. Total uninterrupted engagement period, for the statutory auditor, has lasted for two years covering the financial years ended December 31, 2018 and 2019.

Consistency with Additional Report to the Audit Committee

Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Group, which we issued on 19 March 2020.

Provision of Non-audit Services

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

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

On behalf of

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

Registered in the electronic Public Register under No. FA 77

Ernst & Young Assurance Services S.R.L.
19. MAR. 2020
Signed for identification
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Name of the Auditor/ Partner: Alexandru Lupea
Registered in the electronic Public Register under No. AF 273

Bucharest, Romania
19 March 2020

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2019

	Note	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Revenue	3	5,080,482	5,004,197
Cost of commodities sold	5	(107,800)	(245,020)
Investment income	4	38,124	53,279
Other gains and losses	6	(63,069)	(102,989)
Impairment losses on trade receivables	16	(81,221)	(19,941)
Changes in inventory of finished goods and work in progress		80,008	(32,180)
Raw materials and consumables used	5	(76,048)	(75,460)
Depreciation, amortization and impairment expenses	7	(1,358,250)	(708,142)
Employee benefit expense	8	(670,408)	(621,330)
Finance cost	9	(24,740)	(29,724)
Exploration expense	13	(24,564)	(247,123)
Share of profit of associates	25	1,474	622
Other expenses	10	(1,551,642)	(1,409,447)
Other income	3	32,834	18,442
Profit before tax		**1,275,180**	**1,585,184**
Income tax expense	11	(185,557)	(219,016)
Profit for the year		**1,089,623**	**1,366,168**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) on post-employment benefits	19 c)	27,411	(17,106)
Income tax relating to items that will not be reclassified subsequently to profit or loss	11	(4,387)	2,737
Total items that will not be reclassified subsequently to profit or loss		**23,024**	**(14,369)**
Other comprehensive income for the year net of income tax		**23,024**	**(14,369)**
Total comprehensive income for the year		**1,112,647**	**1,351,799**
Basic and diluted earnings per share		0.0028	0.0035

These financial statements were endorsed by the Board of Directors on March 19, 2020.

Adrian Constantin Volintiru
Chief Executive Officer

Marius Leonte Veza
Accounting Director

Societatea Naturale ROMGAZ MEDIAȘ J32/392/2001

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19. MAR. 2020
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The accompanying notes form an integrant part of these financial statements.
This is a free translation of the original Romanian version.

STATEMENT OF CONSOLIDATED FINANCIAL POSITION AS OF DECEMBER 31, 2019

	Note	December 31, 2019 '000 RON	December 31, 2018 '000 RON
ASSETS			
Non-current assets			
Property, plant and equipment	12	5,543,177	6,279,748
Other intangible assets	14	9,164	4,970
Investments in associates	25	24,772	23,298
Deferred tax asset	11	230,947	127,491
Right of use asset	14	8,590	-
Other financial assets	26	5,388	9,812
Total non-current assets		**5,822,038**	**6,445,319**
Current assets			
Inventories	15	311,013	245,992
Trade and other receivables	16 a)	638,158	826,046
Contract costs		312	583
Other financial assets	29	1,075,224	881,245
Other assets	16 b)	42,485	168,878
Cash and cash equivalents	28	363,943	566,836
Total current assets		**2,431,135**	**2,689,580**
Total assets		**8,253,173**	**9,134,899**
EQUITY AND LIABILITIES			
Equity			
Share capital	17	385,422	385,422
Reserves	18	1,587,409	1,824,999
Retained earnings		5,201,222	5,458,196
Total equity		**7,174,053**	**7,668,617**
Non-current liabilities			
Retirement benefit obligation	19	114,876	139,254
Deferred revenue	20	21,244	21,128
Lease liability		8,285	-
Provisions	19	366,393	510,114
Total non-current liabilities		**510,798**	**670,496**

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STATEMENT OF CONSOLIDATED FINANCIAL POSITION AS OF DECEMBER 31, 2019

	Note	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Current liabilities			
Trade payables	21	109,910	186,702
Contract liabilities	21	42,705	46,381
Current tax liabilities		64,342	68,001
Deferred revenue	20	3,729	8,442
Provisions	19	82,701	93,645
Lease liability		694	-
Other liabilities	21	264,241	392,615
Total current liabilities		**568,322**	**795,786**
Total liabilities		**1,079,120**	**1,466,282**
Total equity and liabilities		**8,253,173**	**9,134,899**

These financial statements were endorsed by the Board of Directors on March 19, 2020.

Adrian Constantin Volintiru
Chief Executive Officer

Marius Leonte Veza
Accounting Director

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STATEMENT OF CONSOLIDATED CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2019

	Share capital '000 RON	Legal reserve '000 RON	Other reserves (note 18) '000 RON	Retained earnings **) '000 RON	Total '000 RON
Balance as of January 1, 2019	**385,422**	**77,487**	**1,747,512**	**5,458,196**	**7,668,617**
Profit for the year	-	-	-	1,089,623	1,089,623
Allocation to dividends *)	-	-	(362,297)	(1,244,914)	(1,607,211)
Increase in legal reserves	-	2,434	-	(2,434)	-
Allocation to other reserves	-	-	106,265	(106,265)	-
Increase in reinvested profit reserves	-	-	16,008	(16,008)	-
Other comprehensive income for the year	-	-	-	23,024	23,024
Balance as of December 31, 2019	**385,422**	**79,921**	**1,507,488**	**5,201,222**	**7,174,053**
Balance as of January 1, 2018	**385,422**	**77,084**	**2,235,448**	**6,635,380**	**9,333,334**
Effect of voluntary change in accounting policy	-	-	-	(415,096)	(415,096)
Effect of correction of accounting errors	-	-	-	57,202	57,202
Balance as of January 1, 2018 (restated)	**385,422**	**77,084**	**2,235,448**	**6,277,486**	**8,975,440**
Profit for the year	-	-	-	1,366,168	1,366,168
Allocation to dividends *)	-	-	(716,886)	(1,923,258)	(2,640,144)
Increase in legal reserves	-	403	-	(403)	-
Allocation to other reserves	-	-	185,563	(185,563)	-
Effect of change in accounting policies due to new IFRSs	-	-	-	(18,478)	(18,478)
Increase in reinvested profit reserves	-	-	43,387	(43,387)	-
Other comprehensive income for the year	-	-	-	(14,369)	(14,369)
Balance as of December 31, 2018	**385,422**	**77,487**	**1,747,512**	**5,458,196**	**7,668,617**

*) In 2019 the Group's shareholders approved the allocation of dividends of RON 1,607,211 thousand (2018: RON 2,640,144 thousand), dividend per share being RON 4.17 (2018: RON 6.85).

**) Retained earnings include the geological quota reserve set up in accordance with the provisions of Government Decision no. 168/1998 on the establishment of the expense quota for the development and modernization of oil and natural gas production, refining, transportation and oil distribution. Following the Group's transition to IFRS, the reserve was no longer set up, the reserve existing as of December 31, 2012 being included in retained earnings. This result is allocated based on the depreciation, respectively write-off of the assets financed using this source, based on decision of General Meeting of Shareholders. As of December 31, 2019 the geological quota reserve is of RON 1,081,148 thousand (December 31, 2018: RON 1,503,982 thousand).

These financial statements were endorsed by the Board of Directors on March 19, 2020.

Adrian Constantin Volintiru
Chief Executive Officer

Marius Leonte Veza
Accounting Director

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STATEMENT OF CONSOLIDATED CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2019

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Cash flows from operating activities		
Net profit	**1,089,623**	**1,366,168**
Adjustments for:		
Income tax expense (note 11)	185,557	219,016
Share of associates' result (note 25)	(1,474)	(622)
Interest expense (note 9)	543	-
Unwinding of decommissioning provision (note 9, note 19)	24,197	29,724
Interest revenue (note 4)	(38,124)	(53,279)
Net loss on disposal of non-current assets (note 6)	68,046	62,961
Change in decommissioning provision recognized in profit or loss, other than unwinding (note 19)	(51,760)	(34,390)
Change in other provisions (note 19)	(5,402)	30,152
Net impairment of exploration assets (note 7, note 12, note 13)	208,350	(118,809)
Exploration projects written off (note 13)	23,051	149,620
Net impairment of property, plant and equipment and intangibles (note 7, note 12)	628,943	235,661
Depreciation and amortization (note 7)	520,957	591,290
Amortization of contract costs	651	1,291
Change in investments at fair value through profit and loss (note 6)	4,424	40,782
Net receivable write-offs and movement in allowances for trade receivables and other assets	67,297	20,048
Other gains and losses - leasing	(52)	-
Net movement in write-down allowances for inventory (note 6, note 15)	5,125	(2,052)
Liabilities written off	(89)	(58)
Subsidies income (note 20)	(81)	(269)
	2,729,782	**2,537,234**
Movements in working capital:		
(Increase)/Decrease in inventory	(38,428)	143,114
(Increase)/Decrease in trade and other receivables	116,143	(8,156)
Increase/(Decrease) in trade and other liabilities	(78,115)	(194,681)
Cash generated from operations	**2,729,382**	**2,477,511**
Income taxes paid	(297,059)	(334,324)
Net cash generated by operating activities	**2,432,323**	**2,143,187**

The accompanying notes form an integrant part of these financial statements.
This is a free translation of the original Romanian version.

STATEMENT OF CONSOLIDATED CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2019

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Cash flows from investing activities		
Net collections/(payments) related to other financial assets	(203,972)	1,917,569
Interest received	43,470	49,338
Proceeds from sale of non-current assets	1,305	961
Acquisition of non-current assets	(694,349)	(948,588)
Acquisition of exploration assets	(173,563)	(205,371)
Net cash used in investing activities	**(1,027,109)**	**813,909**
Cash flows from financing activities		
Dividends paid	(1,607,246)	(2,638,535)
Repayment of lease liability	(861)	-
Subsidies received (note 20)	-	21,108
Net cash used in financing activities	**(1,608,107)**	**(2,617,427)**
Net increase/(decrease) in cash and cash equivalents	**(202,893)**	**339,669**
Cash and cash equivalents at the beginning of the year	**566,836**	**227,167**
Cash and cash equivalents at the end of the year	**363,943**	**566,836**

These financial statements were endorsed by the Board of Directors on March 19, 2020.

Adrian Constantin Volintiru
Chief Executive Officer

Marius Leonte Veza
Accounting Director

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1. BACKGROUND AND GENERAL BUSINESS

Information regarding S.N.G.N. Romgaz S.A. Group (the "Group")

The Group is formed of S.N.G.N. Romgaz S.A. ("the Company"/"Romgaz"), as parent company, its fully owned subsidiary S.N.G.N. ROMGAZ S.A. - Filiala de Înmagazinare Gaze Naturale DEPOGAZ Ploiești S.R.L. ("Depogaz") and its associates – S.C. Depomures S.A. (40% of the share capital) and S.C. Agri LNG Project Company S.R.L. (25% of the share capital).

Romgaz is a joint stock company, incorporated in accordance with the Romanian legislation.

The Company's headquarter is in Mediaş, 4 Constantin I. Motaş Square, 551130, Sibiu County.

The Romanian State, through the Ministry of Economy, Energy and Business Environment, is the majority shareholder of S.N.G.N. Romgaz S.A. together with other legal and physical persons (note 17).

The Group has as main activity:

1. geological research for the discovery of natural gas, crude oil and condensed reserves;
2. operation, production and usage, including trading, of mineral resources;
3. natural gas production for:

- ensuring the storage flow continuity;
- technological consumption;
- delivery in the transportation system.

4. underground storage of natural gas provided by Depogaz and Depomures;
5. commissioning, interventions, capital repairs for wells equipping the deposits, as well as the natural gas resources extraction wells, for its own activity and for third parties;
6. electricity production and distribution.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements ("financial statements") of the Group have been prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and Ministry of Finance Order 2844/2016 to approve accounting regulations in accordance with IFRS (MOF 2844/2016). For the purposes of the preparation of these financial statements, the functional currency of the Group is deemed to be the Romanian Leu (RON). IFRS as adopted by the EU differ in certain respects from IFRS as issued by the International Accounting Standards Board (IASB), however, the differences have no material impact on the Group's financial statements for the periods presented.

Except for the effects of IFRS 16 "Leases", presented below, the same accounting policies and methods of computation are used in these financial statements as compared with the most recent annual financial statements.

Basis of preparation

The financial statements have been prepared on a going concern basis. The principal accounting policies are set out below.

Accounting is kept in Romanian and in the national currency. Items included in these financial statements are denominated in Romanian lei. Unless otherwise stated, the amounts are presented in thousand lei (thousand RON).

These financial statements are prepared for general purposes, for users familiar with the IFRS as adopted by EU; these are not special purpose financial statements. Consequently, these financial statements must not be used as sole source of information by a potential investor or other users interested in a specific transaction.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 "Inventory" or value in use in IAS 36 "Impairment of assets".

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance to the Group of the inputs to the fair value measurement, which are described as follows:

- level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- level 3 inputs are unobservable inputs for the asset or liability.

Basis for consolidation

Subsidiaries

The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when it loses control of that subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group. All intra-group assets and liabilities, income and expenses relating to transactions between members of the Group are eliminated in full on consolidation

Associated entities

An associate is a company over which the Company exercises significant influence through participation in decision making on financial and operational policies of the entity invested in. Investments in associates are recorded using the equity method of accounting. By this method, the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Group's share of the investee's net assets. The Group's profit or loss includes its share of the investee's profit or loss and the Group's other comprehensive income includes its share of the investee's other comprehensive income.

Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint arrangement is either a joint operation or a joint venture.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint ventures.

Joint operations

The Group recognizes in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

As joint operator, the Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

If the Group participates in, but does not have joint control of, a joint operation it accounts for its interest in the arrangement in accordance with the paragraphs above if it has rights to the assets, and obligations for the liabilities. relating to the joint operation.

If the Group participates in, but does not have joint control of, a joint operation, does not have rights to the assets, and obligations for the liabilities, relating to that joint operation, it accounts for its interest in the joint operation in accordance with the IFRSs applicable to that interest.

Joint ventures

As a partner in a joint venture, in its financial statements, the Group recognizes its interest in a joint venture using the equity method of accounting.

Standards and interpretations valid for the current period

The following standards and amendments or improvements to existing standards issued by the IASB and adopted by the EU have entered into force for the current period:

- IFRS 16 Leases (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (effective for annual periods beginning on or after January 1, 2019);
- IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2019);
- Annual Improvements to IFRS Standards 2015–2017 Cycle (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IAS 19: Plan amendment, Curtailment or Settlement (effective for annual periods beginning on or after January 1, 2019).

The adoption of these amendments, interpretations or improvements to existing standards has not led to changes in the Group's accounting policies, except for IFRS 16, as presented below.

The impact of adopting IFRS 16: Leases

IFRS 16 replaces International Accounting Standard 17 "Leases" (IAS 17). According to the new standard, the lessee accounts both finance lease and operating lease (rent) contracts in the same way. The lessee records a right-of-use asset for the underlying asset and a lease liability. Previously, operating lease contracts were recognized as rental expenses.

The Group does not operate finance lease contracts. The Group operates operating lease contracts that include land concession agreements, rent contracts for office space and IT equipment.

The Group does not apply IFRS 16 to leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources, i.e. to leases of land used in such activities.

According to IFRS 16, payments related to operating leases are included in the financing activities. According to IAS 17, these payments were included in the operating activities.

The Group applied the practical expedient to maintain previous assessment of lease contracts. As such, the Group did not apply IFRS 16 to contracts in force as of January 1, 2019 that were not previously identified as containing a lease according to IAS 17. Also, it did not apply IFRS 16 to contracts ending in 2019.

On transition to IFRS 16, the Group applied the standard retrospectively and did not restate the comparative information.

Lease liabilities are measured at the present value of the remaining lease payments as of January 1, 2019 discounted at the incremental borrowing rate at January 1, 2019 (6.99%). On initial application, the Group recorded a lease liability of RON 4,959 thousand.

The Group applies the practical expedient allowed by IFRS 16 for underlying assets below USD 5,000 when new, and for short term leases, for which lease payments are recognized as a rent expense when they occur.

Right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of the right-of-use asset comprises:

(a) the amount of the initial measurement of the lease liability;

(b) any lease payments made at or before the commencement date, less any lease incentives received;

(c) any initial direct costs incurred by the lessee; and

(d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The lease term is the non-cancellable period for which the Group as lessee can use the underlying asset, together with both:

(a) periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option; and

(b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In assessing whether the Group is reasonably certain to exercise any of the options above, the Group considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

Following IFRS 16 adoption, on January 1, 2019 the Group recorded:

- right-of-use assets of RON 4,959 thousand;
- lease liabilities of RON 4,959 thousand;
- at the date of transition to IFRS 16 (January 1, 2019), the Group had no assets or liabilities recorded according to IAS 17 related to lease contracts; therefore, no other adjustments were needed.

As of December 31, 2018 the Group's commitments related to the operating leases subject to IFRS 16 adjustments were of RON 10,981 thousand. The discounted value as of January 1, 2019 is RON 4,959 thousand.

Standards and interpretations issued by IASB and adopted by the EU, but not yet effective

At the date of issue of the financial statements, the following standards were adopted by the EU, but not yet effective:

- Amendments to IAS 1 and IAS 8: Definition of Material (effective for annual periods beginning on or after January 1, 2020);
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after January 1, 2020);
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (effective for annual periods beginning on or after January 1, 2020).

The Group did not adopt these standards and amendments before their effective dates. The Group does not expect these amendments to have a material impact on the financial statements.

Standards and interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from IFRS adopted by the IASB except from the following standards, amendments or improvements to the existing standards and interpretations, which were not endorsed for use in EU as at date of publication of financial statements:

- IFRS 17 Insurance Contracts (effective for annual periods beginning on or after January 1, 2021);
- Amendment to IFRS 3 Business Combination (effective for annual periods beginning on or after January 1, 2020);
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current.

The Group is currently evaluating the effect that the adoption of these standards, amendments or improvements to the existing standards and interpretations will have on the financial statements of the Group in the period of initial application.

Segment information

The information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the upstream segment, gas storage, electricity production and distribution, and other activities, including headquarter activities. The Directors of the Group have chosen to organize the Group around differences in activities performed.

Specifically, the Group is organized in the following segments:

- upstream, which includes exploration activities, natural gas production and trade of gas extracted by Romgaz or acquired from domestic production or import, for resale; these activities are performed by Medias, Mures and Bratislava branches;
- storage activities, performed by Depogaz and Depomures;

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- electricity production and distribution activities, performed by Iernut branch;
- other activities, such as technological transport, operations on wells and corporate activities.

Transactions between the companies within the Group are at current market prices. Unrealized profits are eliminated in the financial statements.

Transactions between Groups segments within the same company are at cost.

Revenue recognition

a) Revenue from contracts with customers

The Group recognizes customer contracts when all of the following criteria are met:

- the parties to the contract have approved the contract and are committed to perform their respective obligations;
- the Group can identify each party's rights regarding the goods or services to be transferred;
- the Group can identify the payment terms;
- the contract has commercial substance;
- it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods delivered or the services provided.

Revenue from contracts with customers is recognized when, or as the Group transfers the goods or services to the customer, respectively, the client obtains control over them.

Depending on the nature of the goods or services, revenues are recognized over time or at a point in time.

Revenue is recognized over time if:

- the customer receives and consumes simultaneously the benefits provided by obtaining the goods and services as the Group performs the obligation;
- the Group creates or enhances an asset that the customer controls as the asset is created or enhanced;
- the Group's performance does not create an asset with an alternative use to the Group.

All other revenues that do not meet the above criteria are recognized at a point in time.

For revenue to be recognized over time, the Group assesses progress towards meeting the execution obligation, using output methods or input methods, depending on the nature of the good or service transferred to the client. Revenues are recognized only if the Group can reasonably assess the result of the execution obligation or, if it cannot be estimated, only at the level of the costs it is expected to recover from the customer.

Revenue from contracts with customers mainly relates to gas sales, electricity supply and related services, storage services. Revenue from these contracts are recognized at a point in time on the basis of the actual quantities at the prices fixed in the contracts concluded or at the rates set by the regulatory authority, as the case may be.

Contracts concluded by the Group do not contain significant financing components.

b) Other revenue

Rental revenue for operating lease contracts where the Group operates as lessor is recognized on an accrual basis in accordance with the substance of the relevant agreements.

Interest income is recognized periodically and proportionally as the respective income is generated, on accrual basis.

Dividends are recognized as income when the legal right to receive them is established.

Exploration expenses

The costs of seismic exploration, geological, geophysical and other similar exploration activities are recognized as exploration expenses in the statement of comprehensive income in the period in which they arise.

Exploration expenses also include the cost of exploration assets that have not identified gas resources and have been written-off.

Foreign currencies

The functional currency is the currency of the primary economic environment in which the Group operates and is the currency in which the Group primarily generates and expends cash. The Group operates in Romania and it has the Romanian Leu (RON) as its functional currency.

In preparing the financial statements of the Group, transactions in currencies other than the functional currency (foreign currencies) are recorded at the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date.

Exchange differences are recognized in the statement of comprehensive income in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Employee benefits

Benefits granted upon retirement

In the normal course of business, the Group makes payments to the Romanian State on behalf of its employees at legal rates. All employees of the Group are members of the Romanian State pension plan. These costs are recognized in the statement of comprehensive income together with the related salary costs.

Based on the Collective Labor Agreement, the Group is liable to pay to its employees at retirement a number of gross salaries, according to the years worked in the gas industry/electrical industry, work conditions etc. To this purpose, the Group recorded a provision for benefits upon retirement. This provision is updated annually and computed according to actuary methods based on estimates of the average salary, the average number of salaries payable upon retirement, on the estimate of the period when they shall be paid and it is brought to present value using a discount factor based on interest related to a maximum degree of security investments (government securities). As the benefits are payed, the provision is reduced together with the reversal of the provision against income.

Gains or actuarial losses, are recognized in other comprehensive income. These are changes in the present value of the defined benefit obligation as a result of statistical adjustments and changes in actuarial assumptions. Any other changes in the provision are recognized in the result of the year.

The Group does not operate any other pension scheme or post-retirement benefit plan and, consequently, has no obligation in respect of pensions.

Employee participation to profit

The Group records in its financial statements a provision related to the fund for employee participation to profit in compliance with legislation in force.

Liabilities related to the fund for employee participation to profit are settled in less than a year and are measured at the amounts estimated to be paid at the time of settlement.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Greenhouse gas provisions

The Group recognizes a provision for the deficit between actual CO2 emissions and certificates held, measured at the best estimate of expenditure required to settle the obligation, namely the market price of the emission rights at reporting date.

Provisions for decommissioning of wells

Liabilities for decommissioning costs are recognized due to the Group's obligation to plug and abandon a well, dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made.

The Group recorded a provision for decommissioning wells.

This provision was computed based on the estimated future expenditure determined in accordance with local conditions and requirements and it was brought to present value using the interest rate on long term treasury bonds. The rate is updated annually.

A corresponding item of property, plant and equipment of an amount equivalent to the provision is also recognized. The item of property, plant and equipment is subsequently depreciated as part of the asset.

The Group applies IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities" related to changes in existing decommissioning, restoration and similar liabilities.

The change in the decommissioning provision for wells is recorded as follows:

a. subject to b., changes in the liability are added to, or deducted from, the cost of the related asset in the current period;

b. the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognized immediately in the statement of comprehensive income;

c. if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss.

Once the related asset has reached the end of its useful life, all subsequent changes of debt are recognized in the income statement in the period when they occur.

The periodical unwinding of the discount is recognized periodically in the comprehensive income as a finance cost, as it occurs.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current tax for the period is recognized as an expense in the statement of comprehensive income. Deferred tax for the period is recognized as an expense or income in the statement of comprehensive income, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where it arises from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost.

Property, plant and equipment

(1) Cost

(i) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of any decommissioning obligation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

(ii) Gas cushion

This is a quantity of natural gas constituted as a reserve at the level of gas storages, physically recoverable, which ensures the optimum conditions necessary to maintain their technical-productive flow characteristics. The gas cushion is recorded as an item of property, plant and equipment in the Storage segment.

(iii) Development expenditure

Expenditure on the construction, installation and completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including the commissioning of wells, is capitalized within property, plant and equipment and is depreciated from the commencement of production as described below in the property, plant and equipment accounting policies.

(iv) Maintenance and repairs

The Group does not recognize within the assets' costs the current expenses and the accidental expenses for that asset. These costs are expensed in the period in which they are incurred.

The cost for current maintenance are mainly labor costs and consumables and also small inventory items. The purpose of these expenses is usually described as "repairs and maintenance" for property, plant and equipment.

The expenses with major activities, inspections and repairs comprise the replacement of the assets or other asset's parts, the inspection cost and major overhauls. These expenses are capitalized if an asset or part of an asset, which was separately depreciated, is replaced and is probable that they will bring future economic benefits for the Group. If part of a replaced asset was not considered as a separate component and, as a result, was not separately depreciated, the replacement value will be used to estimate the net book value of the asset which is replaced and is immediately written-off. The inspection costs associated with major overhauls are capitalized and depreciated over the period until next inspection.

The cost for major overhauls for wells are also capitalized and depreciated using the unit of production depreciation method.

All other costs with the current repairs and usual maintenance are recognized directly in expenses.

(2) Depreciation

The depreciable amount of a tangible asset is the cost less the residual value of the asset. The residual value is the estimated value that the Group would currently obtain from the disposal of an asset, after deducting the estimated costs associated with the disposal if the asset would already have the age and condition expected at the end of its useful life.

For directly productive tangible assets (natural gas resources extraction wells), the Group applies the depreciation method based on the unit of production in order to reflect in the statement of comprehensive income, an expense proportionate with income realized from sale of production obtained from the total natural gas reserve certified at the beginning of the period. According to this method, the value of each production well is depreciated according to the ratio of the natural gas quantity extracted during the period compared to the proved developed reserves at the beginning of the period.

Assets representing gas cushion are not depreciated, as the residual value exceeds their cost.

For indirectly productive tangible assets and storage assets, depreciation is computed using the straight–line method over the estimated useful life of assets, as follows:

Asset	**Years**
Specific buildings and constructions	10 - 50
Technical installations and machines	3 - 20
Other plant, tools and furniture	3 – 30

Land is not depreciated as it is considered to have an indefinite useful life.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at historical cost, less any recognized impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Items of tangible fixed assets that are disposed of are eliminated from the statement of financial position along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in the result of the period.

For items of tangible fixed assets that are retired from use, but not yet written off by the reporting date, an impairment adjustment is recorded for the carrying value at the time of retirement.

(3) Impairment

Non-current assets must be recognized at the lower of the carrying amount and recoverable amount. If and only if the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to be equal to its recoverable amount. Such a reduction represents an impairment loss that is recognized in the result of the period.

Thus at the end of each reporting period, the Group assesses whether there is any indication of impairment of assets. If such indication is identified, the Group tests the assets to determine whether they are impaired.

The Group's assets are allocated to cash-generating units. The cash-generating unit is the smallest identifiable asset group that generates independent cash inflows to a large extent from cash inflows generated by other assets or asset groups. The Group considers each commercial field as a separate cash-generating unit. All gas storages held by the Group are considered as part of a single cash-generating unit, as the regulatory authority sets regulated tariffs by analyzing the storage activity as a whole, not every single storage.

In 2019, the Group conducted an impairment test in the Upstream segment, as the conditions existing when the previous test was conducted changed; the results of the impairment test are presented in note 12.

In 2019, the Group conducted an impairment test in the Storage segment, following the shareholders' and board of directors' decisions in 2020 to increase the share capital of the Depogaz by contribution in kind. In 2020, it was decided that the assets leased by Romgaz to its subsidiary, except the gas cushion, would be transferred to it. Impairment indications were identified in a valuation report prepared for the future transfer.

Recoverable amount is the largest of the fair value of an asset or a cash-generating unit less costs associated with disposal and its value in use. Considering the nature of the Group's assets, it was not possible to determine the fair value of the cash-generating units, being determined only the value in use of the assets.

Exploration and appraisal assets

(1) Cost

Natural gas exploration (other than seismic, geological, geophysical and other similar activities), appraisal and development expenditure is accounted for using the principles of the successful efforts method of accounting.

Costs directly associated with an exploration well are initially capitalized as an asset until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, drilling costs and payments made to contractors. If potentially commercial quantities of hydrocarbons are not found, the exploration well is eliminated from the statement of financial position, by recording an impairment, until National Agency for Mineral Resources (Agentia Nationala pentru Resurse Minerale – ANRM) approvals are obtained in order to be written off. If hydrocarbons are found and, subject to further appraisal activity, are likely to be capable of commercial development, the costs continue to be carried as an asset. Costs directly associated with appraisal activity, undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalized as an asset. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, an impairment is recorded for the assets, until the completion of the legal steps necessary for them to be written off. When proved reserves of natural gas are determined and development is approved by management, the relevant expenditure is transferred to property, plant and equipment other than exploration assets.

(2) Impairment

At each reporting date, the Group's management reviews its exploration assets and establishes the necessity for recording in the financial statements an impairment loss in these situations:

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of gas resources in the specific area is neither budgeted nor planned;

- exploration for and evaluation of gas resources in the specific area have not led to the discovery of commercially viable quantities of gas resources and the Group has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Other intangible assets

(1) Cost

Licenses for software, patents and other intangible assets are recognized at acquisition cost.

Intangible assets are not revalued.

(2) Amortization

Patents and other intangible assets are amortized using the straight-line method over their useful life, but not exceeding 20 years. Licenses related to the right of use of computer software are amortized over a period of 3 years.

Inventories

Inventories are recorded initially at cost of production, or acquisition cost, depending on the case. The cost of finished goods and production in progress includes materials, labour, expense incurred for bringing the finished goods at the location and in the existent form and the related indirect production costs. Write down adjustments are booked against slow moving, damaged and obsolete inventory, when necessary.

At each reporting date, inventories are measured at the lower of cost and net realizable value. The net realizable value is estimated based on the selling price less any completion and selling expenses. The cost of inventories is assigned by using the weighted average cost formula.

Financial assets and liabilities

The Group's financial assets include cash and cash equivalents, trade receivables, other receivables, loans, bank deposits and bonds with a maturity from acquisition date of over three months and other investments. Financial liabilities include interest-bearing bank borrowings and overdrafts and trade and other payables. For each item, the accounting policies on recognition and measurement are disclosed in this note. Management believes that the estimated fair values of these instruments approximate their carrying amounts.

Cash and cash equivalents include petty cash, cash in current bank accounts and short-term deposits with a maturity of less than three months from the date of acquisition.

The Group recognizes a financial asset or financial liability in the statement of financial position when and only when it becomes a party to the contractual provisions of the instrument. Upon initial recognition, financial assets are classified at amortized cost or measured at fair value through profit or loss. The classification depends on the Group's business model for managing the financial assets and their contractual cash flows.

The Group does not have financial assets measured at fair value through other comprehensive income.

On initial recognition, financial assets and financial liabilities are measured at fair value plus or minus, in the case of assets measured at amortized cost, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Receivables resulting from contracts with customers represent the unconditional right of the Group to a consideration. The right to a consideration is unconditional if only the passage of time is required before payment of the consideration is due. These are measured at initial recognition at the transaction price.

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments plus or minus cumulative depreciation using the effective interest method for each difference between the initial amount and the amount at maturity and, for financial assets, adjusted for any impairment.

Any difference between the entry amount and the reimbursement amount is recognized in the income statement for the period of the borrowings using the effective interest method.

Financial instruments are classified as liabilities or equity in accordance with the nature of the contractual arrangement. Interest, dividends, gains and losses on a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are recorded directly in equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and discharge the obligation simultaneously.

Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each reporting period.

Except for trade receivables, the Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk associated with the financial instrument, has increased significantly since initial recognition. If, at the reporting date, the credit risk for a financial instrument has not increased significantly since the initial recognition, the Group measures the loss allowance for that financial instrument at a value equal to 12-month expected credit losses.

The loss allowance on trade receivables resulting from transactions that are subject to IFRS 15 is measured at an amount equal to lifetime expected credit losses.

The carrying amount of the financial asset, other than those at fair value through profit or loss, is reduced through the use of an allowance account.

De-recognition of financial assets and liabilities

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Reserves

Reserves include (note 18):

- legal reserves, which are used annually to transfer to reserves up to 5% of the statutory profit, but not more than 20% of the statutory share capital of the companies within the Group;
- other reserves, which represent allocations from profit in accordance with Government Ordinance no. 64/2001, paragraph (g) for the Company's development fund;
- reserves from reinvested profit, set up based on the Fiscal Code. The amount of profit that benefited from tax exemption under the fiscal legislation less the legal reserve, is distributed at the end of the year by setting up the reserve;
- development quota reserve, non-distributable, set up until 2004. Development quota reserve set up after 2004 is distributable and presented in retained earnings. Development quota set up after 2004 is allocated with the approval of General Meeting of Shareholders, based on depreciation, respectively write-off of the assets financed using the development quota;
- other non-distributable reserves, set up from retained earnings representing translation differences recorded at transition to IFRS. These reserves are set up in accordance with MOF 2844/2016.

Subsidies

Subsidies are non-reimbursable financial resources granted to the Group with the condition of meeting certain criteria. In the category of subsidies are included grants related to assets and grants related to income.

Grants related to assets are government grants for whose primary condition is that the Group should purchase, construct, or otherwise acquire long-term assets.

Grants related to income are government grants other than those related to assets.

Subsidies are not recognized until there is reasonable assurance that:

a) the Group will comply with the conditions attaching to it; and

b) subsidies will be received.

Grants related to assets are presented in the statement of financial position as "Deferred revenue", which is then recognized in profit or loss on a systematic basis over the useful life of the asset.

Grants related to income are recognized in the statement of profit or loss under "Other income", as the related expenses are recorded. Until the time the expense occurs, the grant received is recognized as "Deferred revenue".

Use of estimates

The preparation of the financial information requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the end of reporting date, and the reported amounts of revenue and expenses during the reporting period. Actual results could vary from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments that the management has made in the process of applying the Group's accounting policies, and that have the most significant effect on the amounts recognized in the financial statements.

Estimates related to impairment losses on trade receivables

At each period end, the Group evaluates the risks attached to current and overdue receivables and the probability of such risks to materialize. The Group's receivables are generally due in maximum 30 days from the date of issue. However, the Group is forced by court decisions to sell gas to insolvent clients deemed "captive" according to insolvency legislation. Invoices issued to these clients for gas delivered are due in 90 days from the date of issue. Based on the information available at period end related to such clients and previous experience, the Group estimates the lifetime expected credit loss of receivables, both current and overdue, and records appropriate impairment losses.

Estimates related to the exploration expenditure on undeveloped fields

If field works prove that the geological structures are not exploitable from an economic point of view or that they do not have hydrocarbon resources available, an impairment is recorded. The impairment assessment is performed based on geological experts' technical expertise.

Estimates related to the developed proved reserves

The Group applies the depreciation method based on the unit of production in order to reflect in the income statement an expense proportionate with the income realized from sale of production obtained from the total natural gas reserve at the beginning of the period. According to this method, the value of each production well is depreciated according to the ratio of the natural gas quantity extracted during the period compared to the gas reserve at the beginning of the period. The gas reserves are updated annually according to internal assessments that are based on certifications of ANRM.

Estimates related to the decommissioning provision

Liabilities for decommissioning costs are recognized for the Group's obligation to plug and abandon a well, dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made.

This provision is computed based on the estimated future expenditure determined in accordance with local conditions and requirements and it is brought to present value using the interest rate on long term treasury bonds. The rate is updated annually.

Estimates related to the retirement benefit obligation

Under the Collective Labor Agreement, the Group is obliged to pay to its employees when they retire a multiplicator of the gross salary, depending on the seniority within the gas industry/electricity industry, working conditions etc. This provision is updated annually and calculated based on actuarial methods to estimate the average wage, the average number of employees to pay at retirement, the estimate of the period when they will be paid and brought to present value using a discount factor based on interest on investments with the highest degree of safety (government bonds).

The Group does not operate any other pension plan or retirement benefits, and therefore has no other obligations relating to pensions.

Contingencies

By their nature, contingencies end only when one or more uncertain future events occur or not. In order to determine the existence and the potential value of a contingent element, is required to exercise the professional judgment and the use of estimates regarding the outcome of future events (note 32).

Comparative information

For each item of the statement of financial position, the statement of comprehensive income and, where is the case, for the statement of changes in equity and for the statement of cash flows, for comparative information purposes is presented the value of the corresponding item for the previous period ended, unless the changes are insignificant. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements, which has a material impact on the Group.

3. REVENUE AND OTHER INCOME

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Revenue from gas sold - domestic production	4,151,626	3,845,351
Revenue from gas sold – other arrangements	128,737	133,073
Revenue from gas acquired for resale – import gas	77,867	205,912
Revenue from gas acquired for resale – domestic gas	23,368	11,015
Revenue from storage services-capacity reservation	265,962	230,611
Revenue from storage services-extraction	22,410	36,831
Revenue from storage services-injection	42,418	30,564
Revenue from electricity *)	145,714	297,080
Revenue from services	184,564	188,896
Revenue from sale of goods	30,243	17,462
Other revenues from contracts	402	404
Total revenue from contracts with customers	**5,073,311**	**4,997,199**
Other revenues	7,171	6,998
Total revenue	**5,080,482**	**5,004,197**
Other operating income **)	32,834	18,442
Total revenue and other income	**5,113,316**	**5,022,639**

*) The decrease in electricity revenues is due to the works performed on the new Iernut power plant which led to lower deliveries in 2019.

**) Other operating income relates mainly to penalties charged to clients for late payment.

Revenue from contracts with customers is recognized as or when the Group satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of goods sold by the Group usually coincides with title passing to the customer and the customer taking physical possession.

Revenues from gas and electricity are recognized when the delivery has been made at the prices fixed in the contracts with customers.

Revenues from storage services are recognized when they are provided at the rates set by the regulatory authority. Usually, injection services are provided in the period April – October, and those for extraction in October – April. The capacity reservation services are being provided each month of the storage cycle, which begins on April 1 and ends on March 31 of the next year.

In measuring the revenue from gas, electricity and storage services, the Group uses output methods. According to these methods, revenues are recognized based on direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. The Group recognizes the revenue in the amount it has the right to charge.

The Group does not disclose information about the remaining performance obligations, applying the practical expedient in IFRS 15, as the contracts with the customers are generally signed for periods of less than one year and the revenues are recognized at the amount which the Group has the right to charge.

4. INVESTMENT INCOME

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Interest income	38,124	53,279
Total	**38,124**	**53,279**

Interest income is derived from the Group's investments in bank deposits and government bonds.

5. COST OF COMMODITIES SOLD, RAW MATERIALS AND CONSUMABLES

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Consumables used	72,481	71,963
Cost of gas acquired for resale, sold – import	74,410	202,613
Cost of gas acquired for resale, sold – domestic	9,863	7,338
Cost of electricity imbalance	22,414	34,031
Cost of other goods sold	1,114	1,037
Other consumables	3,566	3,498
Total	**183,848**	**320,480**

6. OTHER GAINS AND LOSSES

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Forex gain	2,579	4,058
Forex loss	(2,029)	(5,249)
Net loss on disposal of non-current assets	(68,046)	(62,961)
Net receivable allowances (note 16 c)	13,926	117
Net write down allowances for inventory (note 15)	(5,125)	2,052
Net gain/loss on financial assets at fair value through profit or loss (note 26)	(4,424)	(40,782)
Other gains and losses from lease contracts	52	-
Losses from other debtors	(2)	(224)
Total	**(63,069)**	**(102,989)**

7. DEPRECIATION, AMORTIZATION AND IMPAIRMENT EXPENSES

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Depreciation	520,957	591,290
out of which:		
- depreciation of property, plant and equipment	517,833	586,955
- amortization of intangible assets	2,376	4,335
- amortization of write-of use assets	748	-
Net impairment of non-current assets (note 12)	837,293	116,852
Total depreciation, amortization and impairment	**1,358,250**	**708,142**

8. EMPLOYEE BENEFIT EXPENSE

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Wages and salaries	717,927	660,850
Social security charges	20,589	19,044
Meal tickets	19,044	18,479
Other benefits according to collective labor contract	29,865	25,908
Private pension payments	10,783	10,671
Private health insurance	-	6,685
Total employee benefit costs	**798,208**	**741,637**
Less, capitalized employee benefit costs	(127,800)	(120,307)
Total employee benefit expense	**670,408**	**621,330**

9. FINANCE COSTS

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Interest expense on lease contracts	543	-
Unwinding of the decommissioning provision (note 19)	24,197	29,724
Total	**24,740**	**29,724**

10. OTHER EXPENSES

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Energy and water expenses	61,428	20,220
Expenses for capacity booking and gas transmission services	164,142	189,881
Expenses with other taxes and duties *)	1,070,181	1,006,098
(Net gain)/Net loss from provisions movement (note 19)	(57,162)	(4,238)
Other operating expenses **)	313,053	197,486
Total	**1,551,642**	**1,409,447**

*) In the year ended December 31, 2019, the major taxes and duties included in the amount of RON 1,070,181 thousand (year ended December 31, 2018: RON 1,006,098 thousand) are:

- RON 716,908 thousand represent windfall tax resulting from the deregulation of prices in the natural gas sector according to Government Ordinance no. 7/2013 with the subsequent amendments for the implementation of the windfall tax following the deregulation of prices in the natural gas sector (year ended December 31, 2018: RON 550,792 thousand);
- RON 342,992 thousand represent royalty on gas production and storage activity (year ended December 31, 2018: RON 445,164 thousand).

**) Other operating expenses in the amount of RON 313,053 thousand (2018: RON 197,486 thousand) include RON 86,975 thousand (2018: RON 0 thousand) representing the contribution charged by ANRE to license title holders operating in gas and electricity industry of 2% of revenue.

11. INCOME TAX

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Current tax expense	293,400	273,804
Deferred income tax (income)/expense	(107,843)	(54,788)
Income tax expense	**185,557**	**219,016**

The tax rate used for the reconciliations below for the year ended December 31, 2019, respectively year ended December 31, 2018 is 16% payable by corporate entities in Romania on taxable profits.

The total charge for the period can be reconciled to the accounting profit as follows:

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Accounting profit before tax	**1,275,180**	**1,585,184**
(Profit)/loss of activities not subject to income tax	1,821	6,177
Accounting profit subject to income tax	**1,277,001**	**1,591,361**
Income tax expense calculated at 16%	204,320	254,618
Effect of income exempt of taxation	(44,977)	(54,040)
Effect of expenses that are not deductible in determining taxable profit	171,689	102,527
Effect of current income tax reduction, due to VAT split	(15,054)	(14,273)
Effect of tax incentive for reinvested profit	(2,746)	(6,949)
Effect of legal reserves	(390)	(64)
Effect of the benefit from tax credits, used to reduce current tax expense	28,791	13,043
Effect of deferred tax relating to the origination and reversal of temporary differences	(145,040)	(29,009)
Effect of the benefit from tax credits, used to reduce deferred tax expense	(11,036)	(46,837)
Income tax expense	**185,557**	**219,016**

Components of deferred tax (asset)/liability:

	December 31, 2019		December 31, 2018	
	Cumulative temporary differences	Deferred tax (asset)/ liability	Cumulative temporary differences	Deferred tax (asset)/ liability
	'000 RON	'000 RON	'000 RON	'000 RON
Provisions	(540,560)	(86,490)	(702,667)	(112,428)
Property, plant and equipment	236,238	37,798	1,272,647	203,624
Exploration assets *)	(928,679)	(148,589)	(1,161,170)	(185,787)
Financial investments	(977)	(156)	(977)	(156)
Inventory	(17,940)	(2,870)	(18,485)	(2,958)
Trade receivables and other receivables	(191,509)	(30,641)	(186,161)	(29,786)
Right of use asset	554	89	-	-
Deferred revenue	17	3	-	-
Lease liability	(567)	(91)	-	-
Total	**(1,443,423)**	**(230,947)**	**(796,813)**	**(127,491)**
Change, out of which:		**103,456**		**57,526**
- in current year's result		107,843		54,788
- in other comprehensive income		(4,387)		2,738

*) According to the Fiscal Code applicable in Romania, expenses related to location, exploration, development or any preparatory activity for the exploitation of natural resources, which, according to the applicable accounting regulations, are recorded directly in the result, are recovered in equal rates for a period of 5 years, starting with the month in which the expenses are incurred. Also, for fixed assets specific to the exploration and production of gas resources, the carrying tax value of fixed assets written-off is deducted using the tax depreciation method used before their write-off for the remaining period. All of these costs are treated as assets only from a tax point of view and generate a deferred tax asset.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and land improvements	Buildings	Gas properties	Plant, machinery and equipment	Fixtures, fittings and office equipment	Storage assets	Tangible exploration assets	Capital work in progress	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Cost									
As of January 1, 2019	**108,954**	**892,035**	**6,454,087**	**984,695**	**102,099**	**1,718,601**	**332,457**	**1,565,368**	**12,158,296**
Additions	374	18	16,346	25	21	-	210,521	673,880	901,185
Transfers	40	18,209	466,419	41,290	4,124	9,035	(117,482)	(421,635)	-
Disposals	-	(283)	(206,679)	(8,545)	(2,134)	(34,574)	(23,051)	(22,959)	(298,225)
As of December 31, 2019	**109,368**	**909,979**	**6,730,173**	**1,017,465**	**104,110**	**1,693,062**	**402,445**	**1,794,654**	**12,761,256**
Accumulated depreciation									
As of January 1, 2019	-	**297,747**	**3,671,297**	**590,345**	**72,921**	**589,044**	-	-	**5,221,354**
Charge *)	-	31,348	370,794	64,108	6,463	68,617	-	-	541,330
Transfers	-	-	5,906	-	-	(5,906)	-	-	-
Disposals	-	(248)	(25,852)	(8,093)	(2,103)	(2,796)	-	-	(39,092)
As of December 31, 2019	-	**328,847**	**4,022,145**	**646,360**	**77,281**	**648,959**	-	-	**5,723,592**
Impairment									
As of January 1, 2019	**3,180**	**31,523**	**390,424**	**71,226**	**909**	**3,521**	**37,266**	**119,145**	**657,194**
Charge	5,075	11,893	179,095	4,526	288	375,073	231,409	192,449	999,808
Transfers	-	931	24,890	6,808	279	-	(84)	(32,824)	-
Release	-	(4,041)	(100,680)	(1,993)	(328)	(262)	(23,059)	(32,152)	(162,515)
As of December 31, 2019	**8,255**	**40,306**	**493,729**	**80,567**	**1,148**	**378,332**	**245,532**	**246,618**	**1,494,487**
Carrying value									
As of January 1, 2019	**105,774**	**562,765**	**2,392,366**	**323,124**	**28,269**	**1,126,036**	**295,191**	**1,446,223**	**6,279,748**
As of December 31, 2019	**101,113**	**540,826**	**2,214,299**	**290,538**	**25,681**	**665,771**	**156,913**	**1,548,036**	**5,543,177**

*) *The amounts include depreciation of tangible assets used in the production of other fixed assets, capitalized in their cost, amounting to RON 23,498 thousand.*

Ernst & Young Assurance Services S.R.L.
19. MAR. 2020
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	Land and land improvements '000 RON	Buildings '000 RON	Gas properties '000 RON	Plant, machinery and equipment '000 RON	Fixtures, fittings and office equipment '000 RON	Storage assets '000 RON	Tangible exploration assets '000 RON	Capital work in progress '000 RON	Total '000 RON
Cost									
As of January 1, 2018 (restated)	**108,402**	**882,913**	**6,475,527**	**927,068**	**97,142**	**1,694,522**	**438,613**	**797,540**	**11,421,727**
Additions	446	10	2,101	139	2	1	205,370	971,058	1,179,127
Transfers	106	10,849	227,799	68,969	7,214	25,502	(161,906)	(178,533)	-
Disposals	-	(1,737)	(251,340)	(11,481)	(2,259)	(1,424)	(149,620)	(24,697)	(442,558)
As of December 31, 2018	**108,954**	**892,035**	**6,454,087**	**984,695**	**102,099**	**1,718,601**	**332,457**	**1,565,368**	**12,158,296**
Accumulated depreciation									
As of January 1, 2018 (restated)	-	**265,803**	**3,271,717**	**532,892**	**69,125**	**520,149**	-	-	**4,659,686**
Charge *)	-	32,505	435,102	68,035	5,991	68,997	-	-	610,630
Disposals	-	(561)	(35,522)	(10,582)	(2,195)	(102)	-	-	(48,962)
As of December 31, 2018	-	**297,747**	**3,671,297**	**590,345**	**72,921**	**589,044**	-	-	**5,221,354**
Impairment									
As of January 1, 2018 (restated)	**3,180**	**16,031**	**229,683**	**23,373**	**386**	**2,152**	**157,349**	**108,188**	**540,342**
Charge	-	16,599	220,194	50,660	677	1,897	31,800	50,603	372,430
Transfers	-	-	12,039	-	-	-	(1,274)	(10,765)	-
Release	-	(1,107)	(71,492)	(2,807)	(154)	(528)	(150,609)	(28,881)	(255,578)
As of December 31, 2018	**3,180**	**31,523**	**390,424**	**71,226**	**909**	**3,521**	**37,266**	**119,145**	**657,194**
Carrying value									
As of January 1, 2018 (restated)	**105,222**	**601,079**	**2,974,127**	**370,803**	**27,631**	**1,172,221**	**281,264**	**689,352**	**6,221,699**
As of December 31, 2018	**105,774**	**562,765**	**2,392,366**	**323,124**	**28,269**	**1,126,036**	**295,191**	**1,446,223**	**6,279,748**

*) *The amounts include depreciation of tangible assets used in the production of other fixed assets, capitalized in their cost, amounting to RON 21,171 thousand.*

Impairment of property, plant and equipment

Note 2 contains information on the conditions under which impairment losses for individual assets are recognized.

Impairment of assets in the Upstream segment

At the start of 2020, Government Emergency Ordinance no. 114/2018, which introduced regulated prices for gas delivered during the period May 1, 2019 – February 28, 2022 to household consumers and to heat producers only for the gas used in producing heat for the population, was amended by Government Emergency Ordinance no. 1/2020. Amendments refer, among others, to repealing the regulated price on gas starting July 1, 2020 and repealing the contribution charged by ANRE to license title holders operating in gas and electricity industry of 2% on revenue. In addition to these, the Group noticed a fall in the gas prices on the external markets. Also, ANRE published in 2020 a draft order which forces major Romanian gas producers to sell 30% of their output on the commodities exchange at a maximum price of 95% of the price on the Central European Gas Hub. The Company's management believes this draft will become a legal obligation which currently means a decrease of the average gas price. Based on these factors, the Group conducted an impairment test on the commercial fields it operates.

Based on its assessment, the Group considered each commercial field a separate cash-generating unit. The infrastructure common to several gas fields (e.g., compression stations, drying stations) was allocated to each field according to the quantities processed for each field served. The corporate assets were allocated to each field according to the estimated revenue to be earned by each field in the total revenue over the period considered in the impairment test.

The impairment test took into account the economic life of the fields, according to the latest studies approved by the National Agency of Mineral Resources, but no later than 2043, this being the limit year of the concession agreements, according to the legislation in force.

Following the impairment test, there was an additional impairment of RON 71,257 thousand.

In the impairment test the following assumptions were used:

- Weighted average cost of capital: 10%;
- The inflation rate for the years 2020-2022 was the one reported by the National Prognosis Commission in the autumn forecast for 2019. For the period 2023-2043 a constant inflation rate of 2.6% was used;
- Average estimated price for the period was 92.98 lei/MWh.

Sensitivity analysis - following the 1% change in the factors below, the impairment resulted from the impairment test would be (changes are independent from one another):

	Increase with 1%	Decrease with 1%
	'000 RON	'000 RON
Weighted average cost of capital	72,858	69,781
Selling price	70,204	72,311
Inflation rate	70,127	72,460

Impairment of assets in the Storage segment

In 2020, the Group's shareholders decided to increase the share capital of Depogaz by contribution in kind with the assets used in the storage activity, owned by Romgaz. Following this decision, the Company's Board of Directors approved the increase of the subsidiary's share capital with RON 871,787 thousand, representing contribution in kind of assets, except for the gas cushion. Prior to these decisions, there were no asset impairment indications, as the carrying value was recovered through rent charged by the Company to the subsidiary. Based on the two decisions, impairment indications were identified in a valuation report prepared following shareholders' decision no. 14/2018. Based on the impairment test conducted, an impairment loss of RON 388,060 thousand was recorded.

In the impairment test the following assumptions were used:

- Weighted average cost of capital: 7.8%;
- Average storage tariff used was the one in force at the date the test was conducted.

Sensitivity analysis - following the 1% change in the factors below, the impairment resulted from the impairment test would be (changes are independent from one another):

	Increase by 1%	Decrease by 1%
	'000 RON	'000 RON
Weighted average cost of capital	454,913	329.885
Storage revenue	378,723	398,002

13. EXPLORATION AND APPRAISAL FOR NATURAL GAS RESOURCES

The following financial information represents the amounts included within the Group's totals relating to activity associated with the exploration for and appraisal of natural gas resources. All such activities are recorded within the Upstream segment.

	Year ended December 31, 2019	Year ended December 31, 2018
	'000 RON	'000 RON
Exploration assets written off (note 12)	(23,051)	(149,620)
Seismic, geological, geophysical studies	(1,513)	(97,503)
Total exploration expense	**(24,564)**	**(247,123)**
Net movement in exploration assets' impairment (note 12) (net income)/net loss	208,350	(118,809)
Net cash used in exploration investing activities	(173,563)	(205,371)

	December 31, 2019	December 31, 2018
	'000 RON	'000 RON
Exploration assets (note 12)	156,913	295,191
Liabilities	(49,270)	(22,464)
Net assets	**107,643**	**272,727**

14. OTHER INTANGIBLE ASSETS. RIGHT OF USE ASSETS

	Other intangible assets	Right of use assets
	'000 RON	'000 RON
Cost		
As of January 1, 2019	**179,658**	**-**
Implementation of IFRS 16 "Leases"	-	4,959
Additions	6,593	5,036
Disposals	(115)	(720)
As of December 31, 2019	**186,136**	**9,275**
Accumulated amortization		
As of January 1, 2019	**174,688**	**-**
Charge	2,376	748
Disposals	(92)	(63)
As of December 31, 2019	**176,972**	**685**
Carrying value		
As of January 1, 2019	**4,970**	**-**
As of December 31, 2019	**9,164**	**8,590**

	Other intangible assets
	'000 RON
Cost	
As of January 1, 2018	**183,711**
Additions	716
Disposals	(4,769)
As of December 31, 2018	**179,658**
Accumulated amortization	
As of January 1, 2018	**175,082**
Charge	4,335
Disposals	(4,729)
As of December 31, 2018	**174,688**
Carrying value	
As of January 1, 2018	**8,629**
As of December 31, 2018	**4,970**

15. INVENTORIES

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Spare parts and materials	170,030	186,978
Finished goods (gas)	183,842	94,461
Other inventories	465	2,752
Write-down allowance for spare parts and materials	(43,323)	(38,053)
Write-down allowance for other inventories	(1)	(146)
Total	**311,013**	**245,992**

16. ACCOUNTS RECEIVABLE

a) Trade and other receivables

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Trade receivables	1,554,652	1,651,557
Allowances for expected credit losses (note 16 c)	(1,252,267)	(1,218,188)
Accrued receivables	382,915	392,677
Allowances for expected credit losses on accrued receivables (note 16 c)	(47,142)	-
Total	**638,158**	**826,046**

Trade receivables from gas deliveries are generally due within 30 days of invoice issue. These must be guaranteed by customers through bank letters of guarantee. If customers do not provide such a guarantee, they must ensure that natural gas is paid in advance.

The Group is forced by court orders to sell gas to insolvent clients considered "captive" by the insolvency law. These clients provide no guarantees, do not pay for deliveries in advance and have a payment term of 90 days from invoice issue date. The increase in the allowance for expected credit losses refer mainly to these clients.

Trade receivables from the sale of electricity are generally due within 7 days of the date of invoice transmission. These must be guaranteed by customers through bank letters of guarantee. If customers do not provide such a guarantee, they must ensure that electricity is paid in advance.

Trade receivables from storage services are due within 15 days of invoice issue. Customers must provide a 5% guarantee for the services value.

b) Other assets

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Advances paid to suppliers	386	9,585
Joint operation receivables	2,125	6,703
Other receivables *)	62,343	65,529
Allowance for expected credit losses other receivables (note 16 c) *)	(33,703)	(50,983)
Other debtors	47,529	47,188
Allowance for expected credit losses for other debtors (note 16 c)	(46,445)	(43,091)
Prepayments	3,911	5,069
VAT not yet due	6,339	5,726
Other taxes receivable **)	-	123,152
Total	**42,485**	**168,878**

*) During May 13, 2014 – September 30, 2014 the National Agency for Tax Administration (Agentia Nationala de Administrare Fiscala - ANAF) ran a tax investigation at Romgaz regarding the tax statements and/or operations relevant for the investigation as well as the organization and management of tax and accounting evidence. The period under control was 2008 – 2013 for income tax and 2009 – 2013 for VAT.

Following the tax inspection, an additional liability was established for Romgaz of RON 22,440 thousand, representing income tax, VAT, penalties and related interest. Of the total amount, Romgaz paid RON 2,389 thousand. For the remaining amount of RON 20,051 thousand, Romgaz performed a legal assessment which concluded that the additional tax, penalties and interest are not correct. Romgaz filed an appeal to the Ministry of Public Finance. The appeal was partially rejected for the amount of RON 15,872 thousand.

For RON 4,179 thousand a new fiscal control was ordered, which resulted in a tax burden of RON 2,981 thousand. The appeal filed to ANAF was rejected.

In 2015, Romgaz sued the Ministry of Finance to cancel the above mentioned administrative acts, including the partial cancelation of the decision issued for the appeal.

The payment made in 2016 generated additional penalties of RON 13,697 thousand, also paid. Considering the disagreement regarding the conclusions of the tax control, the Company recorded a receivable and an allowance.

In 2019, the Company won some of the points claimed in the case filed against ANAF and the allowance of RON 18,499 thousand was reversed against income. By the end of the reporting period, the court's decision was not communicated and the amount was not recovered.

During the period December 2016 - April 2017 ANAF resumed the tax inspection on VAT for the period December 2010 – June 2011 and on income tax for the period January 2010 – December 2011, regarding the discounts granted by Romgaz to interruptible clients for deliveries during 2010 - 2011. This status was attributed to companies by Transgaz, the Romanian natural gas transmission operator. Following the tax inspection, additional tax obligations of RON 15,284 thousand were determined, and also penalties and late payment charges in amount of RON 3,129 thousand. The tax decision and the tax inspection report were appealed to ANAF. Romgaz paid the additional tax obligation and the late payment charges and based on the appeal, the Company recorded a receivable for which it recorded an allowance.

The total receivable impaired in connection with this control is RON 32,463 thousand.

**) In 2017 the excise tax inspection for the period January 2010 - March 2013 was finalized. The tax inspection report concluded that Romgaz was not subject to excise duties related to technological consumption. Based on this report, in 2017 Romgaz recorded an income of RON 244,385 thousand, of which RON 130,470 thousand refer to the period April 2013 - November 2016, for which Romgaz has submitted corrective statements. In 2018, Romgaz recovered RON 113,915 thousand by offsetting with other tax liabilities in balance at December, 31 2017. As for the amount of RON 130,470 thousand, Romgaz was subjected in 2018 to a new tax audit for reimbursement, which was finalized favorably in 2019, when the rest of the amount was recovered.

c) Changes in the allowance for expected credit losses for trade and other receivables and other assets

	2019 '000 RON	2018 '000 RON
At January 1	**1,312,262**	**1,292,438**
Charge in the allowance for receivables (note 6)	4,641	388
Charge in the allowance for trade receivables	84,783	20,928
Release in the allowance for receivables (note 6)	(18,567)	(505)
Release in the allowance for trade receivables	(3,562)	(987)
At December 31	**1,379,557**	**1,312,262**

As of December 31, 2019, the Group recorded allowances for expected credit losses, of which Interagro RON 275,137 thousand (December 31, 2018: RON 275,961 thousand), GHCL Upsom of RON 68,103 thousand (December 31, 2018: RON 60,371 thousand), CET Iasi of RON 46,271 thousand (December 31, 2018: RON 46,271 thousand), Electrocentrale Galati with RON 222,075 thousand (December 31, 2018: RON 223,396 thousand), Electrocentrale Bucuresti with RON 616,330 thousand (December 31, 2018: RON 570,274 thousand), G-ON EUROGAZ of RON 14,848 thousand (December 31, 2018: RON 14,848 thousand) and Electrocentrale Constanta of RON 39,113 thousand (December 31, 2018: RON 14,295 thousand) due to existing financial conditions of these clients as well as ongoing litigating cases related to these receivables or exceeding payment terms.

d) Credit risk exposure for trade receivables

December 31, 2019	Gross carrying amount	Expected credit loss rate	Lifetime expected credit losses
	'000 RON	%	'000 RON
Current receivables, including accrued receivables	673,695	7.01	47,198
less than 30 days overdue	14,820	22.24	3,296
30 to 90 days overdue	1,460	95.62	1,396
90 to 360 days overdue	25,203	99.71	25,130
over 360 days overdue	1,222,389	100.00	1,222,389
Total trade receivables	**1,937,567**		**1,299,409**

December 31, 2018	Gross carrying amount	Expected credit loss rate	Lifetime expected credit losses
	'000 RON	%	'000 RON
Current receivables, including accrued receivables	811,297	-	-
less than 30 days overdue	13,824	1.16	160
30 to 90 days overdue	1,321	97.20	1,284
90 to 360 days overdue	20,176	99.76	20,128
over 360 days overdue	1,197,616	99.92	1,196,616
Total trade receivables	**2,044,234**		**1,218,188**

17. SHARE CAPITAL

	December 31, 2019	December 31, 2018
	'000 RON	'000 RON
385,422,400 fully paid ordinary shares	385,422	385,422
Total	**385,422**	**385,422**

The shareholding structure as at December 31, 2019 is as follows:

	No. of shares	Value	Percentage
		'000 RON	(%)
The Romanian State through the Ministry of Economy, Energy and Business Environment	269,823,080	269,823	70.01
Legal persons	98,317,285	98,317	25.51
Physical persons	17,282,035	17,282	4.48
Total	**385,422,400**	**385,422**	**100**

All shares are ordinary and were subscribed and fully paid as at December 31, 2019. All shares carry equal voting rights and have a nominal value of RON 1/share (December 31, 2018: RON 1/share).

18. RESERVES

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Legal reserves	79,921	77,487
Other reserves, of which:	1,507,488	1,747,512
- Company's development fund	772,417	1,028,449
- Reinvested profit	228,958	212,950
- Geological quota set up until 2004	486,388	486,388
- Other reserves	19,725	19,725
Total	**1,587,409**	**1,824,999**

19. PROVISIONS

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Decommissioning provision (note 19 a)	366,393	510,114
Retirement benefit obligation (note 19 c)	114,876	139,254
Total long term provisions	**481,269**	**649,368**
Decommissioning provision (note 19 a)	17,843	20,352
Litigation provision (note 19 b)	1,337	229
Other provisions *) (note 19 b)	63,521	73,064
Total short term provisions	**82,701**	**93,645**
Total provisions	**563,970**	**743,013**

*) On December 31, 2019, other provisions of RON 63,521 thousand include the provision for employee's participation to profit of RON 34,412 thousand (December 31, 2018: RON 29,135 thousand) and the provision for CO2 certificates of RON 23,410 thousand (note 33 c) (December 31, 2018: RON 40,109). Also, please see section b) of this note.

a) Decommissioning provision

Decommissioning provision movement	2019 '000 RON	2018 '000 RON
At January 1	**530,466**	**713,157**
Additional provision recorded against non-current assets	16,342	1,902
Unwinding effect (note 9)	24,197	29,724
Recorded in profit or loss	(51,760)	(34,390)
Decrease recorded against non-current assets	(135,009)	(179,927)
At December 31	**384,236**	**530,466**

The Group makes full provision for the future costs of decommissioning natural gas wells on a discounted basis upon installation. The provision for the costs of decommissioning these wells at the end of their economic lives has been estimated using existing technology, at current prices or future assumptions, depending on the expected timing of the activity, and discounted using a rate of 4.41% (year ended December 31, 2018: 4.80%). While the provision is based on the best estimate of future costs and the economic lives of the wells, there is uncertainty regarding both the amount and timing of these costs. In 2019, the Group revisited the costs used to decommission wells, recording a decrease based on costs lower, on average, with 22%.

The increase with 1 percentage point of the discount rate would decrease the decommissioning provision with RON 68,864 thousand. The decrease with 1 percentage point of the discount rate would increase the decommissioning provision with RON 89,581 thousand.

b) Other provisions

	Litigation provision '000 RON	Other provisions '000 RON	Total '000 RON
At January 1, 2019	**229**	**73,064**	**73,293**
Additional provision in period	2,184	70,091	72,275
Provisions used in the period	(1,076)	(75,589)	(76,665)
Unused amounts during the period, reversed	-	(4,045)	(4,045)
At December 31, 2019	**1,337**	**63,521**	**64,858**

	Litigation provision '000 RON	Other provisions '000 RON	Total '000 RON
At January 1, 2018	**79**	**45,728**	**45,807**
Additional provision in the period	235	80,025	80,260
Provisions used in the period	(85)	(42,035)	(42,120)
Unused amounts during the period, reversed	-	(10,654)	(10,654)
At December 31, 2018	**229**	**73,064**	**73,293**

c) Retirement benefit obligation

Movement of the retirement benefit obligation	2019 '000 RON	2018 '000 RON
At 1 January	**139,254**	**119,482**
Interest cost	3,994	5,118
Cost of current service	6,686	6,601
Payments during the year	(7,647)	(7,613)
Actuarial (gain)/loss for the period	(27,411)	17,106
Decreases	-	(1,440)
At December 31	**114,876**	**139,254**

With the exception of actuarial gains/losses, all other movements in the retirement benefit obligation are recognized in the result of the period.

In determining the retirement benefit obligation, the following significant assumptions were used:

- No layoffs or restructurings are planned;
- Average discount rate: 4.49%;
- Average inflation rate: 2.10%.

Sensitivity analysis

The discount rate has a significant effect on the obligation. Isolated change in assumptions with 1 percentage point would have the following effect on the obligation:

	Increase of 1% in assumptions '000 RON	Decrease of 1% in assumptions '000 RON
Discount rate	(10,845)	12,653

Maturity analysis of payment cash flows

	Benefit payments '000 RON
Up to 1 year	4,525
1-2 years	5,296
2-5 years	13,394
5-10 years	40,238
Over 10 years	51,423

20. DEFERRED REVENUE

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Amounts collected from NIP *)	20,994	20,994
Other deferred revenue	123	-
Other amounts received as subsidies	127	134
Total deferred revenue long term	**21,244**	**21,128**
Other amounts received as subsidies	58	123
Other deferred revenue	3,671	8,319
Total deferred revenue short term	**3,729**	**8,442**
Total deferred revenue	**24,973**	**29,570**

*) In Government Decision no. 1096/2013 approving the mechanism for free allocation of greenhouse gas emission allowances to electricity producers for the period 2013-2020, Annex no. 3 "National Investment Plan", S.N.G.N. ROMGAZ S.A. is included with the investment "Combined Gas Turbine Cycle".

For this investment, Romgaz signed in 2017 a financing agreement with the Ministry of Energy, whereby the Ministry of Energy undertakes to grant a non-reimbursable financing of RON 320,912 thousand, representing a maximum of 25% of the total value of eligible expenditure of the investment. In 2018 the amount of RON 20,994 thousand was collected. Amounts received under this contract will be transferred to income based on the depreciation rate of the investment, which is expected to be put into operation in 2020.

The Company submitted two other claims: one in 2018 of RON 115,027 thousand, approved by authorities, but not collected, and another one in 2019 of RON 94,148 thousand, not approved by the date of issue of the financial statements. The Group did not record these amounts as receivable in the financial statements, due to uncertainties regarding completion of the works on the new plant by the term agreed in the financing agreement.

	Amounts collected from NIP '000 RON	Other amounts received as subsidies '000 RON	Total '000 RON
At January 1, 2019	**20,994**	**257**	**21,251**
Received	-	-	-
Other increases	-	9	9
Amounts in revenue	-	(81)	(81)
At December 31, 2019	**20,994**	**185**	**21,179**

	Amounts collected from NIP	Other amounts received as subsidies	Total
	'000 RON	'000 RON	'000 RON
January 1, 2018	**-**	**263**	**263**
Received	20,994	114	21,108
Other increases	-	149	149
Amounts in revenue	-	(269)	(269)
December 31, 2018	**20,994**	**257**	**21,251**

21. TRADE AND OTHER CURRENT LIABILITIES

	December 31, 2019	December 31, 2018
	'000 RON	'000 RON
Accruals	32,553	35,336
Trade payables	13,953	21,502
Payables to fixed assets suppliers	63,404	129,864
Total trade payables	**109,910**	**186,702**
Payables related to employees	48,055	43,560
Royalties *)	67,865	139,553
Social security taxes	22,145	18,765
Other current liabilities	5,489	30,082
Joint operations payables	-	3,592
VAT	57,990	84,327
Dividends payable	2,231	2,355
Windfall tax	59,095	69,875
Other taxes	1,371	506
Total other liabilities	**264,241**	**392,615**
Total trade and other liabilities	**374,151**	**579,317**

*) The decrease in royalties liability is due to lower benchmark prices used in its computation, as a consequence of lower prices on CEGH market.

22. FINANCIAL INSTRUMENTS

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, inflation risk, interest rate risk), credit risk, liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance within certain limits. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements. The Group does not use derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to currency risk as a result of exposure to various currencies. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

As at December 31, 2019, the official exchange rates were RON 4.2608 to USD 1 and RON 4.7793 to EUR 1 and (December 31, 2018: RON 4.0736 to USD 1 and RON 4.6639 to EUR 1).

December 31, 2019	EUR 1 EUR = 4.7793 '000 RON	GBP 1 GBP = 5.6088 '000 RON	USD 1 USD = 4.2608 '000 RON	RON 1 RON '000 RON	Total '000 RON
Financial assets					
Cash and cash equivalents	605	1	4	363,333	363,943
Other financial assets	-	-	-	1,071,814	1,071,814
Trade and other receivables	-	-	-	302,385	302,385
Total financial assets	**605**	**1**	**4**	**1,737,532**	**1,738,142**
Financial liabilities					
Trade payables and other payables	(2)	(27)	(29)	(77,299)	(77,357)
Lease liability	(4,764)	-	-	(4,215)	(8,979)
Total financial liabilities	**(4,766)**	**(27)**	**(29)**	**(81,514)**	**(86,336)**
Net	**(4,161)**	**(26)**	**(25)**	**1,656,018**	**1,651,806**

December 31, 2018	EUR 1 EUR = 4.6639 '000 RON	GBP 1 GBP = 5.1931 '000 RON	USD 1 USD = 4.0736 '000 RON	RON 1 RON '000 RON	Total '000 RON
Financial assets					
Cash and cash equivalents	1,007	13	5	565,811	566,836
Other financial assets	-	-	-	878,555	878,555
Trade and other receivables	-	-	-	433,369	433,369
Total financial assets	**1,007**	**13**	**5**	**1,877,735**	**1,878,760**
Financial liabilities					
Trade payables and other payables	(18,388)	(28)	(811)	(132,139)	(151,366)
Total financial liabilities	**(18,388)**	**(28)**	**(811)**	**(132,139)**	**(151,366)**
Net	**(17,381)**	**(15)**	**(806)**	**1,745,596**	**1,727,394**

The Group is mainly exposed to currency risk generated by EUR and USD against RON. The table below details the sensitivity of the Group to a 5% increase/decrease in the EUR and USD exchange rate against the RON. The 5% rate is the rate used in internal reports to management on foreign currency risk and represents management's assessment of reasonable changes in the exchange rate. Sensitivity analysis includes only monetary items denominated in foreign currency in the balance sheet, and considers the transfer at the end of the period to a modified rate of 5%.

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
RON weakening - loss	210	909

(ii) Inflation risk

The official inflation rate in Romania, during the year ended December 31, 2019 was under 10% as provided by the National Commission for Statistics of Romania. The cumulative inflation rate for the last 3 years was under 100%. This factor, among others, led to the conclusion that Romania is not a hyperinflationary economy.

(iii) Interest rate risk

The Group is exposed to interest rate risk, due to retirement benefit obligations and the decommissioning provision. The Group's sensitivity to changes in the discount rate is detailed in note 19.

Bank deposits and treasury bills bear a fixed interest rate.

(b) Credit risk

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales are made to customers with low credit risk. Also, sales have to be secured, either through advance payments, either through bank letters of guarantee. The carrying amount of accounts receivable, net of bad debt allowances, represents the maximum amount exposed to credit risk. The Group has a concentration of credit risk in respect of its top 4 clients, which together amount to 85.10% of net trade receivable balance at December 31, 2019 (top 4 clients: 87.96% as of December 31, 2018).

In spite of the policies described above, the Group is forced by court orders to deliver gas to insolvent clients deemed "captive" by insolvency legislation. In respect of these clients, the Group makes estimates of the lifetime expected credit losses and records appropriate impairment losses.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the bad debt allowance already recorded.

(c) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimize the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the dividend policy, issue new shares or sell assets to reduce debt.

The Group's policy is to only resort to borrowing if investment needs cannot be financed internally.

(d) Fair value estimation

Carrying amount of financial assets and liabilities is assumed to approximate their fair values.

Financial instruments in the balance sheet include trade receivables and other receivables, cash and cash equivalents, other financial assets, short-term loans and borrowings and trade and other payables. The estimated fair values of these instruments approximate their carrying amounts. The carrying amounts represent the Group's maximum exposure to credit risk for existing receivables.

e) Maturity analysis for non-derivative financial assets and financial liabilities

December 31, 2019	Due in less than a month	Due in 1-3 months	Due in 3 months to 1 year	Due in 1-5 years	Due in over 5 years	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Trade receivables	126,906	175,446	33	-	-	302,385
Bank deposits	265,000	566,254	91,000	-	-	922,254
Treasury bonds	-	-	149,560	-	-	149,560
Total	**391,906**	**741,700**	**240,593**	**-**	**-**	**1,374,199**
Trade payables	(73,180)	(4,172)	(5)	-	-	(77,357)
Lease liability	(52)	(254)	(510)	(2,998)	(5,165)	(8,979)
Total	**(73,232)**	**(4,426)**	**(515)**	**(2,998)**	**(5,165)**	**(86,336)**
Net	**318,674**	**737,274**	**240,078**	**(2,998)**	**(5,165)**	**1,287,863**

December 31, 2018	Due in less than a month	Due in 1-3 months	Due in 3 months to 1 year	Due in 1-5 years	Due in over 5 years	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Trade receivables	215,622	217,710	37	-	-	433,369
Bank deposits	205,591	125,167	-	-	-	330,758
Treasury bonds	-	178,990	368,807	-	-	547,797
Total	**421,213**	**521,867**	**368,844**	-	-	**1,311,924**
Trade payables	(136,842)	(14,494)	(30)	-	-	(151,366)
Total	**(136,842)**	**(14,494)**	**(30)**	-	-	**(151,366)**
Net	**284,371**	**507,373**	**368,814**	-	-	**1,160,558**

f) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Group's management, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and current cash flows and by matching the maturity profiles of financial assets and liabilities.

23. RELATED PARTY TRANSACTIONS AND BALANCES

(i) Sales of goods and services

	Year ended December 31, 2019	Year ended December 31, 2018
	'000 RON	'000 RON
Romgaz's associates	14,024	12,468
Total	**14,024**	**12,468**

Transactions with other companies controlled by the Romanian State are not considered transactions with related parties, for financial statements purposes.

(ii) Trade receivables

	December 31, 2019	December 31, 2018
	'000 RON	'000 RON
Romgaz's associates	-	642
Total	-	**642**

24. INFORMATION REGARDING THE MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

The remuneration of executives and directors

The Group has no contractual obligations on pensions to former executives and directors of the Group.

During the years ended December 31, 2019 and December 31, 2018, no loans and advances were granted to executives and directors of the Group, except for work related travel advances, and they do not owe any amounts to the Group from such advances.

	Year ended Dec 31, 2019 '000 RON	Year ended Dec 31, 2018 '000 RON
Salaries paid to executives (gross)	18,241	17,446
of which, bonuses (gross)	786	2,281
Remuneration paid to directors (gross)	2,079	1,733
of which, variable component (gross)	-	246

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Salaries payable to executives	385	403
Salaries payable to directors	96	90

In addition to the above, on December 31, 2019 the Group recorded a provision for bonuses for executives and directors of RON 870 thousand (December 31, 2018: RON 237 thousand).

25. INVESTMENT IN ASSOCIATES

The Company's investments in associates are accounted using the equity method. The shares are not quoted on the stock exchange. No dividends were received in the years ended December 31, 2019, respectively, December 31, 2018.

The Company's investment in Agri LNG Project Company is not material. The investment is fully impaired.

Name of associate	Main activity	Place of incorporation and operation	Proportion of ownership interest and voting power held (%)	
			December 31, 2019	December 31, 2018
SC Depomures SA Tg.Mures	Storage of natural gas	Romania	40	40
SC Agri LNG Project Company SRL	Feasibility projects	Romania	25	25

Name of associate	Cost as of December 31, 2019	Impairment as of December 31, 2019	Carrying value as of December 31, 2019	Cost as of December 31, 2018	Impairment as of December 31, 2018	Carrying value as of December 31, 2018
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
SC Depomures SA Tg.Mures	24,772	-	24,772	23,298	-	23,298
SC Agri LNG Project Company SRL	977	(977)	-	977	(977)	-
Total	**25,749**	**(977)**	**24,772**	**24,275**	**(977)**	**23,298**

Summarized financial information for significant investments in associates (Depomureş)

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Non-current assets	77,325	80,701
Current assets, out of which:	8,108	5,624
- Cash and cash equivalents	5,179	362
Non-current liabilities, out of which:	15,892	19,322
- Financial liabilities long term	15,892	19,322
Current liabilities, out of which:	4,832	5,603
- Financial liabilities short term	3,436	3,437

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Revenue	40,348	32,978
Interest income	17	11
Amortization and depreciation	(3,941)	(3,378)
Interest expense	(859)	(741)
Income tax expense	(830)	(328)
Net profit from continued operations	3,684	1,555

Reconciliation of net book value for the significant investments in associates

	2019 '000 RON	2018 '000 RON
January 1	**23,298**	**22,676**
Interest in the total comprehensive income of significant investments in associates	1,474	622
December 31	**24,772**	**23,298**

26. OTHER FINANCIAL INVESTMENTS

Other financial investments are measured at fair value through profit or loss.

Except for the investment in Patria Bank, which is a level 1 financial investment, all other investments are included in level 3 category, according to IFRS 13.

Company	Principal activity	Place of Incorporation and operation	Proportion of ownership interest and voting power held (%)	
			December 31, 2019	December 31, 2018
Electrocentrale București S.A.	Electricity and thermal power producer	Romania	2.49	2.49
Patria Bank S.A.	Other activities – financial intermediations	Romania	0.03	0.03
Mi Petrogas Services S.A.	Services related to oil and natural gas extraction, excluding prospections	Romania	10	10
GHCL Upsom	Manufacture of other chemical, anorganic base products	Romania	4.21	4.21
Lukoil association	Petroleum exploration operations	Romania	12.2	12.2

Company	Fair value as of December 31, 2019	Fair value as of December 31, 2018
	'000 RON	'000 RON
Electrocentrale București S.A.*)	-	4,457
Patria Bank S.A.**)	101	68
Mi Petrogas Services S.A.	60	60
GHCL Upsom	-	-
Lukoil association	5,227	5,227
Total	**5,388**	**9,812**

*) The fair value of the investment in Electrocentrale Bucuresti at December 31, 2019 was reduced to zero, due to the difficulties encountered in implementing the restructuring plan in the insolvency procedure. The investment in Electrocentrale Bucuresti is not quoted.

**) Patria Bank's shares being quoted, the fair value at the end of the period is determined by taking into account the closing quotation of the share. The variation between the amount at December 31, 2019 and the amount at December 31, 2018 was recorded in the result of the period.

27. SEGMENT INFORMATION

a) Segment assets and liabilities

December 31, 2019	Upstream '000 RON	Storage '000 RON	Electricity '000 RON	Other '000 RON	Consolidation adjustments '000 RON	Total '000 RON
Property, plant and equipment	3,153,636	974,927	1,086,221	328,393	-	5,543,177
Other intangible assets	2,447	1,034	-	5,683	-	9,164
Investments in associates	-	-	-	24,772	-	24,772
Other financial investments	-	-	-	5,388	-	5,388
Deferred tax asset	-	1,110	-	229,837	-	230,947
Other financial assets	-	5,933	-	1,069,291	-	1,075,224
Inventories	279,069	14,871	2,339	14,734	-	311,013
Other assets	6,594	1,679	2,423	31,789	-	42,485
Trade and other receivables	604,394	56,052	2,688	713	(25,689)	638,158
Contract costs	312	-	-	-	-	312
Right of use asset	-	554	-	8,039	(3)	8,590
Cash and cash equivalents	46,592	40,837	2,958	273,556	-	363,943
Total assets	**4,093,044**	**1,096,997**	**1,096,629**	**1,992,195**	**(25,692)**	**8,253,173**
Retirement benefit obligation	-	8,718	-	106,158	-	114,876
Contract liabilities	42,703	-	-	2	-	42,705
Provisions	364,514	42,682	25,634	16,264	-	449,094
Trade payables	91,144	25,272	3,669	15,514	(25,689)	109,910
Current tax liabilities	-	4,907	-	59,435	-	64,342
Deferred revenue	257	-	20,994	3,722	-	24,973
Lease liability	-	567	-	8,958	(546)	8,979
Other liabilities	164,308	13,432	4,268	82,233	-	264,241
Total liabilities	**662,926**	**95,578**	**54,565**	**292,286**	**(26,235)**	**1,079,120**

December 31, 2018	Upstream '000 RON	Storage '000 RON	Electricity '000 RON	Other '000 RON	Consolidation adjustments	Total '000 RON
Property, plant and equipment	3,652,499	1,515,140	781,357	330,752	-	6,279,748
Other intangible assets	3,582	766	8	614	-	4,970
Investments in associates	-	-	-	23,298	-	23,298
Other financial investments	-	-	-	9,812	-	9,812
Deferred tax asset	-	1,415	-	126,076	-	127,491
Other financial assets	1	20	-	881,224	-	881,245
Inventories	212,020	16,079	3,432	14,461	-	245,992
Other assets	156,135	976	2,842	8,925	-	168,878
Trade and other receivables	738,420	44,753	69,857	523	(27,507)	826,046
Contract costs	583	-	-	-	-	583
Cash and cash equivalents	28,429	17,068	4,115	517,224	-	566,836
Total assets	**4,791,669**	**1,596,217**	**861,611**	**1,912,909**	**(27,507)**	**9,134,899**
Retirement benefit obligation	-	8,134	-	131,120	-	139,254
Contract liabilities	46,370	-	-	11	-	46,381
Provisions	473,574	75,331	41,816	13,038	-	603,759
Trade payables	83,018	24,853	89,353	16,985	(27,507)	186,702
Current tax liabilities	-	2,198	-	65,803	-	68,001
Deferred revenue	141	-	20,994	8,435	-	29,570
Other liabilities	269,112	9,700	3,337	110,466	-	392,615
Total liabilities	**872,215**	**120,216**	**155,500**	**345,858**	**(27,507)**	**1,466,282**

b) Segment revenues, results and other segment information

Year ended December 31, 2019	Upstream	Storage	Electricity	Other	Adjustment and eliminations	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Revenue	4,709,795	454,370	237,759	288,883	(610,325)	5,080,482
Less: revenue between segments	(65,048)	(171,865)	(92,281)	(281,131)	610,325	-
Third party revenue	4,644,747	282,505	145,478	7,752	-	5,080,482
Interest income	116	464	12	37,548	(16)	38,124
Share of profit of associates	-	-	-	1,474	-	1,474
Depreciation and amortization	(405,160)	(96,016)	(2,375)	(17,403)	-	(520,954)
Impairment losses recognized during the period in profit or loss	(604,260)	(389,069)	(6,289)	(813)	-	(1,000,431)
Impairment losses reversed during the period in profit or loss	160,584	7	1,530	1,014	-	163,135
Segment result before tax profit/(loss)	**1,514,113**	**(325,703)**	**12,494**	**74,279**	**(3)**	**1,275,180**

Year ended December 31, 2018	Upstream	Storage	Electricity	Other	Adjustment and eliminations	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Revenue	4,522,558	355,135	388,514	356,486	(618,496)	5,004,197
Less: revenue between segments	(119,810)	(56,792)	(91,640)	(350,254)	618,496	-
Third party revenue	4,402,748	298,343	296,874	6,232	-	5,004,197
Interest income	74	456	10	52,739	-	53,279
Share of profit of associates	-	-	-	622	-	622
Depreciation, amortization and impairment	(468,252)	(97,631)	(8,624)	(16,783)	-	(591,290)
Impairment losses recognized during the period in profit or loss	(312,881)	(1,941)	(53,664)	(3,944)	-	(372,430)
Impairment losses reversed during the period in profit or loss	251,405	1,091	776	2,306	-	255,578
Segment result before tax profit/(loss)	**1,478,584**	**7,347**	**(26,681)**	**125,934**	**-**	**1,585,184**

In the year ended December 31, 2019, the Group's four largest clients each individually represents more than 10% of revenue, sales to these clients being of RON 1,107,526 thousand, RON 1,050,066 thousand, RON 561,811 thousand, respectively RON 531,026 thousand (in the year ended December 31, 2018 the Group's three largest customers represented individually, over 10% of revenue, sales to these clients being of RON 1,389,897 thousand, RON 896,835 thousand, respectively RON 515,611 thousand), together totaling 64% of total revenue (year ended December 31, 2018: 70%). Of the total revenue generated by those four clients, 5.37% are shown in the "Storage" segment and 94.63% in the "Upstream" segment (year ended December 31, 2018: 3.66% in the "Storage" segment, 96.19% in the "Upstream" segment).

28. CASH AND CASH EQUIVALENTS

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Current bank accounts in RON *)	95,454	87,305
Current bank accounts in foreign currency	602	1,018
Petty cash	19	31
Term deposits in RON	180,000	372,610
Restricted cash **)	87,867	105,870
Amounts under settlement	1	2
Total	**363,943**	**566,836**

*) Current bank accounts include overnight deposits.

**) Restricted cash includes bank accounts used strictly for VAT transactions. as Romgaz opted in to the application of the split-VAT system (December 31, 2019: RON 85,215 thousand; December 31, 2018: RON 103,287 thousand). It also includes bank accounts used only for dividend payments to shareholders, according to stock market regulations (December 31, 2019: RON 2,652 thousand; December 31, 2018: RON 2,583 thousand). Starting February 2020 the split-VAT system was terminated, the cash being available for use for any purpose.

29. OTHER FINANCIAL ASSETS

Other financial assets represent mainly treasury bonds and deposits with a maturity of over 3 months, from acquisition date.

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Treasury bonds in RON	144,923	532,447
Bank deposits in RON	922,254	330,758
Accrued interest receivable	3,410	2,690
Accrued interest on bonds	4,637	15,350
Total other financial assets	**1,075,224**	**881,245**

30. COMMITMENTS UNDERTAKEN

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Endorsements and collaterals granted	52,729	65,838
Total	**52,729**	**65,838**

In 2019, Romgaz signed a credit agreement with BCR SA representing a facility for issuing letters of guarantee, and opening letters of credit for a maximum amount of USD 50,000 thousand. On December 31, 2019 are still available for use USD 37,741 thousand.

As of December 31, 2019, the Group's contractual commitments for the acquisition of non-current assets are of RON 433,200 thousand (December 31, 2018: RON 832,732 thousand), of which, the contract for CET Iernut development represents RON 173,488 thousand.

31. COMMITMENTS RECEIVED

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Endorsements and collaterals received	1,498,056	1,553,895
Total	**1,498,056**	**1,553,895**

Endorsements and collateral received represent letters of guarantee and other performance guarantees received from the Group's clients.

32. CONTINGENCIES

(a) *Litigations*

The Company is subject to several legal actions arisen in the normal course of business. The management of the Company considers that they will have no material adverse effect on the results and the financial position of the Company.

On December 28, 2011, 27 former and current employees were notified by DIICOT regarding an investigation related to sale contracts signed with one of the Company's clients for allegedly unauthorized discounts granted to this client during the period 2005-2010. DIICOT mentioned that this may have resulted in a loss of USD 92,000 thousand for the Company. On that sum, an additional burden to the state budget consists of income tax in amount of USD 15,000 thousand and VAT in amount of USD 19,000 thousand. The internal analysis carried out by the Company's specialized departments concluded that the agreement was in compliance with the legal provisions and all discounts were granted based on Orders issued by the Ministry of Economy and Finance and decisions of the General Shareholders' Board and Board of Directors. The management of the Company believes the investigation will not have a negative impact on the financial statements, to justify the registration of an adjustment. The Company is fully cooperating with DIICOT in providing all information necessary. On March 18 2014, Romgaz received an address from DIICOT, by which the investigators ordered an accounting expertise, indicating the objectives of the expertise.

Romgaz was notified that, as injured party, it may submit comments relating to objectives of the expertise (additions/changes), and may appoint an additional expert to participate in the expertise.

Thus, Romgaz proceeded to identify and appoint an expert with accounting and financial expertise that can participate to the expertise. After the report was completed, the parties could submit objections by November 2, 2015.

On March 16, 2016, DIICOT – Central Structure informed the persons involved in the cause about the start of legal actions against them. At the request of investigators, the Company announced that in case of a prejudice being established during the investigation, the Company will join the case as civil party.

In November 2016, DIICOT informed the Company the prejudice established in amount of RON 282,630 thousand. Following this request, Romgaz announced that will join the case as a civil party for the amount of RON 282,630 thousand to recover this amount from the respective client and any other person that may be found guilty for causing the prejudice.

In June 2017, DIICOT issued a press release announcing the referral to court of several persons involved in the case. In January 2018, the High Court of Cassation and Justice ruled that the indictment prepared by DIICOT was not legal; the ruling is not final.

(b) *Taxation*

The Romanian taxation system is undergoing a process of consolidation and harmonization with the European Union legislation. However, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties. In Romania, tax periods remain open for fiscal verification for 5 years. The Group's management considers that the tax liabilities included in these financial statements are fairly stated.

(c) *Environmental contingencies*

Environmental regulations are developing in Romania and the Group has not recorded any liability at December 31, 2019 for any anticipated costs, including legal and consulting fees, impact studies, the design and implementation of remediation plans related to environmental matters, except the amount of RON 384,236 thousand (December 31, 2018: RON 530,466 thousand), representing the decommissioning liability.

Green-house gas emission certificates (CO2 certificates)

In accordance with Government Decision no. 1096/2013 for the approval of the mechanism for free transitional allocation of green-house gas emission certificates to electricity producers for the period 2013-2020, Annex no. 3 "National Investment Plan" position 22, Romgaz is included with the investment project "Combined cycle with gas turbines".

According to Annex no. 1 of the same decision, S.N.G.N. Romgaz S.A. was allocated for CTE Iernut 137,441 greenhouse gas certificates (EUA) for 2019.

As of December 31, 2019, Romgaz holds in the Greenhouse Gas Emissions Unique Registry 2,252 CO2 certificates, after meeting compliance obligations for the previous years and submitting the certificates to the Registry.

For the deficit between actual emissions and certificates held, the Group recognizes a provision measured at the best estimate of expenditure required to settle the obligation, namely the market price of the emission rights at reporting date. As of December 31, 2019 the Group records a deficit of 181,277 certificates for which it recorded a provision of RON 23,410 thousand (note 19).

According to Government Decision no 1096/December 17, 2013, Romgaz was allocated CO2 certificates as follows:

		Annual Allocation (tCO_2/year)							
Operator	**Installation**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
SNGN Romgaz - S.A.	SNGN Romgaz - S.A. - CTE Iernut	962,085	824,645	687,204	549,763	412,322	274,882	137,441	-

(d) *Controls by The Romanian Court of Accounts*

In 2016, the Company came under scrutiny from the Romanian Court of Accounts.

One of the Romanian Court of Accounts' conclusions was that during 2013-2015 Romgaz delivered gas on the regulated market over the quantities it was legally allowed to, according to the existing legislation. The price on the regulated market being lower than the one on the free market, The Romanian Court of Accounts issued Decision number 26/01.06.2016 and ordered Romgaz to determine and to recover the prejudice as a price difference on gas quantities delivered on the regulated market over its legal obligation, having January 2017 as due date for implementation. The alleged prejudice estimated by the Court of Accounts is over RON 160 million. Romgaz appealed the decision, but the Court of Accounts dismissed the appeal. Subsequently, the Company started legal proceedings against the Court of Accounts' decision no. 26/01.06.2016 and, also, contracted legal services for the annulment of the Court of Accounts' decision and to carry out the measures ordered by the Court of Accounts' decision. The legal case against the Court of Accounts was resolved by the Court of Appeal Alba Iulia, maintaining the findings and measures of Decision no. 26/2016 issued by the Court of Accounts, except for one measure.

The Company's management respects the decision taken by the Court of Appeal Alba Iulia and started legal actions to implement the measures established by the Court of Accounts. The deadline for implementing these measures was extended to June 30, 2020.

33. JOINT ARRANGEMENTS

In January 2002, Romgaz signed a petroleum agreement with Amromco for rehabilitation operations in order to achieve additional production in 11 blocks, namely: Bibeşti, Strâmba, Finta, Fierbinţi-Târg, Frasin-Brazi, Zătreni, Boldu, Roşioru, Gura-Şuţii, Balta-Albă and Vlădeni. For the base production, Romgaz holds a share of 100% and for the additional production, Romgaz owns a share of 50% and Amromco Energy SRL - 50%. As the agreement was signed to execute rehabilitation operations to obtain additional production, the mandatory work program is in accordance with the studies approved by ANRM. Accordingly, the annual work program, which includes both works provided in the studies and other works necessary and proposed by the partners, is approved annually by the Board of the joint arrangement before the start of each year. The duration of the joint arrangement is in line with the time frame of each individual concession agreement of the 11 perimeters stated above, which differs for each block.

34. AUDITOR'S FEES

The fee charged by the Group's statutory auditor, S.C. Ernst & Young Assurance Services S.R.L. for the audit of 2019 financial statements is RON 380 thousand.

The fees charged for other assurance services in 2019 are RON 193 thousand.

35. EVENTS AFTER THE BALANCE SHEET DATE

Increase of share capital of Depogaz

In January 2020, the shareholders of Romgaz approved the increase of Depogaz's share capital by transfer in kind of fixed assets owned by Romgaz, used in the storage activity.

In order to implement the shareholders' decision, the Company's Board of Directors decided to increase the share capital of Depogaz with RON 871,787 thousand and not to transfer the gas cushion.

These decisions triggered impairment indications related to the assets used in the storage activity, based on which the Company conducted an impairment test whose results were recorded in these financial statements.

Economic-Financial inspection report of the National Agency for Fiscal Administration

During November 2019-January 2020, the Company was subject to a control by the National Agency for Fiscal Administration, whose scope was to determine whether the Company distributed appropriate dividends in accordance with the provisions of Government Emergency Ordinance no. 114/2018. According to the Ordinance, the Company had to distribute 35% of reserves set up based on Government Ordinance no. 64/2001 available in cash or short term investments at the end of 2018 not committed in acquisition contracts. The Agency reported that the Company should have distributed in 2019 an additional RON 34,852 thousand as dividends and determined penalties for late payment of RON 1,054 thousand for the share payable to the main shareholder. The Company's management does not share the view of the Agency and will fight the findings of their report.

These financial statement include no adjustments in connection with the above.

Withdrawal from Svidnik perimeter

The Svidnik perimeter is located in the Slovak Republic and is operated through the Bratislava Branch. In February 2020, the Board of Directors of the Company endorsed the withdrawal from Bratislava branch and convened the Extraordinary General Meeting of Shareholders to approve the withdrawal on March 25, 2020.

Investments in the Svidnik perimeter are fully impaired.

Change in legislation affecting the Group

At the start of 2020, Government Emergency Ordinance no. 114/2018, which introduced regulated prices for gas delivered during the period May 1, 2019 – February 28, 2022 to household consumers and to heat producers only for the gas used in producing heat for the population, was amended by Government Emergency Ordinance no. 1/2020. Amendments refer, among others, to repealing the regulated price on gas starting July 1, 2020 and repealing the contribution charged by ANRE to license title holders operating in gas and electricity industry of 2% on revenue. Also, ANRE published in 2020 a draft order which forces major Romanian gas producers to sell 30% of their output on the commodities exchange at a maximum price of 95% of the price on the Central European Gas Hub. The Group's management believes this draft will become a legal obligation which currently means a decrease of the average gas price. Based on these factors, the Group conducted an impairment test on the gas fields it operates and recorded the results in these financial statements.

Estimated effects of the Covid-19 pandemic on the Group

Currently, the Group operates as usual and has not experienced any impact related to the pandemic. The Group is focused on reaching the targets set in the budget proposal, even under the current circumstances. The Group cooperates with the authorities and takes all necessary measures to ensure employees' safety and business continuity.

Considering the current situation generated by the Covid-19 pandemic, the Group's management is constantly monitoring the impact on its activity. To mitigate a potential decrease in economic activity which could have consequences on natural gas consumption, on a short term the Group is considering to inject the gas in storages and postpone deliveries towards winter.

From a production point of view, the Group plans to perform its activities as usual. Should employees get infected in one of the Group's production areas, the Group has alternatives to transfer the activity to areas in the close vicinity. Under exceptional circumstances imposed by authorities, the actual course of action could differ. However, at the moment production activities are governed by normalcy, responsibility and awareness.

Delays, however, might affect investments, regardless of the Group's will, as the relationship with suppliers is affected by a national state of emergency. Thus, we are witnessing lower activity of contractors or even closures of factories in the countries affected by the pandemic, closed borders, which would make transportation of raw materials and equipment impossible, lower operational activity of companies, lack of contractors' personnel due to isolation or quarantine, logistic limitations generated by the state of emergency.

At present, the Group is taking all efforts to mitigate the Covid-10 impact on its activity, as well as to minimize the risk of employees becoming ill. As such, measures to secure employees' safety are constantly being taken, employees having the possibility to work in shifts or at home, and also to run operations under optimal conditions.

36. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were endorsed by the Board of Directors on March 19, 2020.

Adrian Constantin Volintiru
Chief Executive Officer

Marius Leonte Veza
Accounting Director

STATEMENT
in accordance with the provisions of art. 63 (2) c) of Law No. 24/2017
regarding issuers of financial instruments and market operations

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Entity: Societatea Nationala de Gaze Naturale ROMGAZ S.A.
County: 32--SIBIU
Address: MEDIAŞ, 4 C.I. Motaş Square, tel. +40374401020
Registration Number in the Trade Register: J32/392/2001
Form of Property: 26- Companies with both state and private capital foreign and domestic (State capital >=50%)
Main activity (CAEN code and denomination): 0620—Natural Gas Production
Tax Identification Number: 14056826

The undersigned,
ADRIAN CONSTANTIN VOLINTIRU as CEO and
MARIUS LEONTE VEZA as Accounting Director,

hereby confirm that according to our knowledge, the annual consolidated financial statements for the year ended December 31, 2019, prepared in accordance with the International Financial Reporting Standards, as adopted by the European Union, and Order of Ministry of Public Finance no. 2844/2016 for the approval of Accounting regulations in accordance with International Financial Reporting Standards, offer a true and fair view of the assets, liabilities, financial position, statement of profit and loss of the Group and that the Board of Directors' report comprises a fair analysis of the development and performance of the Group, as well as a description of the main risks and incertitudes specific to its activity. The Group is a going concern.

CEO,
ADRIAN CONSTANTIN VOLINTIRU

Accounting Director,
MARIUS LEONTE VEZA

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S.N.G.N. ROMGAZ S.A.

INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
AND
MINISTRY OF FINANCE ORDER 2844/2016

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of SNGN ROMGAZ S.A.

Report on the Audit of the standalone financial statements

Opinion

We have audited the standalone financial statements of SNGN ROMGAZ S.A (the Company) with official head office in Mediaş, Piaţa Constantin I. Motaş. nr. 4, cod 551130, Sibiu county, Romania, identified by sole fiscal registration number RO 14056826, which comprise the statement of financial position as at December 31, 2019 and the statement of comprehensive income, of changes in shareholders' equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2019 and of its financial performance and its cash flows for the year then ended, in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 ("Regulation (EU) No. 537/2014") and Law 162/2017 („Law 162/2017"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) as issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

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

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

Key audit matter	How our audit addressed the key audit matter
Estimation of gas reserves used in impairment testing and the calculation of depreciation and amortisation The Company's disclosures about estimation of gas reserves are included in Note 2 ("Use of estimates") to the financial statements.	
Estimation of the gas reserves is a focus area in our audit because it has a significant impact on the financial statements, as the reserves are the basis for production estimates used in the Company's cash flow forecasts for impairment testing and they are also the basis for unit of production depreciation and amortization for the core assets in the Upstream segment. The estimation of gas reserves requires the Company's management and engineers to make significant judgement and assumptions.	We assessed the management's estimation process in the determination of gas reserves. Specifically, our work included, but was not limited to, the following procedures: - We performed a detailed understanding of the Company's internal process and related documentation flow and key controls associated with the gas reserves estimation process; - We analysed the certification process for technical and commercial specialists who are responsible for gas reserves estimation; we also assessed the competence, capabilities and objectivity of management specialists; - We tested whether significant increases or reductions in gas reserves were made in the period in which the new information became available and in compliance with the National Agency for Mineral Resources ("ANRM") standards; - We compared the gas reserves with the assumptions used in the cash flows for the impairment testing of production assets and in the accounting for depreciation and amortization for the core assets in the Upstream segment

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

Impairment testing of production assets in the Upstream Gas segment
The Company's disclosures about its impairment testing are included in Note 2 ("Use of estimates") and in Note 12 (Property, Plant and Equipment) to the financial statements

The impairment test is significant to our audit because the assessment process is complex, requires significant management judgment and is based on assumptions that are affected by expected future market conditions. Furthermore, the carrying value of the production assets and the common infrastructure and corporate assets allocated to each cash generating unit (CGU) from the Upstream property, plant and equipment of RON 2710 million as at 31 December 2019 is significant. International Financial Reporting Standards require an entity to assess whether indicators of impairment exist. Management considered that the recent changes brought by new legislation in 2019, as well as changes in market conditions, constitute impairment indicators and, consequently, has carried out an impairment test for the production assets in the Upstream Gas segment which resulted in an additional impairment of RON 71 million.	In respect of impairment testing, our work included, but was not limited to, the following procedures: - We analysed and evaluated the management's assessment of the existence of impairment indicators (triggering events); - We reviewed the allocation of the carrying value of common infrastructure and corporate assets to each CGU (field) - We evaluated the management's assessment of the recoverability of the carrying value of property, plant and equipment of the cash generating unit for which triggering events were identified; - We tested the reasonability of future yearly production volumes per field based on actual ANRM reports and appendixes (future production plan/field is made based on ANRM approved plan for each field); - On a sample basis, we compared the remaining reserves per field in the impairment test as of 31 December 2019 with the latest ANRM approved reserve reports; - We compared the main assumptions used in the impairment test (gas prices, operating costs, production volumes, gas reserves and discount rate) with the current forecasts approved as part of the Company's mid-term planning process; - We assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance in prior years;

	- We involved our internal valuation specialists to assist us in evaluating the key assumptions and methodologies used by the Company for the impairment testing of upstream productions assets (checked the mathematical accuracy of model, its conformity with the requirements of the International Financial Reporting Standards and discount rates used, etc) We also assessed the adequacy of the Company's disclosures in the financial statements
Impairment testing of property, plant and equipment to be transferred to Depogaz from the Gas storage segment The Company's disclosures about its impairment testing are included in Note 2 ("Use of estimates) and in Note 12 (Property, Plant and Equipment) and in note 29 (Discontinued operations) to the financial statements	
The impairment test is significant to our audit because the assessment process is complex, requires significant management judgment and is based on assumptions that are affected by expected future market conditions. Furthermore, the carrying value of the property, plant and equipment to be transferred to Depogaz from the Gas storage segment in amount of RON 701 million as at 31 December 2019, is significant. International Financial Reporting Standards require an entity to assess whether indicators of impairment exist. In 2018, Romgaz SA decided to transfer most of the gas storage activity related assets to its fully owned subsidiary Depogaz at market value, in form of in kind contribution. For this purpose, an external valuation report was made by an independent external valuator in 2019. The valuation report indicated that fair values of some individual assets from the property, plant and equipment to be transferred to Depogaz are lower than their carrying amount. Management considered that this information constitutes an impairment indicator and, consequently,	We evaluated and tested management's assessment of the triggering events for potential additional impairment. Specifically our work included, but was not limited to the following procedures: - We analyzed and evaluated the management's assessment of the existence of impairment indicators (triggering events), specifically the external valuation report concluded in 2019; - We reconciled the carrying value of property, plant and equipment to be transferred to Depogaz to the Fixed asset register - We assessed the allocation of property, plant and equipment to the gas storage segment based on their nature and location; - We evaluated the reasonableness of management's assumption of future revenues by analysing the ANRE regulated tariffs and current depositing capacities; - We compared the main assumptions used in the impairment test (depositing tariffs, operating costs, deposited

recorded impairment for those items of property, plant and equipment to be transferred to Depogaz with an individual fair value lower than their carrying amount. This resulted in an impairment of RON 388 million.	volumes, and discount rate) with the current forecasts approved as part of the Company's mid-term planning assumptions; - We assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year; - We involved our internal valuation specialists to assist us in: o Evaluation of the key assumptions and methodologies used by Romgaz for the impairment testing of property, plant and equipment to be transferred to Depogaz (e.g: checked the mathematical accuracy of model and its conformity with the requirements of the International Financial Reporting Standards, discount rates used, etc) o assessment of the key assumptions and methodologies used by the external appraiser for determining the fair values of the property, plant and equipment to be transferred to Depogaz from the gas storage segment o comparison of the valuation of land and buildings against market values. o evaluation of the competence, capabilities and objectivity of external valuator; We also assessed the adequacy of the Company's disclosures in the financial statements.

Estimation of decommissioning, provisions The Company's disclosures about decommissioning obligations are included in Note 2 ("Use of estimates") and Note 19 (Provisions) to the financial statements.	
The Company's core activities regularly lead to obligations related to dismantling and removal of equipment and installations, asset retirement and soil remediation activities. The decommissioning provision is important to our audit because of its magnitude (carrying value of RON 384,2 million at 31 December 2019) and because management makes estimates and judgments in determining the respective provisions. The key estimates and assumptions relate to the envisaged future dismantling costs, forecasted inflation rates and discount rates to determine the present value of the obligations.	Our work in respect of management's estimation of decommissioning provisions included, but was not limited to, the following procedures: - We performed a detailed understanding of the Company's estimation process and the related documentation flow and assessed the design and implementation of the controls within the process; - We compared the current estimates of decommissioning, costs with the actual costs incurred in previous periods; - We reviewed the timing of works to be performed for surface and subsurface decommissioning for wells; - We inspected supporting evidence for any material revisions in cost estimates during the year; - We involved our valuation specialists to assist us in performing industry bench marking and analysis over discount rates and inflation rates; - We tested the mathematical accuracy of management's decommissioning provision calculations; - We assessed the competence, capabilities and objectivity of management specialists We also assessed the adequacy of the Company's disclosures in the financial statements relating to decommissioning obligations.

Other information

The other information comprises the Annual Report (which includes the Consolidated Directors' Report, the Report on Payments to Governments for mining activities and the Corporate Governance Statement), but does not include the financial statements and our auditors' report thereon. The Corporate responsibility and sustainability report will be published separately at a later date Management is responsible for the other information.

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Order of the Minister of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

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

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

a) in the Consolidated Directors' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying financial statements as at December 31, 2019;
b) the Consolidated Directors' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 – 19 and 26-28;
c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the financial statements as at December 31, 2019, we have not identified information included in the Consolidated Directors' Report that contains a material misstatement of fact.

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

Appointment and Approval of Auditor

We were appointed as auditors of the Company by the General Meeting of Shareholders on 06 December 2018 to audit the financial statements for the financial year end December 31, 2019. Total uninterrupted engagement period, for the statutory auditor, has lasted for two years, covering the years ended December 31, 2018 and 2019.

Consistency with Additional Report to the Audit Committee

Our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 19 March 2020.

Provision of Non-audit Services

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

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

On behalf of

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

Registered in the electronic Public Register under No. FA 77

Ernst & Young Assurance Services S.R.L.
19. MAR. 2020
Signed for identification
Semnat pentru identificare

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

Bucharest, Romania
19 March 2020

STATEMENT OF INDIVIDUAL COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2019

	Note	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Continuing operations			
Revenue	3	4,924,880	4,851,124
Cost of commodities sold	5	(107,798)	(245,162)
Investment income	4	37,676	52,838
Other gains and losses	6	(62,564)	(103,168)
Impairment losses on trade receivables	16	(81,221)	(19,941)
Changes in inventory of finished goods and work in progress		80,007	(10,572)
Raw materials and consumables used	5	(62,126)	(63,538)
Depreciation, amortization and impairment expenses	7	(1,355,311)	(708,076)
Employee benefit expense	8	(607,996)	(563,756)
Finance cost	9	(24,738)	(29,724)
Exploration expense	13	(24,564)	(247,123)
Other expenses	10	(1,524,607)	(1,414,767)
Other income	3	32,585	14,719
Profit before tax from continuing operations		**1,224,223**	**1,512,854**
Income tax expense	11	(177,816)	(207,418)
Profit for the year from continuing operations		**1,046,407**	**1,305,436**
Profit for the year from discontinued operations	29	-	55,111
Total profit for the year		**1,046,407**	**1,360,547**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) on post-employment benefits	19 c)	27,792	(18,994)
Income tax relating to items that will not be reclassified subsequently to profit or loss	11	(4,446)	3,039
Total items that will not be reclassified subsequently to profit or loss		**23,346**	**(15,955)**
Other comprehensive income for the year net of income tax		**23,346**	**(15,955)**
Total comprehensive income for the year		**1,069,753**	**1,344,592**

These financial statements were endorsed by the Board of Directors on March 19, 2020.

Adrian Constantin Volintiru
Chief Executive Officer

Marius Leonte Veza
Accounting Director

The accompanying notes form an integrant part of these financial statements.
This is a free translation of the original Romanian version.

STATEMENT OF INDIVIDUAL FINANCIAL POSITION AS OF DECEMBER 31, 2019

	Note	December 31, 2019 '000 RON	December 31, 2018 '000 RON
ASSETS			
Non-current assets			
Property, plant and equipment	12	4,782,576	6,241,906
Other intangible assets	14	8,130	4,735
Investments in subsidiaries	25 a)	66,056	66,056
Investments in associates	25 b)	120	120
Deferred tax asset	11	31,649	126,075
Net lease investment		481	-
Right of use asset	14	8,039	-
Other financial investments	26	5,388	9,812
Total non-current assets		**4,902,439**	**6,448,704**
Current assets			
Inventories	15	296,141	229,912
Trade and other receivables	16 a)	618,319	808,799
Contract costs		312	583
Other financial assets	28	1,069,291	881,225
Other assets	16 b)	40,806	167,902
Net lease investment		65	-
Cash and cash equivalents	27	323,107	549,768
Total current assets		**2,348,041**	**2,638,189**
Assets held for disposal	29	**899,302**	**-**
Total assets		**8,149,782**	**9,086,893**
EQUITY AND LIABILITIES			
Equity			
Share capital	17	385,422	385,422
Reserves	18	1,579,902	1,823,687
Retained earnings		5,136,170	5,429,843
Total equity		**7,101,494**	**7,638,952**
Non-current liabilities			
Retirement benefit obligation	19	106,158	131,120
Deferred revenue	20	21,244	21,128
Lease liability		8,273	-
Provisions	19	331,812	510,114
Total non-current liabilities		**467,487**	**662,362**

The accompanying notes form an integrant part of these financial statements.
This is a free translation of the original Romanian version.

STATEMENT OF INDIVIDUAL FINANCIAL POSITION AS OF DECEMBER 31, 2019

	Note	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Current liabilities			
Trade payables	21	110,327	189,355
Contract liabilities	21	42,705	46,381
Current tax liabilities		59,436	65,803
Deferred revenue	20	3,729	8,442
Provisions	19	74,600	92,684
Lease liability		685	-
Other liabilities	21	250,807	382,914
Total current liabilities		**542,289**	**785,579**
Liabilities directly associated with the assets held for disposal	29	**38,512**	**-**
Total liabilities		**1,048,288**	**1,447,941**
Total equity and liabilities		**8,149,782**	**9,086,893**

These financial statements were endorsed by the Board of Directors on March 19, 2020.

Societatea Naţională de Gaze Naturale "ROMGAZ" S.A. MEDIAŞ J32/392/2001

Adrian Constantin Volintiru
Chief Executive Officer

Marius Leonte Veza
Accounting Director

STATEMENT OF INDIVIDUAL CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2019

	Share capital '000 RON	Legal reserve '000 RON	Other reserves (note 18) '000 RON	Retained earnings **) '000 RON	Total '000 RON
Balance as of January 1, 2019	**385,422**	**77,084**	**1,746,603**	**5,429,843**	**7,638,952**
Result for the year	-	-	-	1,046,407	1,046,407
Allocation to dividends *)	-	-	(362,297)	(1,244,914)	(1,607,211)
Allocation to other reserves	-	-	106,265	(106,265)	-
Increase in reinvested profit reserves	-	-	12,247	(12,247)	-
Other comprehensive income for the year	-	-	-	23,346	23,346
Balance as of December 31, 2019	**385,422**	**77,084**	**1,502,818**	**5,136,170**	**7,101,494**
Balance as of January 1, 2018	**385,422**	**77,084**	**2,235,448**	**6,612,922**	**9,310,876**
Effect of voluntary change in accounting policy	-	-	-	(415,096)	(415,096)
Effect of correction of accounting errors	-	-	-	57,202	57,202
Balance as of January 1, 2018 (restated)	**385,422**	**77,084**	**2,235,448**	**6,255,028**	**8,952,982**
Result for the year	-	-	-	1,360,547	1,360,547
Allocation to dividends *)	-	-	(716,886)	(1,923,258)	(2,640,144)
Allocation to other reserves	-	-	185,563	(185,563)	-
Effect of change in accounting policies due to new IFRSs	-	-	-	(18,478)	(18,478)
Increase in reinvested profit reserves	-	-	42,478	(42,478)	-
Other comprehensive income for the year	-	-	-	(15,955)	(15,955)
Balance as of December 31, 2018	**385,422**	**77,084**	**1,746,603**	**5,429,843**	**7,638,952**

*) In 2019 the Company's shareholders approved the allocation of dividends of RON 1,607,211 thousand (2018: RON 2,640,144 thousand), dividend per share being RON 4.17 (2018: 6.85 RON).

**) Retained earnings include the geological quota reserve set up in accordance with the provisions of Government Decision no. 168/1998 on the establishment of the expense quota for the development and modernization of oil and natural gas production, refining, transportation and oil distribution. Following the Company's transition to IFRS, the reserve was no longer set up, the reserve existing as of December 31, 2012 being included in retained earnings. These result is allocated based on the depreciation, respectively write-off of the assets financed using this source, based on decision of General Meeting of Shareholders. As of December 31, 2019 the geological quota reserve is of RON 1,081,148 thousand (December 31, 2018: RON 1,503,982 thousand).

These financial statements were endorsed by the Board of Directors on March 19, 2020.

Adrian Constantin Volintiru
Chief Executive Officer

Marius Leonte Veza
Accounting Director

STATEMENT OF INDIVIDUAL CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2019

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Cash flows from operating activities		
Net profit	**1,046,407**	**1,360,547**
Adjustments for:		
Income tax expense (note 11)	177,816	218,262
Interest expense (note 9)	541	-
Interest income – leasing (note 4)	(16)	-
Unwinding of decommissioning provision (note 9, note 19)	24,197	29,724
Interest revenue (note 4)	(37,660)	(53,017)
Net loss on disposal of non-current assets (note 6)	68,024	62,949
Change in decommissioning provision recognized in profit or loss, other than unwinding (note 19)	(51,760)	(34,390)
Change in other provisions (note 19)	(8,814)	19,169
Net impairment of exploration assets (note 7, note 12, note 13)	208,350	(118,809)
Exploration projects written off (note 13)	23,051	149,620
Net impairment of property, plant and equipment and intangibles (note 7, note 12)	628,943	235,661
Depreciation and amortization (note 7)	518,018	591,224
Amortization of contract costs	651	1,291
Change in investments at fair value through profit and loss (note 6)	4,424	40,782
Net receivable write-offs and movement in allowances for trade receivables and other assets	67,297	20,048
Other gains and losses - leasing	(55)	-
Net movement in write-down allowances for inventory (note 6, note 15)	4,652	(2,052)
Liabilities written off	(89)	(58)
Subsidies income (note 20)	(81)	(269)
	2,673,896	**2,520,682**
Movements in working capital:		
(Increase)/Decrease in inventory	(39,163)	143,138
(Increase)/Decrease in trade and other receivables	119,433	10,062
Increase/(Decrease) in trade and other liabilities	(84,085)	(201,729)
Cash generated from operations	**2,670,081**	**2,472,153**
Income taxes paid	(292,392)	(334,050)
Net cash generated by operating activities	**2,377,689**	**2,138,103**

The accompanying notes form an integrant part of these financial statements.
This is a free translation of the original Romanian version.

STATEMENT OF INDIVIDUAL CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2019

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Cash flows from investing activities		
Investment in subsidiaries	-	(48,800)
Net collections/(payments) related to other financial assets	(198,092)	1,916,474
Interest received	43,039	49,096
Proceeds from sale of non-current assets	1,780	7,223
Acquisition of non-current assets	(669,459)	(916,695)
Acquisition of exploration assets	(173,563)	(205,371)
Collection of lease payments	41	-
Net cash used in investing activities	**(996,254)**	**801,927**
Cash flows from financing activities		
Dividends paid	(1,607,246)	(2,638,535)
Repayment of lease liability	(850)	-
Subsidies received (note 20)	-	21,108
Net cash used in financing activities	**(1,608,096)**	**(2,617,427)**
Net increase/(decrease) in cash and cash equivalents	**(226,661)**	**322,603**
Cash and cash equivalents at the beginning of the year	**549,768**	**227,165**
Cash and cash equivalents at the end of the year	**323,107**	**549,768**

These financial statements were endorsed by the Board of Directors on March 19, 2020.

Adrian Constantin Volintiru
Chief Executive Officer

Marius Leonte Veza
Accounting Director

1. BACKGROUND AND GENERAL BUSINESS

Information regarding S.N.G.N. Romgaz S.A. (the "Company"/"Romgaz")

S.N.G.N. Romgaz S.A. is a joint stock company, incorporated in accordance with the Romanian legislation.

The Company's headquarter is in Mediaş, 4 Constantin I. Motaş Square, 551130, Sibiu County.

The Romanian State, through the Ministry of Economy, Energy and Business Environment is the majority shareholder of S.N.G.N. Romgaz S.A. together with other legal and physical persons (note 17).

Romgaz has as main activity:

1. geological research for the discovery of natural gas, crude oil and condensed reserves;
2. operation, production and usage, including trading, of mineral resources;
3. natural gas production for:
- ensuring the storage flow continuity;
- technological consumption;
- delivery in the transportation system.
4. commissioning, interventions, capital repairs for wells equipping the deposits, as well as the natural gas resources extraction wells, for its own activity and for third parties;
5. electricity production and distribution.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The individual financial statements ("financial statements") of the Company have been prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and Ministry of Finance Order no. 2844/2016 to approve accounting regulations in accordance with IFRS (MOF 2844/2016). For the purposes of the preparation of these financial statements, the functional currency of the Company is deemed to be the Romanian Leu (RON). IFRS as adopted by the EU differ in certain respects from IFRS as issued by the International Accounting Standards Board (IASB), however, the differences have no material impact on the Company's financial statements for the periods presented.

Except for the effects of IFRS 16 "Leases", presented below, the same accounting policies and methods of computation are used in these financial statements as compared with the most recent annual financial statements.

Basis of preparation

The financial statements have been prepared on a going concern basis. The principal accounting policies are set out below.

Accounting is kept in Romanian and in the national currency. Items included in these financial statements are denominated in Romanian lei. Unless otherwise stated, the amounts are presented in thousand lei (thousand RON).

These financial statements are prepared for general purposes, for users familiar with the IFRS as adopted by EU; these are not special purpose financial statements. Consequently, these financial statements must not be used as sole source of information by a potential investor or other users interested in a specific transaction.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 "Inventory" or value in use in IAS 36 "Impairment of assets".

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance to the Company of the inputs to the fair value measurement, which are described as follows:

- level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;
- level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- level 3 inputs are unobservable inputs for the asset or liability.

Subsidiaries

A subsidiary is an entity controlled by the Company. In establishing the existence of control, the Company analyses the following:

- if it has authority over the invested entity;
- if it is exposed to, or has rights to variable returns from its involvement in the invested entity;
- if it has the ability to use its authority over the invested entity to affect these returns.

The investment in a subsidiary is recognized at cost less accumulated impairment.

Associated entities

An associate is a company over which the Company exercises significant influence through participation in decision making on financial and operational policies of the entity invested in. Investments are recorded at cost less accumulated impairment.

Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint arrangement is either a joint operation or a joint venture.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint ventures.

Joint operations

The Company recognizes in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

As joint operator, the Company accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

If the Company participates in, but does not have joint control of, a joint operation it accounts for its interest in the arrangement in accordance with the paragraphs above if it has rights to the assets, and obligations for the liabilities, relating to the joint operation.

If the Company participates in, but does not have joint control of, a joint operation, does not have rights to the assets, and obligations for the liabilities, relating to that joint operation, it accounts for its interest in the joint operation in accordance with the IFRSs applicable to that interest.

Joint ventures

As a partner in a joint venture, in its financial statements, the Company recognizes its interest in a joint venture as investment, at cost, if it has joint control.

Standards and interpretations valid for the current period

The following standards and amendments or improvements to existing standards issued by the IASB and adopted by the EU have entered into force for the current period:

- IFRS 16 Leases (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (effective for annual periods beginning on or after January 1, 2019);
- IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2019);
- Annual Improvements to IFRS Standards 2015–2017 Cycle (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IAS 19: Plan amendment, Curtailment or Settlement (effective for annual periods beginning on or after January 1, 2019).

The adoption of these amendments, interpretations or improvements to existing standards has not led to changes in the Company's accounting policies, except for IFRS 16, as presented below.

The impact of adopting IFRS 16: Leases

IFRS 16 replaces International Accounting Standard 17 "Leases" (IAS 17). According to the new standard, the lessee accounts both finance lease and operating lease (rent) contracts in the same way. The lessee records a right-of-use asset for the underlying asset and a lease liability. Previously, operating lease contracts were recognized as rental expenses.

The Company does not operate finance lease contracts. The Company operates operating lease contracts that include land concession agreements, rent contracts for office space and IT equipment.

The Company does not apply IFRS 16 to leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources, i.e. to leases of land used in such activities.

According to IFRS 16, payments related to operating leases are included in the financing activities. According to IAS 17, these payments were included in the operating activities.

The Company applied the practical expedient to maintain previous assessment of lease contracts. As such, the Company did not apply IFRS 16 to contracts in force as of January 1, 2019 that were not previously identified as containing a lease according to IAS 17. Also, it did not apply IFRS 16 to contracts ending in 2019.

On transition to IFRS 16, the Company applied the standard retrospectively and did not restate the comparative information.

Lease liabilities are measured at the present value of the remaining lease payments as of January 1, 2019 discounted at the incremental borrowing rate at January 1, 2019 (6.99%). On initial application, the Company recorded a lease liability of RON 4,929 thousand.

The Company applies the practical expedient allowed by IFRS 16 for underlying assets below USD 5,000 when new, and for short term leases, for which lease payments are recognized as a rent expense when they occur.

Right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of the right-of-use asset comprises:

(a) the amount of the initial measurement of the lease liability;

(b) any lease payments made at or before the commencement date, less any lease incentives received;

(c) any initial direct costs incurred by the Company; and

(d) an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The lease term is the non-cancellable period for which the Company as lessee can use the underlying asset, together with both:

(a) periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option; and

(b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In assessing whether the Company is reasonably certain to exercise any of the options above, the Company considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

Following IFRS 16 adoption, on January 1, 2019 the Company recorded:

- right-of-use assets of RON 4,929 thousand;
- lease liabilities of RON 4,929 thousand;
- at the date of transition to IFRS 16 (January 1, 2019), the Company had no assets or liabilities recorded according to IAS 17 related to lease contracts; therefore, no other adjustments were needed.

As of December 31, 2018 the Company's commitments related to the operating leases subject to IFRS 16 adjustments were of RON 10,948 thousand. The discounted value as of January 1, 2019 is RON 4,929 thousand.

Standards and interpretations issued by IASB and adopted by the EU, but not yet effective

At the date of issue of the financial statements, the following standards were issued, but not yet effective:

- Amendments to IAS 1 and IAS 8: Definition of Material (effective for annual periods beginning on or after January 1, 2020);
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after January 1, 2020);
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (effective for annual periods beginning on or after January 1, 2020).

The Company did not adopt these standards and amendments before their effective dates. The Company does not expect these amendments to have a material impact on the financial statements.

Standards and interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from IFRS adopted by the IASB except from the following standards, amendments or improvements to the existing standards and interpretations, which were not endorsed for use in EU as at date of publication of financial statements:

- IFRS 17 Insurance Contracts (effective for annual periods beginning on or after January 1, 2021);
- Amendments to IFRS 3: Business Combinations (effective for annual periods beginning on or after January 1, 2020);
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current.

The Company is currently evaluating the effect that the adoption of these standards, amendments or improvements to the existing standards and interpretations will have on the financial statements of the Company in the period of initial application.

Segment information

The information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the upstream segment, electricity production and distribution, and other activities, including headquarter activities. The Directors of the Company have chosen to organize the Company around differences in activities performed.

Specifically, the Company is organized in the following segments:

- upstream, which includes exploration activities, natural gas production and trade of gas extracted by Romgaz or acquired from domestic production or import, for resale; these activities are performed by Medias, Mures and Bratislava branches;
- electricity production and distribution activities, performed by Iernut branch;
- other activities, such as technological transport, operations on wells and corporate activities.

Transactions between Company segments occur at cost.

Considering the insertion of individual and consolidated financial statements in a single annual financial report, the Company does not disclose segment information in the individual financial statements.

Revenue recognition

a) Revenue from contracts with customers

The Company recognizes customer contracts when all of the following criteria are met:

- the parties to the contract have approved the contract and are committed to perform their respective obligations;
- the Company can identify each party's rights regarding the goods or services to be transferred;
- the Company can identify the payment terms;
- the contract has commercial substance;
- it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods delivered or the services provided.

Revenue from contracts with customers is recognized when, or as the Company transfers the goods or services to the customer, respectively, the client obtains control over them.

Depending on the nature of the goods or services, revenues are recognized over time or at a point in time.

Revenue is recognized over time if:

- the customer receives and consumes simultaneously the benefits provided by obtaining the goods and services as the Company performs the obligation;
- the Company creates or enhances an asset that the customer controls as the asset is created or enhanced;
- the Company's performance does not create an asset with an alternative use to the Company.

All other revenues that do not meet the above criteria are recognized at a point in time.

For revenue to be recognized over time, the Company assesses progress towards meeting the execution obligation, using output methods or input methods, depending on the nature of the good or service transferred to the client. Revenues are recognized only if the Company can reasonably assess the result of the execution obligation or, if it cannot be estimated, only at the level of the costs it is expected to recover from the customer.

Revenue from contracts with customers mainly relates to gas sales, electricity supply and related services. Revenue from these contracts are recognized at a point time on the basis of the actual quantities at the prices fixed in the contracts concluded or at the rates set by the regulatory authority, as the case may be.

Contracts concluded by the Company do not contain significant financing components.

b) Other revenue

Rental revenue for operating lease contracts where the Company operates as lessor is recognized on an accrual basis in accordance with the substance of the relevant agreements.

Interest income is recognized periodically and proportionally as the respective income is generated, on accrual basis.

Dividends are recognized as income when the legal right to receive them is established.

Exploration expenses

The costs of seismic exploration, geological, geophysical and other similar exploration activities are recognized as exploration expenses in the statement of comprehensive income in the period in which they arise.

Exploration expenses also include the cost of exploration assets that have not identified gas resources and have been written-off.

Foreign currencies

The functional currency is the currency of the primary economic environment in which the Company operates and is the currency in which the Company primarily generates and expends cash. The Company operates in Romania and it has the Romanian Leu (RON) as its functional currency.

In preparing the financial statements of the Company, transactions in currencies other than the functional currency (foreign currencies) are recorded at the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date.

Exchange differences are recognized in the statement of comprehensive income in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Employee benefits

Benefits granted upon retirement

In the normal course of business, the Company makes payments to the Romanian State on behalf of its employees at legal rates. All employees of the Company are members of the Romanian State pension plan. These costs are recognized in the statement of comprehensive income together with the related salary costs.

Based on the Collective Labor Agreement, the Company is liable to pay to its employees at retirement a number of gross salaries, according to the years worked in the gas industry/electrical industry, work conditions etc. To this purpose, the Company recorded a provision for benefits upon retirement. This provision is updated annually and computed according to actuary methods based on estimates of the average salary, the average number of salaries payable upon retirement, on the estimate of the period when they shall be paid and it is brought to present value using a discount factor based on interest related to a maximum degree of security investments (government securities).

As the benefits are payed, the provision is reduced together with the reversal of the provision against income.

Gains or actuarial losses, are recognized in other comprehensive income. These are changes in the present value of the defined benefit obligation as a result of statistical adjustments and changes in actuarial assumptions. Any other changes in the provision are recognized in the result of the year.

The Company does not operate any other pension scheme or post-retirement benefit plan and, consequently, has no obligation in respect of pensions.

Employee participation to profit

The Company records in its financial statements a provision related to the fund for employee participation to profit in compliance with legislation in force.

Liabilities related to the fund for employee participation to profit are settled in less than a year and are measured at the amounts estimated to be paid at the time of settlement.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Greenhouse gas provisions

The Company recognizes a provision for the deficit between actual CO_2 emissions and certificates held, measured at the best estimate of expenditure required to settle the obligation, namely the market price of the emission rights at reporting date.

Provisions for decommissioning of wells

Liabilities for decommissioning costs are recognized due to the Company's obligation to plug and abandon a well, dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made.

The Company recorded a provision for decommissioning wells.

This provision was computed based on the estimated future expenditure determined in accordance with local conditions and requirements and it was brought to present value using the interest rate on long term treasury bonds. The rate is updated annually.

A corresponding item of property, plant and equipment of an amount equivalent to the provision is also recognized. The item of property, plant and equipment is subsequently depreciated as part of the asset.

The Company applies IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities" related to changes in existing decommissioning, restoration and similar liabilities.

The change in the decommissioning provision for wells is recorded as follows:

a. subject to b., changes in the liability are added to, or deducted from, the cost of the related asset in the current period;

b. the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognized immediately in the statement of comprehensive income;

c. if the adjustment results in an addition to the cost of an asset, the Company considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable.

If it is such an indication, the Company tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss.

Once the related asset has reached the end of its useful life, all subsequent changes of debt are recognized in the income statement in the period when they occur.

The periodical unwinding of the discount is recognized periodically in the comprehensive income as a finance cost, as it occurs.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in associates and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current tax for the period is recognized as an expense in the statement of comprehensive income. Deferred tax for the period is recognized as an expense or income in the statement of comprehensive income, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where it arises from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost.

Property, plant and equipment

(1) Cost

(i) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of any decommissioning obligation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

(ii) Gas cushion

This is a quantity of natural gas constituted as a reserve at the level of gas storages, physically recoverable, which ensures the optimum conditions necessary to maintain their technical-productive flow characteristics.

(iii) Development expenditure

Expenditure on the construction, installation and completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including the commissioning of wells, is capitalized within property, plant and equipment and is depreciated from the commencement of production as described below in the property, plant and equipment accounting policies.

(iv) Maintenance and repairs

The Company does not recognize within the assets' costs the current expenses and the accidental expenses for that asset. These costs are expensed in the period in which they are incurred.

The cost for current maintenance are mainly labor costs and consumables and also small inventory items. The purpose of these expenses is usually described as "repairs and maintenance" for property, plant and equipment.

The expenses with major activities, inspections and repairs comprise the replacement of the assets or other asset's parts, the inspection cost and major overhauls. These expenses are capitalized if an asset or part of an asset, which was separately depreciated, is replaced and is probable that they will bring future economic benefits for the Company. If part of a replaced asset was not considered as a separate component and, as a result, was not separately depreciated, the replacement value will be used to estimate the net book value of the asset which is replaced and is immediately written-off. The inspection costs associated with major overhauls are capitalized and depreciated over the period until next inspection.

The cost for major overhauls for wells are also capitalized and depreciated using the unit of production depreciation method.

All other costs with the current repairs and usual maintenance are recognized directly in expenses.

(2) Depreciation

The depreciable amount of a tangible asset is the cost less the residual value of the asset. The residual value is the estimated value that the Company would currently obtain from the disposal of an asset, after deducting the estimated costs associated with the disposal if the asset would already have the age and condition expected at the end of its useful life.

For directly productive tangible assets (natural gas resources extraction wells), the Company applies the depreciation method based on the unit of production in order to reflect in the statement of comprehensive income, an expense proportionate with income realized from sale of production obtained from the total natural gas reserve certified at the beginning of the period. According to this method, the value of each production well is depreciated according to the ratio of the natural gas quantity extracted during the period compared to the proved developed reserves at the beginning of the period.

Assets representing the gas cushion are not depreciated, as the residual value exceeds their cost.

For indirect production tangible assets and storage assets, depreciation is calculated at cost using the straight-line method over the estimated useful life of the asset as follows:

Asset	Years
Specific buildings and constructions	10 - 50
Technical installations and machines	3 - 20
Other plant, tools and furniture	3 – 30

Land is not depreciated as it is considered to have an indefinite useful life.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at historical cost, less any recognized impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Items of tangible fixed assets that are disposed of are eliminated from the statement of financial position along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in the result of the period.

For items of tangible fixed assets that are retired from use, and have not been written off at the data of financial statements, an impairment adjustment is recorded for the carrying value at the time of retirement.

(3) Impairment

Non-current assets must be recognized at the lower of the carrying amount and recoverable amount. If and only if the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to be equal to its recoverable amount. Such a reduction represents an impairment loss that is recognized in the result of the period.

Thus at the end of each reporting period, the Company assesses whether there is any indication of impairment of assets. If such indication is identified, the Company tests the assets to determine whether they are impaired.

Company's assets are allocated to cash-generating units. The cash-generating unit is the smallest identifiable asset group that generates independent cash inflows to a large extent from cash inflows generated by other assets or asset groups. The company considers each commercial field as a separate cash-generating unit. All gas storages held by the Company leased to Depogaz are considered as part of a single cash-generating unit, as the regulatory authority sets regulated tariffs by analyzing the storage activity as a whole, not every single storage.

In 2019, the Company conducted an impairment test in the Upstream segment, as the conditions existing when the previous test was conducted changed; the results of the impairment test are presented in note 12.

In 2019, the Company conducted an impairment test in the Storage segment, following the shareholders' and board of directors' decisions in 2020 to increase the share capital of the Company's subsidiary by contribution in kind. In 2020, it was decided that the assets leased by Romgaz to its subsidiary, except the gas cushion, would be transferred to it. Impairment indications were identified in a valuation report prepared for the future transfer.

Recoverable amount is the largest of the fair value of an asset or a cash-generating unit less costs associated with disposal and its value in use. Considering the nature of the Company's assets, it was not possible to determine the fair value of the cash-generating units, being determined only the value in use of the assets.

Assets held for disposal

Non-current assets classified as held for disposal are non-current assets whose carrying amount will be recovered through a disposal rather than through continuing use. They are measured at the lower of its carrying amount and fair value less costs to dispose.

Immediately before the initial classification of the assets as held for disposal, the carrying amounts of the assets are measured in accordance with applicable IFRSs.

Non-current assets classified as held for disposal are no longer depreciated.

In the 2019 financial statements, assets held for disposal are the assets used in the storage activity which will be transferred to increase the subsidiary's share capital.

Exploration and appraisal assets

(1) Cost

Natural gas exploration (other than seismic, geological, geophysical and other similar activities), appraisal and development expenditure is accounted for using the principles of the successful efforts method of accounting.

Costs directly associated with an exploration well are initially capitalized as an asset until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, drilling costs and payments made to contractors. If potentially commercial quantities of hydrocarbons are not found, the exploration well is eliminated from the statement of financial position, by recording an impairment, until National Agency for Mineral Resources (Agentia Nationala pentru Resurse Minerale – ANRM) approvals are obtained in order to be written off. If hydrocarbons are found and, subject to further appraisal activity, are likely to be capable of commercial development, the costs continue to be carried as an asset. Costs directly associated with appraisal activity, undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalized as an asset. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, an impairment is recorded for the assets, until the completion of the legal steps necessary for them to be written off. When proved reserves of natural gas are determined and development is approved by management, the relevant expenditure is transferred to property, plant and equipment other than exploration assets.

(2) Impairment

At each reporting date, the Company's management reviews its exploration assets and establishes the necessity for recording in the financial statements an impairment loss in these situations:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of gas resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of gas resources in the specific area have not led to the discovery of commercially viable quantities of gas resources and the Company has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Other intangible assets

(1) Cost

Licenses for software, patents and other intangible assets are recognized at acquisition cost.

Intangible assets are not revalued.

(2) Amortization

Patents and other intangible assets are amortized using the straight-line method over their useful life, but not exceeding 20 years. Licenses related to the right of use of computer software are amortized over a period of 3 years.

Inventories

Inventories are recorded initially at cost of production, or acquisition cost, depending on the case. The cost of finished goods and production in progress includes materials, labour, expense incurred for bringing the finished goods at the location and in the existent form and the related indirect production costs. Write down adjustments are booked against slow moving, damaged and obsolete inventory, when necessary.

At each reporting date, inventories are measured at the lower of cost and net realizable value. The net realizable value is estimated based on the selling price less any completion and selling expenses. The cost of inventories is assigned by using the weighted average cost formula.

Financial assets and liabilities

The Company's financial assets include cash and cash equivalents, trade receivables, other receivables, loans, bank deposits and bonds with a maturity from acquisition date of over three months and other investments in equity instruments. Financial liabilities include interest-bearing bank borrowings and overdrafts and trade and other payables. For each item, the accounting policies on recognition and measurement are disclosed in this note. Management believes that the estimated fair values of these instruments approximate their carrying amounts.

Cash and cash equivalents include petty cash, cash in current bank accounts and short-term deposits with a maturity of less than three months from the date of acquisition.

The Company recognizes a financial asset or financial liability in the statement of financial position when and only when it becomes a party to the contractual provisions of the instrument. Upon initial recognition, financial assets are classified at amortized cost or measured at fair value through profit or loss. The classification depends on the Company's business model for managing the financial assets and their contractual cash flows.

The Company does not have financial assets measured at fair value through other comprehensive income.

On initial recognition, financial assets and financial liabilities are measured at fair value plus or minus, in the case of assets measured at amortized cost, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Receivables resulting from contracts with customers represent the unconditional right of the Company to a consideration. The right to a consideration is unconditional if only the passage of time is required before payment of the consideration is due. These are measured at initial recognition at the transaction price.

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments plus or minus cumulative depreciation using the effective interest method for each difference between the initial amount and the amount at maturity and, for financial assets, adjusted for any impairment.

Any difference between the entry amount and the reimbursement amount is recognized in the income statement for the period of the borrowings using the effective interest method.

Financial instruments are classified as liabilities or equity in accordance with the nature of the contractual arrangement. Interest, dividends, gains and losses on a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are recorded directly in equity. Financial instruments are offset when the Company has a legally enforceable right to set off and intends to settle either on a net basis or to realize the asset and discharge the obligation simultaneously.

Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each reporting period.

Except for trade receivables, the Company measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk associated with the financial instrument, has increased significantly since initial recognition. If, at the reporting date, the credit risk for a financial instrument has not increased significantly since the initial recognition, the Company measures the loss allowance for that financial instrument at a value equal to 12 month expected credit losses.

The loss allowance on trade receivables resulting from transactions that are subject to IFRS 15 is measured at an amount equal to lifetime expected credit losses.

The carrying amount of the financial asset, other than those at fair value through profit or loss, is reduced through the use of an allowance account.

De-recognition of financial assets and liabilities

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Reserves

Reserves include (note 18):

- legal reserves, which are used annually to transfer to reserves up to 5% of the statutory profit, but not more than 20% of the statutory share capital of the Company;
- other reserves, which represent allocations from profit in accordance with Government Ordinance no. 64/2001, paragraph (g) for the Company's development fund;
- reserves from reinvested profit, set up based on the Fiscal Code. The amount of profit that benefited from tax exemption under the fiscal legislation less the legal reserve, is distributed at the end of the year by setting up the reserve;
- development quota reserve, non-distributable, set up until 2004. Development quota reserve set up after 2004 is distributable and presented in retained earnings. Development quota set up after 2004 is allocated with the approval of General Meeting of Shareholders, based on depreciation, respectively write-off of the assets financed using the development quota;
- other non-distributable reserves, set up from retained earnings representing translation differences recorded at transition to IFRS. These reserves are set up in accordance with MOF 2844/2016.

Subsidies

Subsidies are non-reimbursable financial resources granted to the Company with the condition of meeting certain criteria. In the category of subsidies are included grants related to assets and grants related to income.

Grants related to assets are government grants for whose primary condition is that the Company should purchase, construct, or otherwise acquire long-term assets.

Grants related to income are government grants other than those related to assets.

Subsidies are not recognized until there is reasonable assurance that:

a) the Company will comply with the conditions attaching to it; and

b) subsidies will be received.

Grants related to assets are presented in the statement of financial position as "Deferred revenue", which is then recognized in profit or loss on a systematic basis over the useful life of the asset.

Grants related to income are recognized in the statement of profit or loss under "Other income", as the related expenses are recorded. Until the time the expense occurs, the grant received is recognized as "Deferred revenue".

Use of estimates

The preparation of the financial information requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the end of reporting date, and the reported amounts of revenue and expenses during the reporting period. Actual results could vary from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments that the management has made in the process of applying the Company's accounting policies, and that have the most significant effect on the amounts recognized in the financial statements.

Estimates related to impairment losses on trade receivables

At each period end, the Company evaluates the risks attached to current and overdue receivables and the probability of such risks to materialize. The Company's receivables are generally due in maximum 30 days from the date the invoice is issued. However, the Company is forced by court decisions to sell gas to insolvent clients deemed "captive" according to insolvency legislation. Invoices issued to these clients for gas delivered are due in 90 days from the date of issue. Based on the information available at period end related to such clients and previous experience, the Company estimates the lifetime expected credit loss of receivables, both current and overdue, and records appropriate impairment losses.

Estimates related to the exploration expenditure on undeveloped fields

If field works prove that the geological structures are not exploitable from an economic point of view or that they do not have hydrocarbon resources available, an impairment is recorded. The impairment assessment is performed based on geological experts' technical expertise.

Estimates related to the developed proved reserves

The Company applies the depreciation method based on the unit of production in order to reflect in the income statement an expense proportionate with the income realized from sale of production obtained from the total natural gas reserve at the beginning of the period. According to this method, the value of each production well is depreciated according to the ratio of the natural gas quantity extracted during the period compared to the gas reserve at the beginning of the period. The gas reserves are updated annually according to internal assessments that are based on certifications of ANRM.

Estimates related to the decommissioning provision

Liabilities for decommissioning costs are recognized for the Company's obligation to plug and abandon a well, dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made.

This provision is computed based on the estimated future expenditure determined in accordance with local conditions and requirements and it is brought to present value using the interest rate on long term treasury bonds. The rate is updated annually.

Estimates related to the retirement benefit obligation

Under the Collective Labor Agreement, the Company is obliged to pay to its employees when they retire a multiplicator of the gross salary, depending on the seniority within the gas industry/electricity industry, working conditions etc. This provision is updated annually and calculated based on actuarial methods to estimate the average wage, the average number of employees to pay at retirement, the estimate of the period when they will be paid and brought to present value using a discount factor based on interest on investments with the highest degree of safety (government bonds).

The Company does not operate any other pension plan or retirement benefits, and therefore has no other obligations relating to pensions.

Contingencies

By their nature, contingencies end only when one or more uncertain future events occur or not. In order to determine the existence and the potential value of a contingent element, is required to exercise the professional judgment and the use of estimates regarding the outcome of future events (note 32).

Comparative Information

For each item of the statement of financial position, the statement of comprehensive income and, where is the case, for the statement of changes in equity and for the statement of cash flows, for comparative information purposes is presented the value of the corresponding item for the previous period ended, unless the changes are insignificant. In addition, the Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements, which has a material impact on the Company.

3. REVENUE AND OTHER INCOME

Continuing operations	**Year ended December 31, 2019**	**Year ended December 31, 2018**
	'000 RON	**'000 RON**
Revenue from gas sold - domestic production	4,166,522	3,852,337
Revenue from gas sold – other arrangements	128,737	133,073
Revenue from gas acquired for resale – import gas	77,867	205,912
Revenue from gas acquired for resale – domestic gas	23,368	11,015
Revenue from electricity *)	145,715	322,036
Revenue from services	237,869	218,279
Revenue from sale of goods	30,239	17,603
Other revenues from contracts	400	392
Total revenue from contracts with customers	**4,810,717**	**4,760,647**
Other revenues (see below)	114,163	90,477
Total revenue	**4,924,880**	**4,851,124**
Other operating income **)	32,585	14,719
Total revenue and other income	**4,957,465**	**4,865,843**

*) The decrease in electricity revenues is due to the works performed on the new Iernut power plant which led to lower deliveries in 2019.

**) Other operating income relates mainly to penalties charged to clients for late payment.

Revenue from contracts with customers is recognized as or when the Company satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of goods sold by the Company usually coincides with title passing to the customer and the customer taking physical possession.

Revenues from gas and electricity are recognized when the delivery has been made at the prices fixed in the contracts with customers.

In measuring the revenue from gas and electricity, the Company uses output methods. According to these methods, revenues are recognized based on direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. The Company recognizes the revenue in the amount it has the right to charge.

The Company does not disclose information about the remaining performance obligations, applying the practical expedient in IFRS 15, as the contracts with the customers are generally signed for periods of less than one year and the revenues are recognized at the amount which the Company has the right to charge.

Other revenue

Continuing operations	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Revenue from rentals	114,163	90,477
Total other revenue	**114,163**	**90,477**

Revenue from rentals include mainly the revenue from renting the assets used in the storage activity by Depogaz and Depomures. Assets were leased to Depogaz for full 2019, while in 2018 they were leased for only nine months.

4. INVESTMENT INCOME

Continuing operations	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Interest income	37,676	52,838
Total	**37,676**	**52,838**

Interest income is derived from the Company's investments in bank deposits and government bonds.

5. COST OF COMMODITIES SOLD, RAW MATERIALS AND CONSUMABLES

Continuing operations	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Consumables used	59,266	60,483
Cost of gas acquired for resale, sold – import	74,410	202,613
Cost of gas acquired for resale, sold – domestic	9,863	7,338
Cost of electricity imbalance	22,414	34,031
Cost of other goods sold	1,111	1,179
Other consumables	2,860	3,056
Total	**169,924**	**308,700**

6. OTHER GAINS AND LOSSES

Continuing operations	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Forex gain	2,581	4,058
Forex loss	(2,024)	(5,248)
Net loss on disposal of non-current assets	(68,024)	(62,949)
Net receivable allowances (note 16 c)	13,926	117
Net write down allowances for inventory (note 15)	(4,652)	1,860
Net gain/loss on financial assets at fair value through profit or loss (note 26)	(4,424)	(40,782)
Other gains and losses	55	-
Losses from other debtors	(2)	(224)
Total	**(62,564)**	**(103,168)**

7. DEPRECIATION, AMORTIZATION AND IMPAIRMENT EXPENSES

Continuing operations	Year ended December 31, 2019	Year ended December 31, 2018
	'000 RON	'000 RON
Depreciation	518,018	591,224
out of which:		
- depreciation of property, plant and equipment	515,073	586,903
- amortization of intangible assets	2,238	4,321
- amortization of write-of use assets	707	-
Net impairment of non-current assets (note 12)	837,293	116,852
Total depreciation, amortization and impairment	**1,355,311**	**708,076**

8. EMPLOYEE BENEFIT EXPENSE

Continuing operations	Year ended December 31, 2019	Year ended December 31, 2018
	'000 RON	'000 RON
Wages and salaries	661,456	609,544
Social security charges	19,297	17,874
Meal tickets	17,452	16,871
Other benefits according to collective labor contract	27,700	23,911
Private pension payments	9,891	9,751
Private health insurance	-	6,112
Total employee benefit costs	**735,796**	**684,063**
Less, capitalized employee benefit costs	(127,800)	(120,307)
Total employee benefit expense	**607,996**	**563,756**

9. FINANCE COSTS

Continuing operations	Year ended December 31, 2019	Year ended December 31, 2018
	'000 RON	'000 RON
Interest expense on lease contracts	541	-
Unwinding of the decommissioning provision (note 19)	24,197	29,724
Total	**24,738**	**29,724**

10. OTHER EXPENSES

Continuing operations	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Energy and water expenses	17,101	19,517
Expenses for capacity booking and gas transmission services	164,142	189,881
Expenses with other taxes and duties *)	1,058,976	995,109
(Net gain)/Net loss from provisions movement (note 19)	(60,574)	(15,051)
Gas storage services	64,874	51,979
Other operating expenses **)	280,088	173,332
Total	**1,524,607**	**1,414,767**

*) In the year ended December 31, 2019, the major taxes and duties included in the amount of RON 1,058,976 thousand (year ended December 31, 2018: RON 995,109 thousand) are:

- 716,908 RON thousand represent windfall tax resulting from the deregulation of prices in the natural gas sector according to Government Ordinance no. 7/2013 with the subsequent amendments for the implementation of the windfall tax following the deregulation of prices in the natural gas sector (year ended December 31, 2018: RON 550,792 thousand);
- 332,501 RON thousand represent royalty on gas production (year ended December 31, 2018: RON 435,233 thousand).

**) Other operating expenses of RON 280,088 thousand (2018: RON 173,332 thousand) include RON 79,860 thousand (2018: RON 0 thousand) representing the contribution charged by ANRE to license title holders operating in gas and electricity industry of 2% of revenue.

11. INCOME TAX

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Continuing operations		
Current tax expense	286,025	260,489
Deferred income tax (income)/expense	(108,209)	(53,071)
Income tax expense from continuing operations	**177,816**	**207,418**
Discontinued operations		
Current tax expense	-	10,844
Income tax expense from discontinued operations	**-**	**10,844**
Total income tax expense	**177,816**	**218,262**

The tax rate used for the reconciliations below for the year ended December 31, 2019, respectively year ended December 31, 2018 is 16% payable by corporate entities in Romania on taxable profits.

The total charge for the period can be reconciled to the accounting profit as follows:

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Accounting profit before tax	**1,224,223**	**1,578,809**
(Profit)/loss activities not subject to income tax	1,821	3,910
Accounting profit subject to income tax	**1,226,044**	**1,582,719**
Income tax expense calculated at 16%	196,167	253,235
Effect of income exempt of taxation	(44,598)	(54,131)
Effect of expenses that are not deductible in determining taxable profit	170,899	101,297
Effect of current income tax reduction, due to VAT split	(15,054)	(14,273)
Effect of tax incentive for reinvested profit	(1,960)	(6,796)
Effect of the benefit from tax credits, used to reduce current tax expense	28,805	13,059
Effect of deferred tax relating to the origination and reversal of temporary differences	(145,407)	(27,292)
Effect of the benefit from tax credits, used to reduce deferred tax expense	(11,036)	(46,837)
Income tax expense	**177,816**	**218,262**

Components of deferred tax (asset)/liability:

	December 31, 2019		December 31, 2018	
	Cumulative temporary differences '000 RON	**Deferred tax (asset)/ liability '000 RON**	**Cumulative temporary differences '000 RON**	**Deferred tax (asset)/ liability '000 RON**
Provisions	(489,160)	(78,266)	(693,809)	(111,010)
Property, plant and equipment	1,430,460	228,873	1,272,635	203,622
Exploration assets *)	(928,679)	(148,589)	(1,161,170)	(185,787)
Financial investments	(977)	(156)	(977)	(156)
Inventory	(17,940)	(2,870)	(18,485)	(2,958)
Receivables and other assets	(191,509)	(30,641)	(186,161)	(29,786)
Total	**(197,805)**	**(31,649)**	**(787,967)**	**(126,075)**
Change, out of which:		**(94,426)**		**56,110**
- **in current year's result**		108,209		53,071
- **in other comprehensive income**		(4,446)		3,039
- **transfer to assets held for disposal (note 29)**		(198,189)		-

*) According to the Fiscal Code applicable in Romania, expenses related to location, exploration, development or any preparatory activity for the exploitation of natural resources, which, according to the applicable accounting regulations, are recorded directly in the result, are recovered in equal rates for a period of 5 years, starting with the month in which the expenses are incurred. Also, for fixed assets specific to the exploration and production of gas resources, the carrying tax value of fixed assets written off is deducted using the tax depreciation method used before their write-off for the remaining period. All of these costs are treated as assets only from a tax point of view and generate a deferred tax asset.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and land improvements	Buildings	Gas properties	Plant, machinery and equipment	Fixtures, fittings and office equipment	Storage assets	Tangible exploration assets	Capital work in progress	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Cost									
As of January 1, 2019	108,849	890,706	6,454,088	983,784	98,608	1,698,008	332,457	1,553,904	12,120,404
Additions	374	18	16,345	25	21	-	210,521	649,459	876,763
Transfers	7	11,224	466,419	39,901	2,933	(16,738)	(117,482)	(386,264)	-
Disposals	-	(283)	(206,679)	(8,545)	(2,134)	(34,574)	(23,051)	(22,959)	(298,225)
Transfer to assets held for disposal (note 29)	(20,542)	(214,783)	-	(173,330)	(8,412)	(1,440,226)	-	-	(1,857,293)
As of December 31, 2019	88,688	686,882	6,730,173	841,835	91,016	206,470	402,445	1,794,140	10,841,649
Accumulated depreciation									
As of January 1, 2019	-	297,740	3,671,297	590,318	72,906	589,043	-	-	5,221,304
Depreciation *)	-	31,231	370,794	63,933	5,929	66,682	-	-	538,569
Transfers	-	-	5,906	-	-	(5,906)	-	-	-
Disposals	-	(248)	(25,852)	(8,093)	(2,103)	(2,796)	-	-	(39,092)
Transfer to assets held for disposal (note 29)	-	(62,228)	-	(60,687)	(5,089)	(639,458)	-	-	(767,462)
As of December 31, 2019	-	266,495	4,022,145	585,471	71,643	7,565	-	-	4,953,319
Impairment									
As of January 1, 2019	3,180	31,523	390,424	71,226	909	3,521	37,266	119,145	657,194
Charge	5,075	11,893	179,095	4,526	288	375,073	231,409	192,449	999,808
Transfers	-	931	24,890	6,808	279	-	(84)	(32,824)	-
Release	-	(4,041)	(100,680)	(1,993)	(328)	(262)	(23,059)	(32,152)	(162,515)
Transfer to assets held for disposal (note 29)	(5,075)	(7,953)	-	(103)	(27)	(375,575)	-	-	(388,733)
As of December 31, 2019	3,180	32,353	493,729	80,464	1,121	2,757	245,532	246,618	1,105,754
Carrying value									
As of January 1, 2019	105,669	561,443	2,392,367	322,240	24,793	1,105,444	295,191	1,434,759	6,241,906
As of December 31, 2019	85,508	388,034	2,214,299	175,900	18,252	196,148	156,913	1,547,522	4,782,576

**) The amounts include depreciation of tangible assets used in the production of other fixed assets, capitalized in their cost, amounting to RON 23,498 thousand.*

	Land and land improvements	Buildings	Gas properties	Plant, machinery and equipment	Fixtures, fittings and office equipment	Storage assets	Tangible exploration assets	Capital work in progress	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Cost									
As of January 1, 2018 (restated)	108,402	882,913	6,475,527	927,068	97,142	1,694,522	438,613	797,540	11,421,727
Additions	447	10	2,102	139	2	1	205,370	939,414	1,147,485
Transfers	-	9,520	227,799	68,058	3,723	4,909	(161,906)	(152,103)	-
Disposals	-	(1,737)	(251,340)	(11,481)	(2,259)	(1,424)	(149,620)	(30,947)	(448,808)
As of December 31, 2018	108,849	890,706	6,454,088	983,784	98,608	1,698,008	332,457	1,553,904	12,120,404
Accumulated depreciation									
As of January 1, 2018 (restated)	-	265,803	3,271,717	532,892	69,125	520,149	-	-	4,659,686
Depreciation *)	-	32,498	435,102	68,008	5,976	68,996	-	-	610,580
Disposals	-	(561)	(35,522)	(10,582)	(2,195)	(102)	-	-	(48,962)
As of December 31, 2018	-	297,740	3,671,297	590,318	72,906	589,043	-	-	5,221,304
Impairment									
As of January 1, 2018 (restated)	3,180	16,031	229,683	23,373	386	2,152	157,349	108,188	540,342
Charge	-	16,599	220,194	50,660	677	1,897	31,800	50,603	372,430
Transfers	-	-	12,039	-	-	-	(1,274)	(10,765)	-
Release	-	(1,107)	(71,492)	(2,807)	(154)	(528)	(150,609)	(28,881)	(255,578)
As of December 31, 2018	3,180	31,523	390,424	71,226	909	3,521	37,266	119,145	657,194
Carrying value									
As of January 1, 2018 (restated)	105,222	601,079	2,974,127	370,803	27,631	1,172,221	281,264	689,352	6,221,699
As of December 31, 2018	105,669	561,443	2,392,367	322,240	24,793	1,105,444	295,191	1,434,759	6,241,906

**) The amounts include depreciation of tangible assets used in the production of other fixed assets, capitalized in their cost, amounting to RON 21,171 thousand*

Impairment of property, plant and equipment

Note 2 contains information on the conditions under which impairment losses for individual assets are recognized.

Impairment of assets in the Upstream segment

At the start of 2020, Government Emergency Ordinance no. 114/2018, which introduced regulated prices for gas delivered during the period May 1, 2019 – February 28, 2022 to suppliers of gas to household consumers and to heat producers only for the gas used in producing heat for the population, was amended by Government Emergency Ordinance no. 1/2020. Amendments refer, among others, to repealing the regulated price on gas starting July 1, 2020 and repealing the contribution charged by ANRE to license title holders operating in gas and electricity industry of 2% on revenue. In addition to these, the Company noticed a fall in the gas prices on the external markets. Also, ANRE published in 2020 a draft order which forces major Romanian gas producers to sell 30% of their output on the commodities exchange at a maximum price of 95% of the price on the Central European Gas Hub. The Company's management believes this draft will become a legal obligation which currently means a decrease of the average gas price. Based on these factors, the Company conducted an impairment test on the commercial fields it operates.

Based on its assessment, the Company considered each commercial field as a separate cash-generating unit. The infrastructure common to several gas fields (e.g. compression stations, drying stations) was allocated to each field according to the quantities processed for each field served. The corporate assets were allocated to each field according to the estimated revenue to be earned by each field in the total revenue over the period considered in the impairment test.

The impairment test took into account the economic life of the fields, according to the latest studies approved by the National Agency of Mineral Resources, but no later than 2043, this being the limit year of the concession agreements, according to the legislation in force.

Following the impairment test, there was an additional net impairment of RON 71,257 thousand.

In the impairment test the following assumptions were used:

- Weighted average cost of capital: 10%;
- The inflation rate for the years 2020-2022 was the one reported by the National Prognosis Commission in the autumn forecast for 2019. For the period 2023-2043 a constant inflation rate of 2.6% was used;
- Average estimated price for the period was 92.98 lei/MWh.

Sensitivity analysis - following the 1% change in the factors below, the impairment resulted from the impairment test would be (changes are independent from one another):

	Increase by 1%	Decrease by 1%
	'000 RON	'000 RON
Weighted average cost of capital	72,858	69,781
Selling price	70,204	72,311
Inflation rate	70,127	72,460

Impairment of assets in the Storage segment

In 2020, the Company's shareholders decided to increase the share capital of its subsidiary Depogaz by contribution in kind with the assets used in the storage activity. Following this decision, the Board of Directors approved the increase of the subsidiary's share capital with RON 871,787 thousand, representing contribution in kind of assets, except for the gas cushion. Prior to these decisions, there were no asset impairment indications, as the carrying value was recovered through rent charged by the Company to the subsidiary. Based on the two decisions, impairment indications were identified in a valuation report prepared following shareholders' decision no. 14/2018. Based on the impairment test conducted, an impairment loss of RON 388,060 thousand was recorded.

In the impairment test the following assumptions were used:

- Weighted average cost of capital: 7.8%;
- Average storage tariff used was the one in force at the date the test was conducted.

Sensitivity analysis - following the 1% change in the factors below, the impairment resulted from the impairment test would be (changes are independent from one another):

	Increase by 1% '000 RON	Decrease by 1% '000 RON
Weighted average cost of capital	454,913	329,885
Storage revenue	378,723	398,002

Rented assets

Carrying value of assets rented to third parties:

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Land	15,467	20,542
Buildings	159,197	176,190
Plant, machinery and equipment	112,565	127,673
Fixtures, fittings and office equipment	3,297	3,880
Storage assets	425,975	1,042,227
Carrying value of rented property plant and equipment	**716,501**	**1,370,512**

Maturity analysis of revenue from rented assets

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Year 1	33,923	34,365
Year 2	7,584	7,188
Year 3	7,747	7,350
Year 4	7,945	7,467
Year 5	8,033	356
Over 5 years	24,430	-

13. EXPLORATION AND APPRAISAL FOR NATURAL GAS RESOURCES

The following financial information represents the amounts included within the Company's totals relating to activity associated with the exploration for and appraisal of natural gas resources.

Continued operation	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Exploration assets written off (note 12)	(23,051)	(149,620)
Seismic, geological, geochemical studies	(1,513)	(97,503)
Exploration expenses	**(24,564)**	**(247,123)**
Net movement in exploration assets' impairment (note 12) (net income)/net loss	208,350	(118,809)
Net cash used in exploration investing activities	(173,563)	(205,371)

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Exploration assets (note 12)	156,913	295,191
Liabilities	(49,270)	(22,464)
Net assets	**107,643**	**272,727**

14. OTHER INTANGIBLE ASSETS. RIGHT OF USE ASSETS

	Other intangible assets '000 RON	Right of use assets '000 RON
Cost		
As of January 1, 2019	**179,409**	-
Implementation of IFRS 16 'Leases'	-	4,929
Additions	6,124	5,036
Disposals	(695)	(1,308)
Transfer to assets held for disposal (note 29)	(41)	-
As of December 31, 2019	**184,797**	8,657
Accumulated amortization		
As of January 1, 2019	**174,674**	-
Charge	2,238	707
Disposals	(219)	(89)
Transfer to assets held for disposal (note 29)	(26)	-
As of December 31, 2019	**176,667**	**618**
Carrying value		
As of January 1, 2019	**4,735**	-
As of December 31, 2019	**8,130**	**8,039**

	Other intangible assets '000 RON
Cost	
As of January 1, 2018	**183,711**
Additions	467
Disposals	(4,769)
As of December 31, 2018	**179,409**
Accumulated amortization	
As of January 1, 2018	**175,082**
Charge	4,321
Disposals	(4,729)
As of December 31, 2018	**174,674**
Carrying value	
As of January 1, 2018	**8,629**
As of December 31, 2018	**4,735**

15. INVENTORIES

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Spare parts and materials	154,691	170,904
Finished goods (gas)	183,842	94,460
Other inventories	459	2,747
Write-down allowance for spare parts and materials	(42,850)	(38,053)
Write-down allowance for other inventories	(1)	(146)
Total	**296,141**	**229,912**

16. ACCOUNTS RECEIVABLE

a) Trade and other receivables

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Trade receivables	1,547,917	1,643,855
Allowances for expected credit losses (note 16 c)	(1,252,267)	(1,218,188)
Accrued receivables	369,811	383,132
Allowances for expected credit losses on accrued receivables (note 16 c)	(47,142)	-
Total	**618,319**	**808,799**

Trade receivables from gas deliveries are generally due within 30 days of invoice issue. These must be guaranteed by customers through bank letters of guarantee. If customers do not provide such a guarantee, they must ensure that natural gas is paid in advance.

The Company is forced by court orders to sell gas to insolvent clients considered "captive" by the insolvency law. These clients provide no guarantees, do not pay for deliveries in advance and have a payment term of 90 days from invoice issue date. The increase in the allowance for expected credit losses refer mainly to these clients.

Trade receivables from the sale of electricity are generally due within 7 days of the date of invoice transmission. These must be guaranteed by customers through bank letters of guarantee. If customers do not provide such a guarantee, they must ensure that electricity is paid in advance.

b) Other assets

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Advances paid to suppliers	386	9,584
Joint operation receivables	2,125	6,703
Other receivables *)	61,177	65,267
Allowance for expected credit losses other receivables (note 16 c) *)	(33,703)	(50,983)
Other debtors	47,528	47,188
Allowances for expected credit losses for other debtors (note 16 c)	(46,445)	(43,091)
Prepayments	3,784	4,996
VAT not yet due	5,954	5,086
Other taxes receivable **)	-	123,152
Total	**40,806**	**167,902**

*) During May 13, 2014 – September 30, 2014 the National Agency for Tax Administration (Agentia Nationala de Administrare Fiscala - ANAF) ran a tax investigation at Romgaz regarding the tax statements and/or operations relevant for the investigation as well as the organization and management of tax and accounting evidence. The period under control was 2008 – 2013 for income tax and 2009 – 2013 for VAT.

Following the tax inspection, an additional liability was established for Romgaz of RON 22,440 thousand, representing income tax, VAT, penalties and related interest. Of the total amount, Romgaz paid RON 2,389 thousand. For the remaining amount of RON 20,051 thousand, Romgaz performed a legal assessment which concluded that the additional tax, penalties and interest are not correct. Romgaz filed an appeal to the Ministry of Public Finance. The appeal was partially rejected for the amount of RON 15,872 thousand.

For RON 4,179 thousand a new fiscal control was ordered, which resulted in a tax burden of RON 2,981 thousand. The appeal filed to ANAF was rejected.

In 2015, Romgaz sued the Ministry of Finance to cancel the above mentioned administrative acts, including the partial cancelation of the decision issued for the appeal.

The payment made in 2016 generated additional penalties of RON 13,697 thousand, also paid. Considering the disagreement regarding the conclusions of the tax control, the Company recorded a receivable and an allowance.

In 2019, the Company won some of the points claimed in the case filed against ANAF and the allowance of RON 18,499 thousand was reversed against income. By the end of the reporting period, the court's decision was not communicated and the amount was not recovered.

During the period December 2016 - April 2017 ANAF resumed the tax inspection on VAT for the period December 2010 – June 2011 and on income tax for the period January 2010 – December 2011, regarding the discounts granted by Romgaz to interruptible clients for deliveries during 2010 - 2011. This status was attributed to companies by Transgaz, the Romanian natural gas transmission operator. Following the tax inspection, additional tax obligations of RON 15,284 thousand were determined, and also penalties and late payment charges in amount of RON 3,129 thousand. The tax decision and the tax inspection report were appealed to ANAF. Romgaz paid the additional tax obligation and the late payment charges and based on the appeal, the Company recorded a receivable for which it recorded an allowance.

The total receivable impaired in connection with these controls is RON 32,463 thousand.

**) In 2017 the excise tax inspection for the period January 2010 - March 2013 was finalized. The tax inspection report concluded that Romgaz was not subject to excise duties related to technological consumption. Based on this report, in 2017 Romgaz recorded an income of RON 244,385 thousand, of which RON 130,470 thousand refer to the period April 2013 - November 2016, for which Romgaz has submitted corrective statements. In 2018, Romgaz recovered RON 113,915 thousand by offsetting with other tax liabilities in balance at December, 31 2017. As for the amount of RON 130,470 thousand, Romgaz was subjected in 2018 to a new tax audit for reimbursement, which was finalized favorably in 2019, when the rest of the amount was recovered.

c) Changes in the allowance for expected credit losses for trade and other receivables and other assets

	2019	2018
	'000 RON	'000 RON
At January 1	**1,312,262**	**1,292,438**
Charge in the allowance for receivables (note 6)	4,641	388
Charge in the allowance for trade receivables	84,783	20,928
Release in the allowance for receivables (note 6)	(18,567)	(505)
Release in the allowance for trade receivables	(3,562)	(987)
At December 31	**1,379,557**	**1,312,262**

As of December 31, 2019, the Company recorded allowances for doubtful debts, of which Interagro RON 275,137 thousand (December 31, 2018: RON 275,961 thousand), GHCL Upsom of RON 68,103 thousand (December 31, 2018: RON 60,371 thousand), CET Iasi of RON 46,271 thousand (December 31, 2018: RON 46,271 thousand), Electrocentrale Galati with RON 222,075 thousand (December 31, 2018: RON 223,396 thousand), Electrocentrale Bucuresti with RON 616,330 thousand (December 31, 2018: RON 570,274 thousand), G-ON EUROGAZ of RON 14,848 thousand (December 31, 2018: RON 14,848 thousand) and Electrocentrale Constanta of RON 39,113 thousand (December 31, 2018: RON 14,295 thousand), due to existing financial conditions of these clients as well as ongoing litigating cases related to these receivables or exceeding payment terms.

d) Credit risk exposure for trade receivables

December 31, 2019	Gross carrying amount	Expected credit loss rate	Lifetime expected credit losses
	'000 RON	%	'000 RON
Current receivables, including accrued receivables	664,761	7.10	47,198
less than 30 days overdue	3,924	84.00	3,296
30 to 90 days overdue	1,451	96.21	1,396
90 to 360 days overdue	25,203	99.71	25,130
over 360 days overdue	1,222,389	100.00	1,222,389
Total trade receivables	**1,917,728**		**1,299,409**

December 31, 2018	Gross carrying amount	Expected credit loss rate	Lifetime expected credit losses
	'000 RON	%	'000 RON
Current receivables, including accrued receivables	806,795	-	-
less than 30 days overdue	1,083	14.77	160
30 to 90 days overdue	1,317	97.49	1,284
90 to 360 days overdue	20,176	99.76	20,128
over 360 days overdue	1,197,616	99.92	1,196,616
Total trade receivables	**2,026,987**		**1,218,188**

17. SHARE CAPITAL

	December 31, 2019	December 31, 2018
	'000 RON	'000 RON
385,422,400 fully paid ordinary shares	385,422	385,422
Total	**385,422**	**385,422**

The shareholding structure as at December 31, 2019 is as follows:

	No. of shares	Value	Percentage (%)
		'000 RON	
The Romanian State through the Ministry of Economy, Energy and Business Environment	269,823,080	269,823	70.01
Legal persons	98,317,285	98,317	25.51
Physical persons	17,282,035	17,282	4.48
Total	**385,422,400**	**385,422**	**100**

All shares are ordinary and were subscribed and fully paid as at December 31, 2019. All shares carry equal voting rights and have a nominal value of RON 1/share (December 31, 2018: RON 1/share).

18. RESERVES

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Legal reserves	77,084	77,084
Other reserves, of which:	1,502,818	1,746,603
- Company's development fund	772,417	1,028,449
- Reinvested profit	224,288	212,041
- Geological quota set up until 2004	486,388	486,388
- Other reserves	19,725	19,725
Total	**1,579,902**	**1,823,687**

19. PROVISIONS

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Decommissioning provision (note 19 a)	331,812	510,114
Retirement benefit obligation (note 19 c)	106,158	131,120
Total long term provisions	**437,970**	**641,234**
Decommissioning provision (note 19 a)	13,912	20,352
Litigation provision (note 19 b)	1,337	229
Other provisions *) (note 19 b)	59,351	72,103
Total short term provisions	**74,600**	**92,684**
Total provisions	**512,570**	**733,918**

*) On December 31, 2019, other provisions of RON 59,351 thousand include the provision for employee's participation to profit of RON 31,525 thousand (December 31, 2018: RON 28,718 thousand) and the provision for CO_2 certificates of RON 23,410 thousand (note 32 c) (December 31, 2018: RON 40,109 thousand). Also, please see section b) of this note.

a) Decommissioning provision

Decommissioning provision movement	2019 '000 RON	2018 '000 RON
At January 1	**530,466**	**713,157**
Additional provision recorded against non-current assets	16,342	1,902
Unwinding effect (note 9)	24,197	29,724
Recorded in profit or loss	(51,760)	(34,390)
Change recorded against non-current assets	(135,009)	(179,927)
Provision directly associated with the assets held for disposal (note 29)	(38,512)	-
At December 31	**345,724**	**530,466**

The Company makes full provision for the future cost of decommissioning natural gas wells on a discounted basis upon installation. The provision for the costs of decommissioning these wells at the end of their economic lives has been estimated using existing technology, at current prices or future assumptions, depending on the expected timing of the activity, and discounted using a rate of 4.41% (year ended December 31, 2018: 4.80%). While the provision is based on the best estimate of future costs and the economic lives of the wells, there is uncertainty regarding both the amount and timing of these costs. In 2019, the Company revisited the costs used to decommission wells, recording a decrease based on costs lower, on average, with 22%.

The increase with 1 percentage point of the discount rate would decrease the decommissioning provision with RON 68,864 thousand. The decrease with 1 percentage point of the discount rate would increase the decommissioning provision with RON 89,581 thousand.

b) Other provisions

	Litigation provision '000 RON	Other provisions '000 RON	Total '000 RON
At January 1, 2019	**229**	**72,103**	**72,332**
Additional provision recorded in the result of the period	2,184	65,942	68,126
Provisions used in the period	(1,076)	(75,303)	(76,379)
Unused amounts during the period, reversed	-	(3,391)	(3,391)
At December 31, 2019	**1,337**	**59,351**	**60,688**

	Litigation provision '000 RON	Other provisions '000 RON	Total '000 RON
At January 1, 2018	**79**	**45,728**	**45,807**
Additional provision recorded in the result of the period	235	79,062	79,297
Provisions used in the period	(85)	(42,005)	(42,090)
Unused amounts during the period, reversed	-	(10,682)	(10,682)
At December 31, 2018	**229**	**72,103**	**72,332**

c) Retirement benefit obligation

Movement for retirement benefit obligation	2019 '000 RON	2018 '000 RON
At January 1	**131,120**	**119,482**
Interest cost	3,718	4,848
Current service cost	6,157	5,823
Payments during the year	(7,045)	(7,202)
Actuarial (gain)/loss of the period	(27,792)	18,994
Curtailment	-	(10,825)
At December 31	**106,158**	**131,120**

With the exception of actuarial gains/losses, all other movements in the retirement benefit obligation are recognized in the result of the period.

In determining the retirement benefit obligation, the following significant assumptions were used:

- No layoffs or restructurings are planned;
- Average discount rate: 4.49%;
- Average inflation rate: 2.10%.

Sensitivity analysis

The discount rate has a significant effect on the obligation. Isolated change in assumptions with 1 percentage point would have the following effect on the obligation:

	Increase of 1% in assumptions '000 RON	Decrease of 1% in assumptions '000 RON
Discount rate	(10,137)	11,835

Maturity analysis of payment cash flows

	Benefit payments '000 RON
Up to 1 year	3,947
1-2 years	4,562
2-5 years	11,839
5-10 years	37,853
Over 10 years	47,957

20. DEFERRED REVENUE

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Amounts collected from NIP *)	20,994	20,994
Other deferred revenue	123	-
Other amounts received as subsidies	127	134
Total deferred revenue long term	**21,244**	**21,128**
Other amounts received as subsidies	58	123
Other deferred revenue	3,671	8,319
Total deferred revenue short term	**3,729**	**8,442**
Total deferred revenue	**24,973**	**29,570**

*) In Government Decision no. 1096/2013 approving the mechanism for the free allocation of greenhouse gas emission allowances to electricity producers for the period 2013-2020, Annex no. 3 "National Investment Plan" (NIP) at Item 22, S.N.G.N. ROMGAZ S.A. is included with the investment "Combined Gas Turbine Cycle".

For this investment, Romgaz signed a financing agreement with the Ministry of Energy in 2017, whereby the Ministry of Energy undertakes to grant a non-reimbursable financing of RON 320,912 thousand, representing a maximum of 25% of the total value of the eligible expenditure of the investment. In 2018 the amount of RON 20,994 thousand was collected. Amounts received under this contract will be transferred to income based on the depreciation rate of the investment, which is expected to be put into operation in 2020.

The Company submitted two other claims: one in 2018 of RON 115,027 thousand, approved by authorities, but not collected, and another one in 2019 of RON 94,148 thousand, not approved by the date of issue of the financial statements. The Company did not record these amounts as receivable in the financial statements, due to uncertainties regarding completion of the works on the new plant by the term agreed in the financing agreement.

	Amounts collected from NIP '000 RON	Other amounts received as subsidies '000 RON	Total '000 RON
At January 1, 2019	**20,994**	**257**	**21,251**
Received	-	-	-
Other increases	-	9	9
Amounts in revenue	-	(81)	(81)
At December 31, 2019	**20,994**	**185**	**21,179**

	Amounts collected from NIP '000 RON	Other amounts received as subsidies '000 RON	Total '000 RON
At January 1, 2018	-	263	263
Received	20,994	114	21,108
Other increases	-	149	149
Amounts in revenue	-	(269)	(269)
At December 31, 2018	**20,994**	**257**	**21,251**

21. TRADE AND OTHER CURRENT LIABILITIES

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Accruals	30,535	33,679
Trade payables	18,242	28,343
Payables to fixed assets suppliers	61,550	127,333
Total trade payables	**110,327**	**189,355**

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Payables related to employees	44,268	40,244
Royalties *)	64,760	137,211
Social security taxes	20,226	17,029
Other current liabilities	4,700	29,914
Joint operations payables	-	3,593
VAT	54,189	82,224
Dividends payable	2,231	2,355
Windfall tax	59,095	69,875
Other taxes	1,338	469
Total other liabilities	**250,807**	**382,914**
Total trade and other liabilities	**361,134**	**572,269**

*) The decrease in royalties liability is due to lower benchmark prices used in its computation, as a consequence of lower prices on CEGH market.

22. FINANCIAL INSTRUMENTS

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, inflation risk, interest rate risk), credit risk, liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance within certain limits. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements. The Company does not use derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) *Foreign exchange risk*

The Company is exposed to currency risk as a result of exposure to various currencies. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

As at December 31, 2019, the official exchange rates were RON 4.2608 to USD 1 and RON 4.7793 to EUR 1 and (December 31, 2018: RON 4.0736 to USD 1 and RON 4.6639 to EUR 1).

December 31, 2019	EUR 1 EUR = 4.7793 RON '000 RON	GBP 1 GBP = 5.6088 RON '000 RON	USD 1 USD = 4.2608 RON '000 RON	RON 1 RON '000 RON	Total '000 RON
Financial assets					
Cash and cash equivalents	605	1	4	322,497	323,107
Other financial assets	-	-	-	1,065,914	1,065,914
Trade and other receivables	-	-	-	295,650	295,650
Total financial assets	**605**	**1**	**4**	**1,684,061**	**1,684,671**
Financial liabilities					
Trade payables and other payables	(2)	(27)	(29)	(79,734)	(79,792)
Lease liability	(4,764)	-	-	(4,194)	(8,958)
Total financial liabilities	**(4,766)**	**(27)**	**(29)**	**(83,928)**	**(88,750)**
Net	**(4,161)**	**(26)**	**(25)**	**1,600,133**	**1,595,921**

December 31, 2018	EUR 1 EUR = 4.6639 RON '000 RON	GBP 1 GBP = 5.1931 RON '000 RON	USD 1 USD = 4,0736 RON '000 RON	RON 1 RON '000 RON	Total '000 RON
Financial assets					
Cash and cash equivalents	1,007	13	5	548,743	549,768
Other financial assets	-	-	-	878,555	878,555
Trade and other receivables	-	-	-	425,667	425,667
Total financial assets	**1,007**	**13**	**5**	**1,852,965**	**1,853,990**
Financial liabilities					
Trade payables and other payables	(18,388)	(28)	(811)	(136,449)	(155,676)
Total financial liabilities	**(18,388)**	**(28)**	**(811)**	**(136,449)**	**(155,676)**
Net	**(17,381)**	**(15)**	**(806)**	**1,716,516**	**1,698,314**

The Company is mainly exposed to currency risk generated by EUR and USD against RON. The table below details the sensitivity of the Company to a 5% increase/decrease in the EUR and USD exchange rate against the RON. The 5% rate is the rate used in internal reports to management on foreign currency risk and represents management's assessment of reasonable changes in the exchange rate. Sensitivity analysis includes only monetary items denominated in foreign currency in the balance sheet, and considers the transfer at the end of the period to a modified rate of 5%.

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
RON weakening - loss	210	909

(ii) *Inflation risk*

The official inflation rate in Romania, during the year ended December 31, 2019 was under 10% as provided by the National Commission for Statistics of Romania. The cumulative inflation rate for the last 3 years was under 100%. This factor, among others, led to the conclusion that Romania is not a hyperinflationary economy.

(iii) *Interest rate risk*

The Company is exposed to interest rate risk, due to retirement benefit obligations and the decommissioning provision. The Company's sensitivity to changes in the discount rate is detailed in note 19.

Bank deposits and treasury bills bear a fixed interest rate.

(b) Credit risk

Financial assets, which potentially subject the Company to credit risk, consist principally of trade receivables. The Company has policies in place to ensure that sales are made to customers with low credit risk. Also, sales have to be secured, either through advance payments, either through bank letters of guarantee. The carrying amount of accounts receivable, net of bad debt allowances, represents the maximum amount exposed to credit risk. The Company has a concentration of credit risk in respect of its top 4 clients, which together amount to 85.19% of net trade receivable balance at December 31, 2019 (top 4 clients: 89.55% as of December 31, 2018).

In spite of the policies described above, the Company is forced by court orders to deliver gas to insolvent clients deemed "captive" by insolvency legislation. In respect of these clients, the Company makes estimates of the lifetime expected credit losses and records appropriate impairment losses.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the bad debt allowance already recorded.

(c) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimize the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the dividend policy, issue new shares or sell assets to reduce debt.

The Company's policy is to only resort to borrowing if investment needs cannot be financed internally.

(d) Fair value estimation

Carrying amount of financial assets and liabilities is assumed to approximate their fair values.

Financial instruments in the balance sheet include trade receivables and other receivables, cash and cash equivalents, other financial assets, short-term loans and borrowings and trade and other payables. The estimated fair values of these instruments approximate their carrying amounts. The carrying amounts represent the Company's maximum exposure to credit risk for existing receivables.

e) Maturity analysis for non-derivative financial assets and financial liabilities

December 31, 2019	Due in less than a month	Due in 1-3 months	Due in 3 months to 1 year	Due in 1-5 years	Due in over 5 years	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Trade receivables	106,087	189,530	33	-	-	295,650
Bank deposits	265,000	560,354	91,000	-	-	916,354
Treasury bonds	-	-	149,560	-	-	149,560
Total	**371,087**	**749,884**	**240,593**	**-**	**-**	**1,361,564**
Trade payables	(75,823)	(3,964)	(5)	-	-	(79,792)
Lease liability	(52)	(252)	(503)	(2,986)	(5,165)	(8,958)
Total	**(75,875)**	**(4,216)**	**(508)**	**(2,986)**	**(5,165)**	**(88,750)**
Net	**295,212**	**745,668**	**240,085**	**(2,986)**	**(5,165)**	**1,272,814**

December 31, 2018	Due in less than a month '000 RON	Due in 1-3 months '000 RON	Due in 3 months to 1 year '000 RON	Due in 1-5 years '000 RON	Due in over 5 years '000 RON	Total '000 RON
Trade receivables	194,608	231,022	37	-	-	425,667
Bank deposits	205,591	125,167	-	-	-	330,758
Treasury bonds	-	178,990	368,807	-	-	547,797
Total	**400,199**	**535,179**	**368,844**	**-**	**-**	**1,304,222**
Trade payables	(141,597)	(14,049)	(30)	-	-	(155,676)
Total	**(141,597)**	**(14,049)**	**(30)**	**-**	**-**	**(155,676)**
Net	**258,602**	**521,130**	**368,814**	**-**	**-**	**1,148,546**

f) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company's management, which has established an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and current cash flows and by matching the maturity profiles of financial assets and liabilities.

23. RELATED PARTY TRANSACTIONS AND BALANCES

i. Sales of goods and services

	Year ended Dec 31, 2019 '000 RON	Year ended Dec 31, 2018 '000 RON
Subsidiaries	126,917	120,583
Associates	23,374	20,780
Total	**150,291**	**141,363**

Transactions with other companies controlled by the Romanian State are not considered transactions with related parties, for financial statements purposes.

ii. Purchase of goods and services

	Year ended Dec 31, 2019 '000 RON	Year ended Dec 31, 2018 '000 RON
Subsidiaries	64,874	54,920
Total	**64,874**	**54,920**

iii. Trade receivables

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Subsidiaries	19,111	16,567
Associates	-	642
Total	**19,111**	**17,209**

iv. Trade payables

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Subsidiaries	(7,125)	8,536
Total	**(7,125)**	**8,536**

24. INFORMATION REGARDING THE MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

The remuneration of executives and directors

The Company has no contractual obligations on pensions to former executives and directors of the Company.

During the years ended December 31, 2019 and December 31, 2018, no loans and advances were granted to executives and directors of the Company, except for work related travel advances, and they do not owe any amounts to the Company from such advances.

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Salaries paid to executives (gross)	15,757	16,979
of which, bonuses (gross)	613	2,234
Remuneration paid to directors (gross)	1,404	1,598
of which, variable component (gross)	-	246

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Salaries payable to executives	352	379
Salaries payable to directors	70	64

25. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

a) Investment in subsidiaries

Subsidiaries' name	Main activity	Country of residence and operations	Percentage of interest held (%) December 31, 2019	Percentage of interest held (%) December 31, 2018
SNGN ROMGAZ SA – Filiala de Înmagazinare Gaze Naturale DEPOGAZ Ploiesti SRL	Natural gas storage	Romania	100	100

	Cost at December 31, 2019 '000 RON	Cost at December 31, 2018 '000 RON
SNGN ROMGAZ SA – Filiala de Înmagazinare Gaze Naturale DEPOGAZ Ploiesti SRL	66,056	66,056
Total	**66,056**	**66,056**

b) Investment in associates

Name of associate	Main activity	Place of incorporation and operation	Proportion of interest held (%) December 31, 2019	Proportion of interest held (%) December 31, 2018
SC Depomures SA Tg Mures	Storage of natural gas	Romania	40	40
SC Agri LNG Project Company SRL	Feasibility projects	Romania	25	25

Name of associate	Cost as of December 31, 2019	Impairment as of December 31, 2019	Carrying value as of December 31, 2019	Cost as of December 31, 2018	Impairment as of December 31, 2018	Carrying value as of December 31, 2018
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
SC Depomures SA Tg.Mures	120	-	120	120	-	120
SC Agri LNG Project Company SRL	977	(977)	-	977	(977)	-
Total	**1,097**	**(977)**	**120**	**1,097**	**(977)**	**120**

26. OTHER FINANCIAL INVESTMENTS

Other financial investments are measured at fair value through profit or loss.

Except for the investment in Patria Bank, which is a level 1 financial investment, all other investments are included in level 3 category, according to IFRS 13.

Company	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held (%)	
			December 31, 2019	December 31, 2018
Electrocentrale Bucureşti S.A.	Electricity and thermal power producer	Romania	2.49	2.49
Patria Bank S.A.	Other activities – financial intermediations	Romania	0.03	0.03
Mi Petrogas Services S.A.	Services related to oil and natural gas extraction, excluding prospections	Romania	10	10
GHCL Upsom	Manufacture of other chemical, anorganic base products	Romania	4.21	4.21
Lukoil association	Petroleum exploration operations	Romania	12.2	12.2

Company	Fair value as of December 31, 2019	Fair value as of December 31, 2018
	'000 RON	'000 RON
Electrocentrale Bucureşti S.A. *)	-	4,457
Patria Bank S.A.**)	101	68
Mi Petrogas Services S.A.	60	60
GHCL Upsom	-	-
Lukoil association	5,227	5,227
Total	**5,388**	**9,812**

*) The fair value of the investment in Electrocentrale Bucuresti at December 31, 2019 was reduced to zero, due to the difficulties encountered in implementing the restructuring plan in the insolvency procedure. The investment in Electrocentrale Bucuresti is not quoted.

**) Patria Bank's shares being quoted, the fair value at the end of the period is determined by taking into account the closing quotation of the share. The variation between the amount at December 31, 2019 and the amount at December 31, 2018 was recorded in the result of the period.

27. CASH AND CASH EQUIVALENTS

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Current bank accounts in RON *)	64,621	75,239
Current bank accounts in foreign currency	602	1,018
Petty cash	16	29
Term deposits in RON	170,000	367,610
Restricted cash **)	87,867	105,870
Amounts under settlement	1	2
Total	**323,107**	**549,768**

*) Current bank accounts include overnight deposits.

**) Restricted cash includes bank accounts used strictly for VAT transactions, as the Company opted in to the application of the split-VAT system (December 31, 2019: RON 85,215 thousand; December 31, 2018: RON 103,287 thousand). It also includes bank accounts used only for dividend payments to shareholders, according to stock market regulations (December 31, 2019: RON 2,652 thousand; December 31, 2018: RON 2,583 thousand). Starting February 2020 the split-VAT system was terminated, the cash being available for use for other purposes.

28. OTHER FINANCIAL ASSETS

Other financial assets represent mainly treasury bonds and deposits with a maturity of over 3 months, from acquisition date.

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Treasury bonds in RON	144,923	532,447
Bank deposits in RON	916,354	330,758
Accrued interest receivable	3,377	2,670
Accrued interest on bonds	4,637	15,350
Total other financial assets	**1,069,291**	**881,225**

29. DISCONTINUED OPERATIONS

As of April 1 2018, natural gas storage was transferred from Romgaz to SNGN ROMGAZ SA – Filiala de Înmagazinare Gaze Naturale DEPOGAZ Ploiesti SRL.

The transfer of activity occurred as a result of the Company's legal obligation to achieve separation of natural gas storage activity from natural gas production and supply in accordance with Directive 2009/73 / EC of the European Parliament and of the Council of July 13, 2009 and the provisions of art. 141 align (1) of Law 123/2012.

The transfer involved the transfer of the license to the storage subsidiary, transfer of employees and the transfer of the unfinished acquisitions until 31 March 2018. The transfer did not involve a sale. As a result of the transfer of activity, the fixed assets were not transferred and they were leased to Depogaz.

At the end of 2018, the shareholders of the Company approved, in principle, to increase the share capital of Depogaz with the assets used in the storage activity. Based on this decision, in 2019 the Company's assets were measured in order to determine the value of the share capital increase. In December 2019, the Company's majority shareholder called for a meeting to take a final decision on the increase; the final decision was taken in January 2020. Based on the call of the majority shareholder in December 2019, the assets to be transferred, according to the Company's Board of Directors' decision in February 2020, together with other related assets and liabilities were classified as held for disposal as of December 31, 2019.

The major classes of assets and liabilities classified as held for disposal as of December 31. 2019 are:

	December 31, 2019 '000 RON	December 31, 2018 '000 RON
Property, plant and equipment	701,098	-
Other intangible assets	15	-
Deferred tax asset	198,189	-
Assets held for disposal	**899,302**	**-**
Provisions	38,512	-
Liabilities directly associated with the assets held for disposal	**38,512**	**-**
Net assets directly associated with the disposal group	**860,790**	**-**

Analysis of year's result from discontinued operations

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Revenue	-	113,609
Investment income	-	179
Other gains and losses	-	192
Changes in inventory of finished goods and work in progress	-	(21,606)
Raw materials and consumables used	-	(4,834)
Employee benefit expense	-	(12,213)
Other expenses	-	(11,773)
Other income	-	2,401
Profit before tax from discontinued operations	**-**	**65,955**
Income tax expense	-	(10,844)
Profit for the year	**-**	**55,111**

Cash flows from discontinued operations

	Year ended December 31, 2019 '000 RON	Year ended December 31, 2018 '000 RON
Net cash generated by/(used in) operating activities	-	(24,661)

Write-down of non-current assets related to the storage activity

Immediately before the classification of non-current assets used in the storage activity as held for disposal, the recoverable amount was estimated, using as a starting point the measurement of the assets performed for the increase in the share capital of Depogaz. This measurement was an indication of impairment and the Company performed an impairment test based on which it recorded an impairment loss of RON 388,060 thousand, as presented in note 12.

30. COMMITMENTS UNDERTAKEN

	December 31, 2019	December 31, 2018
	'000 RON	'000 RON
Endorsements and collaterals granted	52,729	65,838
Total	**52,729**	**65,838**

In 2019, Romgaz signed a credit agreement with BCR SA representing a facility for issuing letters of guarantee, and opening letters of credit for a maximum amount of USD 50,000 thousand. On December 31, 2019 are still available for use USD 37,741 thousand.

As of December 31, 2019, the Company's contractual commitments for the acquisition of non-current assets are of RON 431,382 thousand (December 31, 2018: RON 812,938 thousand), of which, the contract for CET Iernut development represents RON 173,488 thousand.

31. COMMITMENTS RECEIVED

	December 31, 2019	December 31, 2018
	'000 RON	'000 RON
Endorsements and collaterals received	1,496,152	1,552,496
Total	**1,496,152**	**1,552,496**

Endorsements and collateral received represent letters of guarantee and other performance guarantees received from the Company's clients.

32. CONTINGENCIES

(a) *Litigations*

The Company is subject to several legal actions arisen in the normal course of business. The management of the Company considers that they will have no material adverse effect on the results and the financial position of the Company.

On December 28, 2011, 27 former and current employees were notified by DIICOT regarding an investigation related to sale contracts signed with one of the Company's clients for allegedly unauthorized discounts granted to this client during the period 2005-2010. DIICOT mentioned that this may have resulted in a loss of USD 92,000 thousand for the Company. On that sum, an additional burden to the state budget consists of income tax in amount of USD 15,000 thousand and VAT in amount of USD 19,000 thousand. The internal analysis carried out by the Company's specialized departments concluded that the agreement was in compliance with the legal provisions and all discounts were granted based on Orders issued by the Ministry of Economy and Finance and decisions of the General Shareholders' Board and Board of Directors. The management of the Company believes the investigation will not have a negative impact on the financial statements, to justify the registration of an adjustment. The Company is fully cooperating with DIICOT in providing all information necessary. On March 18 2014, Romgaz received an address from DIICOT, by which the investigators ordered an accounting expertise, indicating the objectives of the expertise.

Romgaz was notified that, as injured party, it may submit comments relating to objectives of the expertise (additions/changes), and may appoint an additional expert to participate in the expertise.

Thus, Romgaz proceeded to identify and appoint an expert with accounting and financial expertise that can participate to the expertise. After the report was completed, the parties could submit objections by November 2, 2015.

On March 16, 2016, DIICOT – Central Structure informed the persons involved in the cause about the start of legal actions against them. At the request of investigators, the Company announced that in case of a prejudice being established during the investigation, the Company will join the case as civil party.

In November 2016, DIICOT informed the Company the prejudice established in amount of RON 282,630 thousand. Following this request, Romgaz announced that will join the case as a civil party for the amount of RON 282,630 thousand to recover this amount from the respective client and any other person that may be found guilty for causing the prejudice.

In June 2017, DIICOT issued a press release announcing the referral to court of several persons involved in the case. In January 2018, the High Court of Cassation and Justice ruled that the indictment prepared by DIICOT was not legal; the ruling is not definitive.

(b) *Taxation*

The Romanian taxation system is undergoing a process of consolidation and harmonization with the European Union legislation. However, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties. In Romania, tax periods remain open for fiscal verification for 5 years. The Company's management considers that the tax liabilities included in these financial statements are fairly stated.

(c) *Environmental contingencies*

Environmental regulations are developing in Romania and the Company has not recorded any liability at December 31, 2019 for any anticipated costs, including legal and consulting fees, impact studies, the design and implementation of remediation plans related to environmental matters, except the amount of RON 384,236 thousand (December 31, 2018: RON 530,466 thousand), representing the decommissioning liability.

Green-house gas emission certificates (CO2 certificates)

In accordance with Government Decision no. 1096/2013 for the approval of the mechanism for free transitional allocation of green-house gas emission certificates to electricity producers for the period 2013-2020, Annex no. 3 "National Investment Plan" position 22, Romgaz is included with the investment project "Combined cycle with gas turbines".

According to Annex no. 1 of the same decision, S.N.G.N. Romgaz S.A. was allocated for CTE Iernut 137,441 greenhouse gas certificates (EUA) for 2019.

As of December 31, 2019, Romgaz holds in the Greenhouse Gas Emissions Unique Registry 2,252 CO2 certificates, after meeting compliance obligations for the previous years and submitting the certificates to the Registry.

For the deficit between actual emissions and certificates held, the Company recognizes a provision measured at the best estimate of expenditure required to settle the obligation, namely the market price of the emission rights at reporting date. As of December 31, 2019 the Company records a deficit of 181,277 certificates for which it recorded a provision of RON 23,410 thousand (note 19).

According to Government Decision no 1096/December 17, 2013, Romgaz was allocated CO2 certificates as follows:

		Annual Allocation (tCO_2/year)							
Operator	Installation	2013	2014	2015	2016	2017	2018	2019	2020
SNGN Romgaz - S.A.	SNGN Romgaz - S.A. - CTE Iernut	962,085	824,645	687,204	549,763	412,322	274,882	137,441	-

(d) *Controls by The Romanian Court of Accounts*

In 2016, the Company came under scrutiny from the Romanian Court of Accounts.

One of the Romanian Court of Accounts' conclusions was that during 2013-2015 Romgaz delivered gas on the regulated market over the quantities it was legally allowed to, according to the existing legislation. The price on the regulated market being lower than the one on the free market, The Romanian Court of Accounts issued Decision number 26/01.06.2016 and ordered Romgaz to determine and to recover the prejudice as a price difference on gas quantities delivered on the regulated market over its legal obligation, having January 2017 as due date for implementation. The alleged prejudice estimated by the Court of Accounts is over RON 160 million. Romgaz appealed the decision, but the Court of Accounts dismissed the appeal. Subsequently, the Company started legal proceedings against the Court of Accounts' decision no. 26/01.06.2016 and, also, contracted legal services for the annulment of the Court of Accounts' decision and to carry out the measures ordered by the Court of Accounts' decision.

The Court of Accounts litigation was resolved by the Court of Appeal Alba Iulia, maintaining the findings and measures of Decision no. 26/2016 issued by the Court of Accounts, except for one measure.

The Company's management respects the decision taken by the Court of Appeal Alba Iulia and started legal actions to implement the measures established by the Court of Accounts. The deadline for implementing these measures was extended to June 30, 2020.

33. JOINT ARRANGEMENTS

In January 2002, Romgaz signed a petroleum agreement with Amromco for rehabilitation operations in order to achieve additional production in 11 blocks, namely: Bibeşti, Strâmba, Finta, Fierbinţi-Târg, Frasin-Brazi, Zătreni, Boldu, Roşioru, Gura-Şuţii, Balta-Albă and Vlădeni. For the base production, Romgaz holds a share of 100% and for the additional production, Romgaz owns a share of 50% and Amromco Energy SRL - 50%. As the agreement was signed to execute rehabilitation operations to obtain additional production, the mandatory work program is in accordance with the studies approved by ANRM. Accordingly, the annual work program, which includes both works provided in the studies and other works necessary and proposed by the partners, is approved annually by the Board of the joint arrangement before the start of each year. The duration of the joint arrangement is in line with the time frame of each individual concession agreements of the 11 perimeters stated above, which differs for each block.

34. AUDITOR'S FEES

The fee charged by the Company's statutory auditor, S.C. Ernst & Young Assurance Services S.R.L. for the audit of 2019 financial statements is RON 315 thousand.

The fees charged for other assurance services in 2019 are RON 170 thousand.

35. EVENTS AFTER THE BALANCE SHEET DATE

Increase of share capital of Depogaz

In January 2020, the shareholders of Romgaz approved the increase of Depogaz's share capital by transfer in kind of fixed assets owned by Romgaz, used in the storage activity.

In order to implement the shareholders' decision, the Company's Board of Directors decided to increase the share capital of Depogaz with RON 871,787 thousand and not to transfer the gas cushion.

These decisions triggered impairment indications related to the assets used in the storage activity, based on which the Company conducted an impairment test whose results were recorded in these financial statements.

Economic-Financial inspection report of the National Agency for Fiscal Administration

During November 2019-January 2020, the Company was subject to a control by the National Agency for Fiscal Administration, whose scope was to determine whether the Company distributed appropriate dividends in accordance with the provisions of Government Emergency Ordinance no. 114/2018. According to the Ordinance, the Company had to distribute 35% of reserves set up based on Government Ordinance no. 64/2001 available in cash or short term investments at the end of 2018 not committed in acquisition contracts. The Agency reported that the Company should have distributed in 2019 an additional RON 34,852 thousand as dividends and determined penalties for late payment of RON 1,054 thousand for the share payable to the main shareholder. The Company's management does not share the view of the Agency and will fight the findings of their report.

These financial statement include no adjustments in connection with the above.

Withdrawal from Svidnik perimeter

The Svidnik perimeter is located in the Slovak Republic and is operated through the Bratislava Branch. In February 2020, the Board of Directors of the Company endorsed the withdrawal from Bratislava branch and convened the Extraordinary General Meeting of Shareholders to approve the withdrawal on March 25, 2020.

Investments in the Svidnik perimeter are fully impaired.

Change in legislation affecting the Company

At the start of 2020, Government Emergency Ordinance no. 114/2018, which introduced regulated prices for gas delivered during the period May 1, 2019 – February 28, 2022 to household consumers and to heat producers only for the gas used in producing heat for the population, was amended by Government Emergency Ordinance no. 1/2020. Amendments refer, among others, to repealing the regulated price on gas starting July 1, 2020 and repealing the contribution charged by ANRE to license title holders operating in gas and electricity industry of 2% on revenue. Also, ANRE published in 2020 a draft order which forces major Romanian gas producers to sell 30% of their output on the commodities exchange at a maximum price of 95% of the price on the Central European Gas Hub. The Company's management believes this draft will become a legal obligation which currently means a decrease of the average gas price. Based on these factors, the Company conducted an impairment test on the gas fields it operates and recorded the results in these financial statements.

Estimated effects of the Covid-19 pandemic on the Company

Currently, the Company operates as usual and has not experienced any impact related to the pandemic. The Company is focused on reaching the targets set in the budget proposal, even under the current circumstances. The Company cooperates with the authorities and takes all necessary measures to ensure employees' safety and business continuity.

Considering the current situation generated by the Covid-19 pandemic, the Company's management is constantly monitoring the impact on its activity. To mitigate a potential decrease in economic activity which could have consequences on natural gas consumption, on a short term the Company is considering to inject the gas in storages and postpone deliveries towards winter.

From a production point of view, the Company plans to perform its activities as usual. Should employees get infected in one of the Company's production areas, the Company has alternatives to transfer the activity to areas in the close vicinity. Under exceptional circumstances imposed by authorities, the actual course of action could differ. However, at the moment production activities are governed by normalcy, responsibility and awareness.

Delays, however, might affect investments, regardless of the Company's will, as the relationship with suppliers is affected by a national state of emergency. Thus, we are witnessing lower activity of contractors or even closures of factories in the countries affected by the pandemic, closed borders, which would make transportation of raw materials and equipment impossible, lower operational activity of companies, lack of contractors' personnel due to isolation or quarantine, logistic limitations generated by the state of emergency.

At present, Romgaz is taking all efforts to mitigate the Covid-10 impact on the Company's activity, as well as to minimize the risk of employees becoming ill. As such, measures to secure employees' safety are constantly being taken, employees having the possibility to work in shifts or at home, and also to run operations under optimal conditions.

36. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on March 19, 2020.

Adrian Constantin Volintiru
Chief Executive Officer

Marius Leonte Veza
Accounting Director

STATEMENT

in accordance with the provisions of art. 63 (2) c) of Law No. 24/2017
regarding issuers of financial instruments and market operations

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Entity: Societatea Nationala de Gaze Naturale ROMGAZ S.A.
County: 32--SIBIU
Address: MEDIAŞ, 4 C.I. Motaş Square, tel. +40374401020
Registration Number in the Trade Register: J32/392/2001
Form of Property: 26- Companies with both state and private capital foreign and domestic (State capital >=50%)
Main activity (CAEN code and denomination): 0620—Natural Gas Production
Tax Identification Number: 14056826

The undersigned,
ADRIAN CONSTANTIN VOLINTIRU as CEO and
MARIUS LEONTE VEZA as Accounting Director,

hereby confirm that according to our knowledge, the annual financial statements for the year ended December 31, 2019, prepared in accordance with the International Financial Reporting Standards, as adopted by the European Union, and Order of Ministry of Public Finance no. 2844/2016 for the approval of Accounting regulations in accordance with International Financial Reporting Standards, offer a true and fair view of the assets, liabilities, financial position, statement of profit and loss of the Company and that the Board of Directors' report comprises a fair analysis of the development and performance of the Company, as well as a description of the main risks and incertitudes specific to its activity. The Company is a going concern.

CEO,
ADRIAN CONSTANTIN VOLINTIRU

Accounting Director,
MARIUS LEONTE VEZA

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