



Societatea Nationala de Gaze  
Naturale “ROMGAZ” SA

# Board of Director’s Report

*2016*





*This page was intentionally left blank*

## SUMMARY

<b>I.</b>	<b>ROMGAZ 2016 Overview</b>	<b>5</b>
1.1.	Highlights	5
1.2.	Romgaz in Figures	7
1.3.	Important Events	13
<b>II.</b>	<b>The Company at a Glance</b>	<b>15</b>
2.1.	Identification Data	15
2.2.	Company Organization	16
2.3.	Mission, Vision and Values	17
2.4.	Strategic Objectives	18
<b>III.</b>	<b>Review of the Company's Business</b>	<b>20</b>
3.1.	Business Segments	20
3.2.	Historic Overview	24
3.3.	Mergers and Organizations, Acquisitions and Divestments of Assets	26
3.4.	Company Business Performance	29
3.4.1.	<i>Company Overall Performance</i>	29
3.4.2.	<i>Prices and Tariffs</i>	34
3.4.3.	<i>Human Resources</i>	38
3.4.4.	<i>Environmental Aspects</i>	40
3.4.5.	<i>Litigations</i>	47
<b>IV.</b>	<b>Tangible Assets</b>	<b>47</b>
4.1.	Main Production Facilities	47
4.2.	Investment	53
<b>V.</b>	<b>Securities Market</b>	<b>59</b>
5.1.	Dividend Policy	61
<b>VI.</b>	<b>Management</b>	<b>63</b>
6.1.	Board of Directors	63
6.2.	Executive Management	64
<b>VII.</b>	<b>Financial – Accounting Information</b>	<b>67</b>
7.1.	Statement of Financial Position	67
7.2.	Statement of Comprehensive Income	69
7.3.	Statement of Cash Flows	73
<b>VIII.</b>	<b>Corporate Governance</b>	<b>74</b>
<b>IX.</b>	<b>Performance of the Mandate Contract/Director's Agreement</b>	<b>93</b>
9.1.	Objectives and Performance Criteria	93
9.2.	2016 Results	96

*Dear Shareholders,*

*If a year ago we viewed 2015 as a tough year, there is no doubt that 2016 was also a year with serious challenges.*

*The oil price had a strong decline over the past three years going from a maximum of USD 119 bbl. to less than USD 40 bbl. in the first part of 2016 before it had a slight recovery reaching in 2016 approximately USD 59 bbl. and keeping a relatively constant behaviour until the year's end. Because in most cases natural gas price is formed based on the oil price, with a delay of 6 to 9 months depending on the price formula, the natural gas on the international market was increasingly cheaper during 2016.*

*The Romanian gas market was not spared from this turmoil. In 2016, after a decade of having a domestic/import gas price ratio far less than one, sometimes of even 1:2, we witnessed a premiere on the Romanian energy market when natural gas from domestic production was more expensive than natural gas from the Russian Federation.*

*As we all know, the free market rules will always lead to choosing the gas source with the lowest price, irrespective of its origin.*

*Additionally, "the tax on additional income generated from the deregulation of prices in the gas sector", applicable only to Romanian gas producers, had an important contribution to the natural gas market.*

*Due to the fact that the import gas price significantly lowered in 2016, suppliers/consumers preferred imports. As a result, in 2016 Romania imported approximately 15.9 TWh, 548% higher than in 2015 when 2.9TWh were imported.*

*Massive gas imports triggered the decrease of domestic gas production. As such, against the 2.26TWh increase (+1.86%) of national gas consumption, the contribution of domestic gas decreased by 10.83TWh (-9.11%).*

*In spite of a year with difficult and complex economic conditions and with an incoherent and unpredictable legislative frame that dominates the energy market, Romgaz closed the 2016 financial year with notable results, among which we highlight:*

- ↳ A net profit of RON1,025 million, corresponding to a 30.0% rate of net profit against the revenue, increasing by 1.7% as compared to the previous year;*
- ↳ EBIT of RON 1,259 million, corresponding to a 36.9% rate against the revenue, increasing 4.8% as compared to 2015;*
- ↳ A proposed gross dividend per share of RON 2.49, securing a dividend yield of 9.96% in relation to Romgaz share price in the last 2016 trading day.*

*Our future aim is to continue the supply of products and of services that fully meet our clients' expectations and to provide for our company, its shareholders and employees stability and sustainable growth conditions, while adopting a more active involvement in the community.*

*Given the difficult environment conditions for our company's activities, we intend to continuously cultivate and maintain an open and active dialogue with all stakeholders.*

*I take this opportunity to thank our employees for the efforts they made to achieve performance in most fields of activity and together we managed to lay the foundation of Romgaz as a company which creates value for the clients, for the shareholders, for the community and for itself.*

*Yours respectfully,*

*Chairman of the Board - Dumitru Chisalita*

## I. ROMGAZ 2016 - OVERVIEW

### 1.1. Highlights

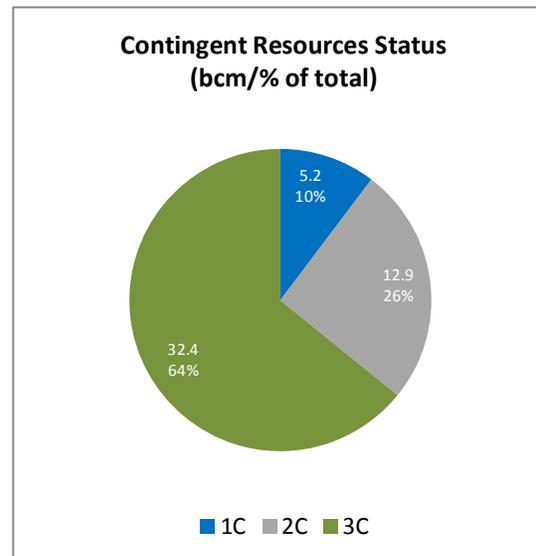
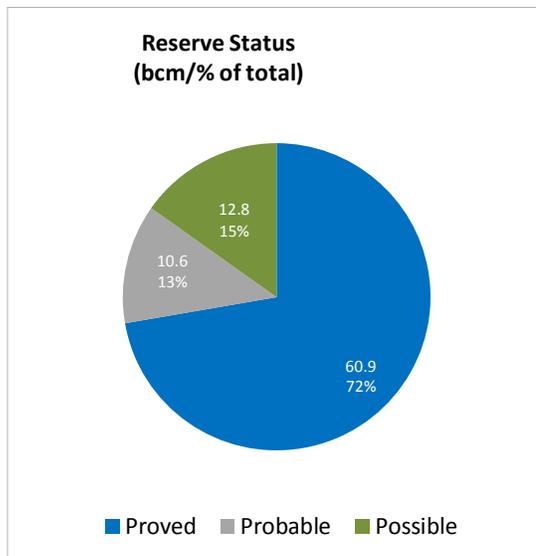
#### **Romgaz made a new important hydrocarbon discovery in Romania**

As of *June 30, 2016*, Romgaz announced a major hydrocarbon discovery made on Romanian territory within the block RG.06 Muntenia Nord-Est, where the company performs petroleum operations as sole titleholder of the Concession Agreement for Exploration – Development – Production, pursuant to the Government Decision No. 23/2000 and Government Decision No. 968/ 2011. The discovery was made in the north-eastern sector of the Moesian Platform within the structural complex Caragele, that has an approximate length of 35 km and was explored for geological objectives at depths between 1500 m and 5000 m, as part of the company's major exploration projects. Production tests completed at two exploration wells, 55 Damianca and 77 Rosetti, confirmed an important hydrocarbon accumulation in Jurassic calcareous reservoirs in an interval of about 120 m at a depth of more than 4000 m. DST results on 7mm and 9 mm chokes predict daily rates between 1400 and 2200 boe/well. The contingent resource, was assessed between 150 and 170 million boe on the basis of drilling data, including well geophysics, mechanical cores and fluids extracted during testing, as well as the estimated size of the trap based on 3D seismic data.

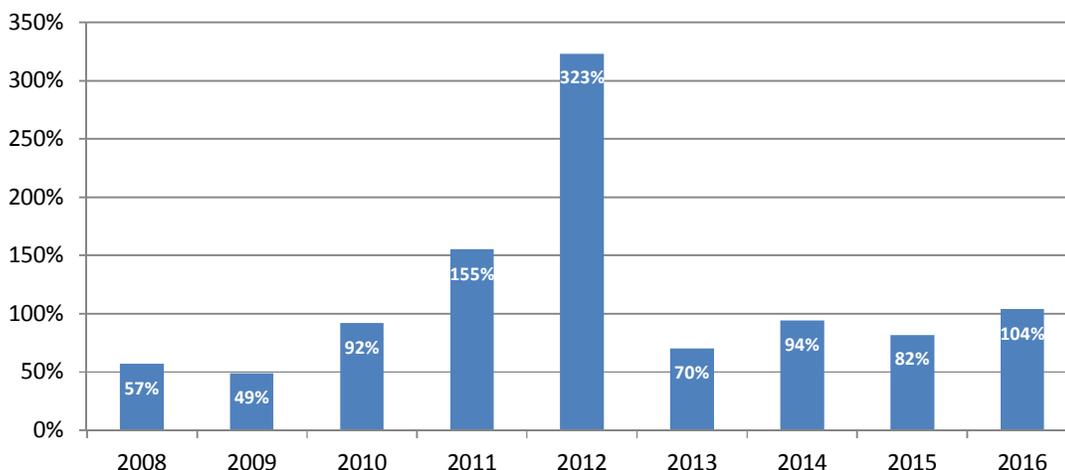
**The external audit of gas reserves and resources has confirmed a total of Contingent Resources in amount of 50.5 billion m<sup>3</sup> as compared to 26.8 billion m<sup>3</sup> in 2013 (+88%), the average reserve replacement ratio exceeding the set target.**

DeGolyer&MacNaughton began the external audit process of the gas reserves and contingent resources in Romgaz' patrimony at the beginning of 2016, and the process was completed by a Final Report sent to Romgaz on *30 June, 2016*.

The results of the Report confirmed the reserve and resource estimations made by Romgaz as of December 31, 2015, and the annual reserve replacement ratio, which had an average value of 87.5% for 2013 -2016, exceeding the target set to 70%.



### Reserve Replacement Ratio



#### **Completion of the first modernization phase of Sarmasel UGS by enhancing the working capacity to 950 bcm/cycle**

Romgaz, through Ploiesti branch *Sucursala de Inmagazinare Subterana a Gazelor Naturale Ploiesti*, commissioned on *July 20, 2016* the new unit of the Gas Compression and Drying Station of Sarmasel (Mures County), an investment exceeding 238 million RON (approx. EUR 54 million) carried out during the last three years. The new compression and drying facility of the Sarmasel UGS will allow the working capacity of the UGS to increase from 800 million to 950 million Ncm/cycle, enhancement of delivered gas quality and the daily withdrawal rate from 6 million to 9 million Ncm/day. The enhancement of the UGS capacity is mainly due to a new installed compression capacity that will ensure a maximum daily rate of 6 million Ncm. The gas compression and drying station is fitted with state-of-the art technology characterized by reduced energy consumption, strictly observing all European and national requirements as regards environmental protection. The commissioning of the new facility at Sarmasel is a new benchmark of Romania's energy security in relation to the country's overall UGS capacity. Thus, Romania is able to store 3.3 billion Ncm/cycle. The investment has also contributed to an enhanced withdrawal capacity to a maximum rate of 30 million Ncm per day.

#### **Extending the exploration phase by five years (2016-2021) for the main eight blocks under Romgaz concession agreement**

In terms of gas exploration – production activities, during 2011 – 2016, Romgaz performed petroleum exploration operations in eight blocks under the Petroleum Agreement approved by Government Decision No 23/ 13 January 2000. Thus, the exploration activity was intensified in the high depth levels of the Transylvanian Basin, the Moesic Platform and the Moldavian Platform. In these blocks 4705 km<sup>2</sup> 3D seismic were acquired, 70 exploration wells were drilled, and contingent resources of approx. 17,000 million Ncm were confirmed. Based on the positive results obtained by implementing the work program for 2011-2016, Romgaz and ANRM have decided to continue the petroleum exploration operations in the eight blocks with a new work program to be performed during 2016 – 2021 by signing an Addendum on extending the exploration phase for these blocks on *September 6, 2016*. Once the Addendum approved by Decision of the Romanian Government, Romgaz is going to identify a long term exploration potential with the aim of ensuring a constant reserve replacement ratio and the consolidation of investors' confidence in the company's assets.

### **Works regarding the “Development of Iernut Thermal Power Plant by Building a New Combined-Cycle Power Plant (CCGT)”**

One of Romgaz' strategic direction is consolidating its position on the energy supply markets. Thus, in the field of energy generation, the implementation of this investment project aims to enhance the efficiency of activity by: increasing the efficiency of the power plant to 56% at the least, compliance with the environmental requirements (NO<sub>x</sub>, CO<sub>2</sub> emissions) and enhancement of safety in exploitation. The project is financed from own resources and PNI (National Investment Plan) funds, in accordance with Government Decision no. 1096/2013, updated. Romgaz concluded the works contract no 13384/ October 31, 2016 with the Partnership between *Duro Felguera S.A.* and *SC Romelectro S.A.* The contract may be summarized as follows: (1) the object of the contract is implementation of the turnkey project (design, delivery of equipment, supply of works and start-up) “Development of the Iernut Thermal Power Plant by Building a New Combined-Cycle Power Plant (CCGT)”, (2) time limit for completion of works: 36 months from the date on which the contract enters into force (the contract enters into force in 5 working days from the date of approving the file of financing from PNI funds, in accordance with the Government Decision No 1096/2013, updated), (3) the estimated value of the contract (VAT excluded): EUR 268,836,329.82.

## **1.2. Romgaz in Figures**

The Company recorded a net profit in 2016, too, in amount of RON 1,024.6 million and a net income per share of RON 2.66 as compared to RON 3.10 in 2015.

The net profit margins (30.0%) and EBIT margin (36.9%) are higher than the ones reported last year (29.5% and 35.2%, respectively), and the EBITDA margin (46.0%) recorded a significant level, confirming that the company continues to maintain a high profitability.

*Natural gas consumption in Romania* recorded in 2016 an increase of approx. 1.86% as compared to the previous year, according to the ANRE and the Company's consumption estimations, bearing in mind that ANRE has not published the October – December 2016 reports, yet.

*The natural gas production of the Company* was lower than the 2015 one (4,219 vs 5,563 million m<sup>3</sup>). This production, according to estimated data, ensured Romgaz a 42.5% market share of gas deliveries within the consumption of domestic gas, and a 41.46% market share among gas producers.

The 2016 production was lower than the one recorded in the previous year due to the challenges the Company faced during this period, namely:

1. A mild winter generating a low gas consumption in Q1;
2. Decrease of gas demand in key sectors due to price drop worldwide (especially in the chemical fertilizer sector, where gas consumption decreased by 12% as compared to the previous year), and the close competition in the electricity generation sector;
3. Decrease of gas demand for building up the minimal gas stock for the 2016-2017 winter because of an imprecise and incoherent regulatory framework. Thus, in 2016, the total quantity injected in Romgaz storages was 305.7 million m<sup>3</sup> lower than in 2015 (-18.3%). The withdrawn quantity was lower by 215.8 million m<sup>3</sup> (-13.0%);
4. A relatively large gas stock, Romgaz property, in UGSs at the end of the 2015-2016 winter (the stock in UGSs amounted to 795.8 million m<sup>3</sup>, out of which Romgaz' stock was 723 million m<sup>3</sup>, representing 92%) – considering that Romgaz injected 389.6 million m<sup>3</sup> in 2016 as compared to 723.5 million m<sup>3</sup> in 2015;

5. Increased competition as regards import gas, induced by a significant drop in gas price in Europe. Thus, import gas increased in 2016 by 750% to 1.5 billion m<sup>3</sup> as compared to 0.2 billion m<sup>3</sup> in 2015.

The 2016 Romgaz electricity production represented 91.6% of the 2015 production, namely 1,628,367 MW and represents 2.68% of Romania's total electricity production. According to Transelectrica, Romgaz' market share was 2.57%.

## Operational Results

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

Q4 2015	Q3 2016	Q4 2016	Δ Q4 (%)	Main indicators	2015	2016	Δ '16/'15 (%)
1,428	837	1,185	-17.0	Gas production (million m <sup>3</sup> )	5,563	4,219	-24.1
2,756	1,201	1,023	-62.9	Condensate production (tons)	10,947	5,864	-46.4
106	54	84	-20.4	Petroleum royalty (million m <sup>3</sup> )	406	292	-28.1
584.8	391.4	726.3	+24.2	Electricity production(GWh)	1,797.7	1,628.3	-9.4
466.6	0.0	509.9	+9.3%	Invoiced UGS withdrawal services (million m <sup>3</sup> )	1,656.7	1,440.9	-13.0
123.0	619.9	65.0	-47.2%	Invoiced UGS injection services (million m <sup>3</sup> )	1,673.1	1,367.4	-18.3

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

Item No	Specifications	2014	2015	2016	Ratios
0	1	2	3	4	5=4/3x100
<b>1.</b>	<b>Gross production – total, including:</b>	<b>5,663.9</b>	<b>5,562.7</b>	<b>4,219.4</b>	<b>75.9%</b>
1.1.	*own gas	5,469.0	5,359.7	4,068.0	75.9%
1.2.	*Schlumberger (100%)	194.9	203.1	151.3	74.5%
2.	Technological consumption	81.3	78.5	54.5	69.4%
<b>3.</b>	<b>Net gas production (1.-1.2.-2.)</b>	<b>5,387.7</b>	<b>5,281.1</b>	<b>4,013.6</b>	<b>76.0%</b>
4.	Own gas injected into UGS	564.8	738.4	414.7	56.2%
5.	Own gas withdrawn from UGS	601.0	409.5	462.6	113.0%
6.	Difference from conversion to Gross Calorific Value	9.8	16.1	4.5	28.0%
<b>7.</b>	<b>Delivered own gas (3.-4.+5.-6.)</b>	<b>5,414.1</b>	<b>4,936.1</b>	<b>4,057.0</b>	<b>82.2%</b>
8.1.	Gas sold in UGS	-	-	79.2	-
8.2.	Gas delivered to CTE Iernut and Cojocna	445.0	527.0	463.7	88.0%
<b>9.</b>	<b>Own gas delivered to the market (7.+8.1.-8.2.)</b>	<b>4,969.1</b>	<b>4,409.1</b>	<b>3,672.5</b>	<b>83.3%</b>
<b>10.</b>	<b>Gas from joint ventures– total, including:</b>	<b>180.6</b>	<b>168.9</b>	<b>149.0</b>	<b>88.2%</b>
	*Schlumberger (50%)	97.5	101.5	75.7	74.6%
	*Raffles Energy <sup>*</sup> (37.5%)	0.8	0.5	0.3	60.0%

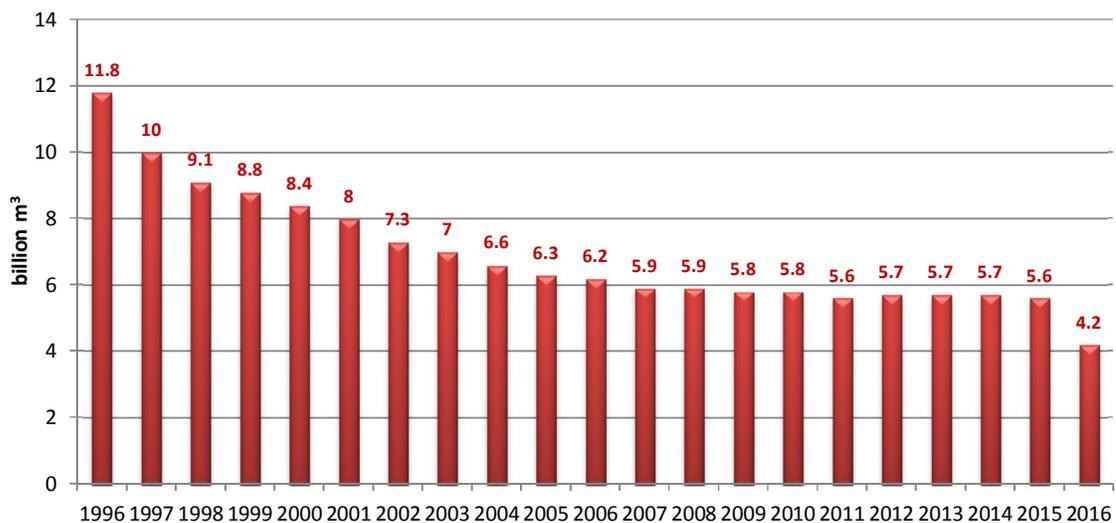
Item No	Specifications	2014	2015	2016	Ratios
0	1	2	3	4	5=4/3x100
	*Amromco*) (50%)	82.3	66.9	73.0	109.1%
11.	Gas purchase from domestic production	17.7	17.1	11.2	65.5%
12.	<b>Traded domestic gas (9.+10.+11.)</b>	<b>5,167.4</b>	<b>4,595.1</b>	<b>3,832.7</b>	<b>83.4%</b>
13.	<b>Gas delivered from domestic production (8.+12.)</b>	<b>5,612.4</b>	<b>5,122.1</b>	<b>4,296.4</b>	<b>83.9%</b>
14.	Delivered import gas	81.1	3.0	6.8	226.7%
15.	<b>Total delivered gas (13.+14.)</b>	<b>5,693.5</b>	<b>5,125.1</b>	<b>4,308.0</b>	<b>84.1%</b>

\*) –as regards Romgaz-Schlumberger association, produced gas is fully included in Romgaz production, and then split in equal shares between the two partners, and traded separately. With respect to the joint ventures with Raffles Energy and Amromco, the obtained gas does not represent Romgaz production but the value of gas is reflected in Romgaz revenue, proportionally with its respective participating interest share in the joint ventures

Natural gas production lies in the parameters forecasted in the 2016 program, achieving 92.4% of the planned production (4,567 million m<sup>3</sup> – planned vs 4,219 million m<sup>3</sup> – achieved).

The production level was maintained by the ongoing production rehabilitation projects of the main fields, workover and recompletion operations for 173 wells, installing new compression capacities and bringing into production new fields.

The natural gas production during 1991-2016 is shown below:



Although most reservoirs are mature, producing for more than 30 years and the volumes produced have decreased significantly, during the past years the production the decline rate has been stabilized at around 1% due to a mix of measures taken by the company, such as:

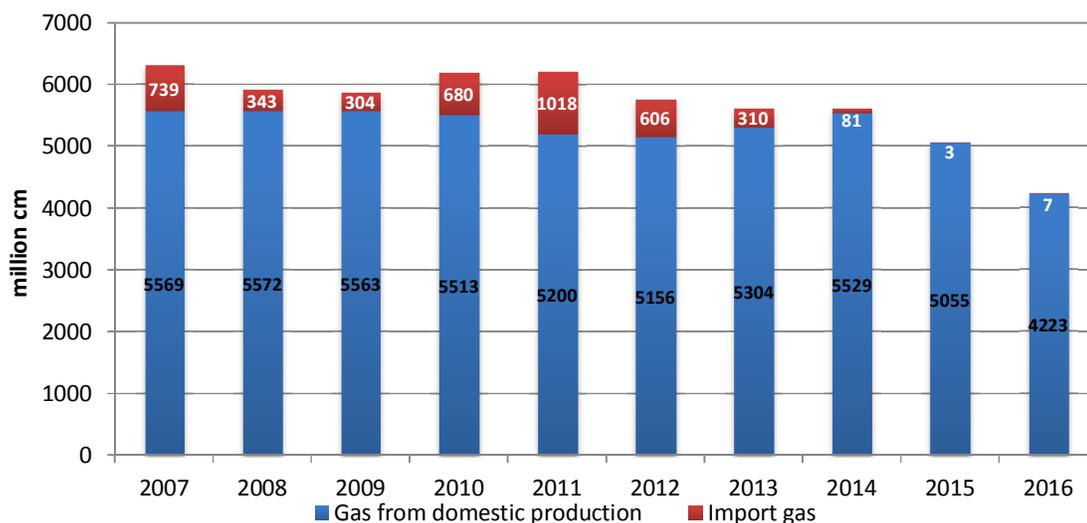
- ↳ gas compressor stations;

- ↳ rehabilitation/enhancement of production, 3D seismic data, static and dynamic reservoir modelling;
- ↳ bringing into production new discoveries.

Electricity delivered by CET Iernut in 2016 was lower by 9.27% (y/y), considering the increased hydro potential, and as a result of putting the energy units 2 and 3 into a dry storage condition as of January 1, 2016. From the total electricity sold, 25.64% were delivered to the balancing market.

The sale prices of electricity have exceeded the average prices on all markets.

Romgaz is one of the largest gas suppliers in Romania. The evolution of gas supplies<sup>1</sup> during 2007-2016 is indicated below:



The mild winter in early 2016, the drastic drop of demand in the chemical fertilizer sector, the decrease of demand for building up the minimal gas stocks for the 2016-2017 winter due to an imprecise and incoherent regulatory framework, and the increased competition coming from gas importers, induced by a steep decrease of gas price in Europe are the causes that led to lower sales.

### Relevant Financial Results

		*million RON*		
Item No	Main indicators	2015	2016	Δ '16/'15 (%)
1.	Revenue	4,052.7	3,411.9	-15.8
2.	Income	4,315.9	3,816.8	-11.6
3.	Expenses	2,847.1	2,536.1	-10.9
4.	Gross profit	1,468.8	1,280.7	-12.8
5.	Profit tax	274.6	256.1	-6.7
6.	Net profit	1,194.3	1,024.6	-14.2
7.	EBIT	1,425	1,259	-11.6
8.	EBITDA	2,218	1,570	-29.2

<sup>1</sup> comprises 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 Romanian domestic production from other producers

Item No	Main indicators	2015	2016	Δ '16/'15 (%)
9.	EPS (RON)	3.10	2.66	-14.2
10.	Net profit rate (% from Revenue)	29.5	30.0	+1.7
11.	EBIT Ratio (% from Revenue)	35.2	36.9	+4.8
12.	EBITDA Ratio (% from Revenue)	54.7	46.0	-15.9
13.	Number of employees at the end of the period	6,356	6,246	-0.2

The figures above are rounded and therefore there may be slight differences after reconciliation

Note: income and expenses do not include in-house works capitalized as non-current assets.

The lower revenue as compared to the previous year is mainly related to weather conditions, and especially due to the drastic drop of demand in the chemical fertilizer sector, decrease of demand for building up the minimal gas stocks for the 2016-2017 winter, and the increased competition from gas importers.

Due to the above mentioned causes, the net profit, EBIT and EBITDA are lower as compared to 2015. Despite all, the ratios of the first two indicators against the revenue are higher than the ones recorded in the previous year and continue to be highly favourable: 30.0%, 36.9% and 46.0% (as compared to 29.5%, 35.2% and 54.7% in 2015), confirming the high profitability of the company.

Net profit per share of RON 2.66 recorded in 2016 shall be positively influenced by the allocation from the reserves made in previous years in compliance with GD No 168/1998.

The reserves allocation, with a positive impact on the net profit to be allocated, was in 2013 in amount of RON 157.5 million, in 2014 RON 241.90 million, and in 2015 in amount of RON 214.0 million. In 2016, the amount to be allocated from reserves is of RON 405.45 million.

Romgaz is a company with **considerable contributions to the state budget**: approximately 46% of the total income is distributed to the state as taxes, fees, contributions and dividends.

**Investments** play an important part in arresting the production decline, which is achieved through the discovery of new reserves, the improvement of the current recovery rate, and the rehabilitation, development and modernization of existing facilities.

For 2016, Romgaz scheduled investments worth *RON 1,020 million* and invested *RON 497.7 million*, less than 51.2%. The 2016 investments were lower than the 2015 ones (RON 937.9 million), due to fewer planned investments in surface exploration, decrease of investments in joint ventures and works postponed as a result of difficulties in preparatory activities (obtaining of land, endorsements, agreements, authorizations), and amendments to the public procurement law. The investments were financed exclusively from own sources.

The value of fixed assets commissioned during the reporting period was *RON 581.5 million*.

During 2013-2016, the Company made investments worth approx. **RON 3.37 billion**, as follows:

Year	2013	2014	2015	2016	Total
Value (RON thousand)	848,247	1,085,497	937,916	497,716	3,369,376

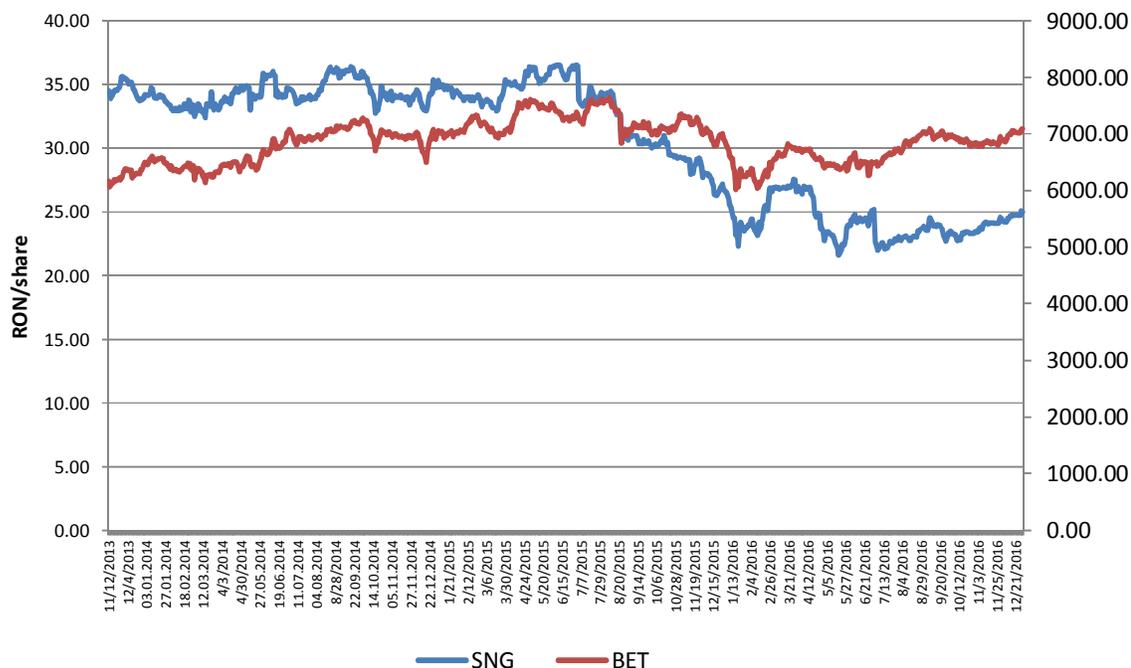
A summary of investments is shown in the table below:

\*RON thousand\*

Item No	Investment chapter	2015	2016		% '16/'15
			Planned	Achieved	
0	1	2	3	4	5=4/2x100
<b>1.</b>	<b>Investment in progress – total, including:</b>	<b>352,467</b>	<b>327,899</b>	<b>238,433</b>	<b>72.71</b>
1.1	Natural gas exploration, production works	319,051	252,819	178,285	55.88
1.2	Maintaining the UGS capacity	32,374	75,000	59,953	185.19
1.3	Environment protection works	1,042	80	195	18.71
<b>2.</b>	<b>New investments – total, out of which:</b>	<b>297,039</b>	<b>325,201</b>	<b>21,316</b>	<b>7.18</b>
2.1	Natural gas exploration, production works	292,440	305,237	19,995	6.84
2.2	Maintaining the UGS capacity	112	15,000	1,287	1,149.11
2.3	Environment protection works	4,487	4,964	34	0.76
<b>3.</b>	<b>Investment in existing tangible assets</b>	<b>224,664</b>	<b>245,441</b>	<b>200,983</b>	<b>89.46</b>
<b>4.</b>	<b>Equipment (other acquisition of tangible assets)</b>	<b>54,080</b>	<b>88,897</b>	<b>31,838</b>	<b>58.87</b>
<b>5.</b>	<b>Other investment (studies, licenses, software, financial assets etc.)</b>	<b>9,666</b>	<b>32,562</b>	<b>5,146</b>	<b>53.24</b>
*	<b>TOTAL</b>	<b>937,916</b>	<b>1,020,000</b>	<b>497,716</b>	<b>53.07</b>

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, 2016 is shown below:



### **1.3. Important events**

#### **January 27, 2016**

*Government Ordinance No.11 on amending and supplementing Government Ordinance No 26/2013 on strengthening financial discipline at the level of economic operators where the state or administrative-territorial units are sole or majority shareholders or hold directly or indirectly a majority participation.* The most important modification, impacting Romgaz' activity, refers to the income and expenditure budget of the Company, that no longer needs Government approval prior to the approval of the Company's shareholders.

#### **February 22, 2016**

Mrs. Baciú Sorana resigned from the Board of Directors, and Mr. Tcaciuc Sebastian-Gabriel was appointed as interim member on the vacant position as of February 23, 2016.

#### **March 23, 2016**

ANRE issued the Order No 9/2016 on extending the application period of the Order of ANRE President No.58/2015 on establishing the regulated tariff for the supply of UGS services by Societatea Nationala de Gaze Naturale "Romgaz" S.A. Medias.

#### **March 25, 2016**

Pursuant to the Resolution No 2 of the Ordinary General Meeting of Shareholders as of March 18, 2015, the mandate of Mr. Dorcioman Dragos terminated.

By Resolution No 3 of the Ordinary General Meeting of Shareholders Mr. Jude Aristotel-Marius was appointed as member of the Board on the position left vacant by mandate termination of Mr. Dorcioman Dragos. Mr. Tcaciuc Sebastian-Gabriel was appointed as member of the Board under the same Resolution.

#### **May 27, 2016**

*Law No 111/2016 on approving Government Emergency Ordinance no.109/2011 on the corporate governance of public enterprises,* amending significantly also the Ordinance it approves.

#### **June 16, 2016**

By Resolution No 5/2016 of the Ordinary General Meeting of Shareholders the Company's 2016 Income and Expenditure Budget was approved.

#### **June 23, 2016**

Board's Resolution No 14/2016 on developing and operating CTE Iernut without concluding an association in participation contract and financing the investment from own sources and from NIP funds.

#### **June 28, 2016**

*Government Decision No 461/2016 on modifying the Annex to Government Decision No 488/2015 on establishing the purchase price of domestic gas for household customers and producers of thermal energy in cogeneration plants and thermal plants intended for household consumption,* by which the Government of Romania approved to maintain the domestic production price to 60.00 RON/MWh for the period 1 July 2016 - 31 March 2017.

According to GD No 488/July 1, 2015 on establishing the purchase price of domestic gas for household customers and producers of thermal energy for those quantities of gas produced in cogeneration plants and thermal plants intended for household consumption the price should have increased to 66.00 RON/MWh in the period 1 July 2015 – 30 June 2021.

***September 28, 2016***

*Government Decision No 722/2016 on approving the Enforcement Guidelines for certain provisions of the Emergency Ordinance No 109/2011 on corporate governance of public enterprises*, which approved the enforcement guidelines on establishing the selection criteria, setting up the short list of up to five candidates for each position, their ranking, the procedure on final appointments, and the enforcement guidelines on establishing the financial and non-financial performance indicators and the variable component of the remuneration of the board members or, as the case may be, supervisory bodies of public enterprises, as well as of managers and the members of directorate, respectively.

***October 31, 2016***

Romgaz signed with the partnership between Duro Felguera SA and SC Romelectro SA the Work Contract No133384 with the scope of “Developing Iernut Thermal Power Plant by Building a New Combined-Cycle Power Plant (CCGT)”.

***November 15, 2016***

By Resolution no. 10 of the Ordinary General Meeting of Shareholders, as a result of exercising the cumulative voting procedure Mr. Buzatu Florin Danut and Mr. Stoicescu Florin Razvan were elected directors.

Also, by means of the same resolution Mr. Virgil Marius Metea and Mrs. Ecaterina Popescu were revoked as directors as a result of exercising the cumulative voting procedure which did not reconfirm them as directors.

***December 6, 2016***

Romgaz filed an application to the Ministry of Energy for financing the investment “Developing of the Iernut Thermal Power Plant by Building a New Combined-Cycle Power Plant (CCGT)”, requesting a grant of 25% of the project eligible costs.

## II. THE COMPANY AT A GLANCE

### 2.1. Identification Data

*Name: Societatea Nationala de Gaze Naturale "ROMGAZ" SA*

*Main scope of activity: natural gas production and UGS*

*Address: Medias, 4 Constantin I. Motas Square, 551130, Sibiu County*

*Sole registration number: 14056826*

*Trade Registry registration number: J32/392/2001*

*Fiscal registration number: RO14056826*

*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 269 201020*

*Fax: 0040 269 846901*

*Web: [www.romgaz.ro](http://www.romgaz.ro)*

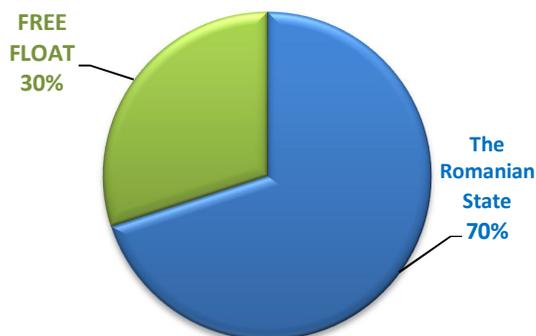
*E-mail: [secretariat@romgaz.ro](mailto:secretariat@romgaz.ro)*

*Bank accounts opened at: Banca Comerciala Romana, BRD-Groupe Societe Generale, Citibank Europe, Nextebank, Unicredit Tirioc Bank, Raiffeisen Bank, Banca Transilvania, ING Bank, Eximbank, CEC Bank.*

### Shareholder Structure

As of December 31, 2016 the shareholder structure is:

	Number of shares	%
The Romanian State <sup>2</sup>	269,823,080	70.0071
Free float – total, including:	115,599,320	29.9929
*legal persons	95,451,082	24.7653
*natural persons	20,148,238	5.2276
<b>Total</b>	<b>385,422,400</b>	<b>100.0000</b>



<sup>2</sup> The Romanian State through the Ministry of Energy

On April 21, 2016, SC Fondul Proprietatea SA sold all its Romgaz shares through private placement, representing 5.85% of the share capital.

During the financial year 2016, the Company ***did not perform transactions with own shares***, and as of December 31, 2016 did not hold own shares.

## 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
- ↳ Heads of functional and operational compartments subordinated to the Director General and to the Deputy Directors General
- ↳ Execution Personnel

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

Key people in the structure and for the functionality of the company are the Director General, the Deputy Directors General, Economic Director, as well as the branches' directors. 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 well-defined attributions in the company's Organization and Operating Regulation 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.

The company has 7 *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 Targu 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, 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, 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, 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, 545100, Mures County;
- ✎ Sucursala Bratislava (Bratislava Branch) having its office in Bratislava, City Business Centre V.-Karadžičova 16, code 82108, Slovakia.

As of December 31, 2016 the company has a **subsidiary** “S.N.G.N. ROMGAZ S.A. – Filiala de Înmagazinare Subterană a Gazelor Naturale DEPOGAZ Ploiești S.R.L.”, with its headquarters in Ploiesti, having as scope of activity the natural gas underground storage. The subsidiary has been set up in order to comply with Directive 2009/73/CE of the European Parliament and of the Council of July 13, 2009 on common rules for the internal market in natural gas and repealing Directive 2003/55/EC, as well as with the Natural Gas and Electricity Law no. 123/2012.

### **2.3. Mission, Vision and Values**

*Societatea Nationala de Gaze Naturale “ROMGAZ” SA is a company which targets performance and is determined to generate performance by best employment of energies to meet its objectives.*

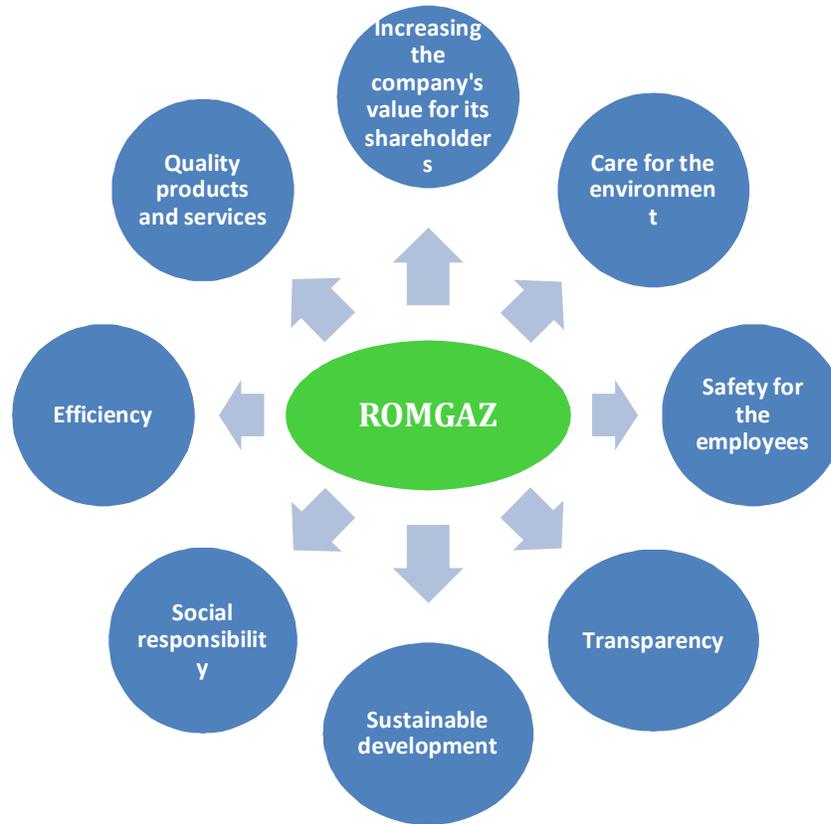
#### **Company Mission**

Performance, competition and continuous growth of the company's value both for us and for the shareholders by means of a better valuation of the human potential and assets, by predictable and profitable business deals and a better risk management.

#### **Company Vision**

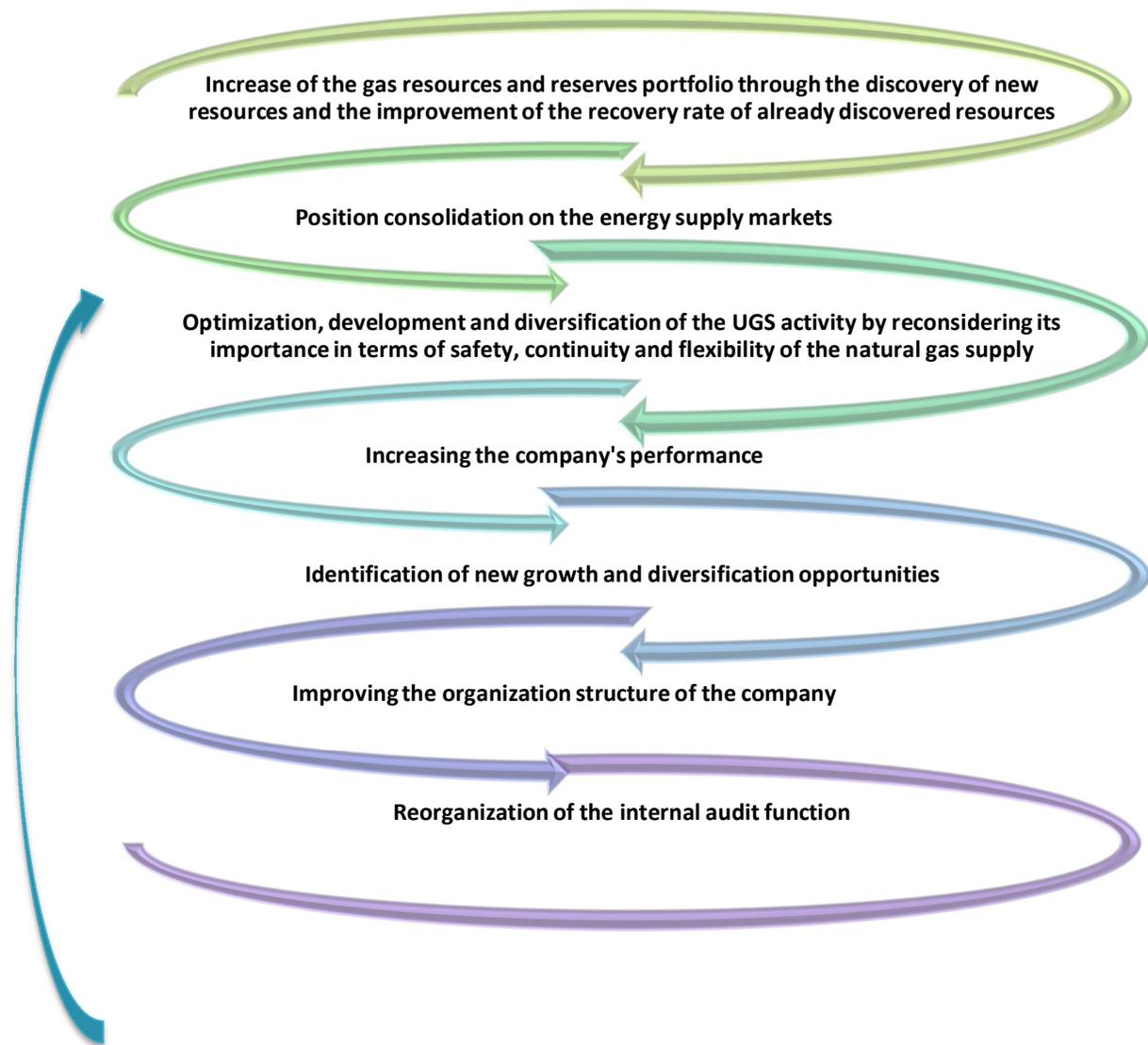
ROMGAZ has the potential and the ambition to consolidate and to develop its position as the most important natural gas company in Romania and to become a leading player on important Central and Eastern European markets by means of an efficient and competitive production able to face the increasing pressure exercised by regional and international companies.

## Values



### 2.4. Strategic Objectives

In order to meet its main scope of activity through an efficient use of material, financial, informational and human resources, the company set the following **strategic objectives**:



## III. REVIEW OF THE COMPANY'S BUSINESS

### 3.1. Business Segments

The company undertakes business in the following segments:

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

#### **Exploration - Production**

Romgaz is titleholder or co-titleholder, in Romania, of the following petroleum agreements:

- ✎ petroleum operations for exploration-development-production in 9 blocks with 100% participating interest and in 4 blocks as co-titleholder, under certain concession agreements;
- ✎ 141 commercial fields;
- ✎ 5 fields recording experimental production;
- ✎ exploration and production rights in Slovakia and Poland.

#### **Exploration**

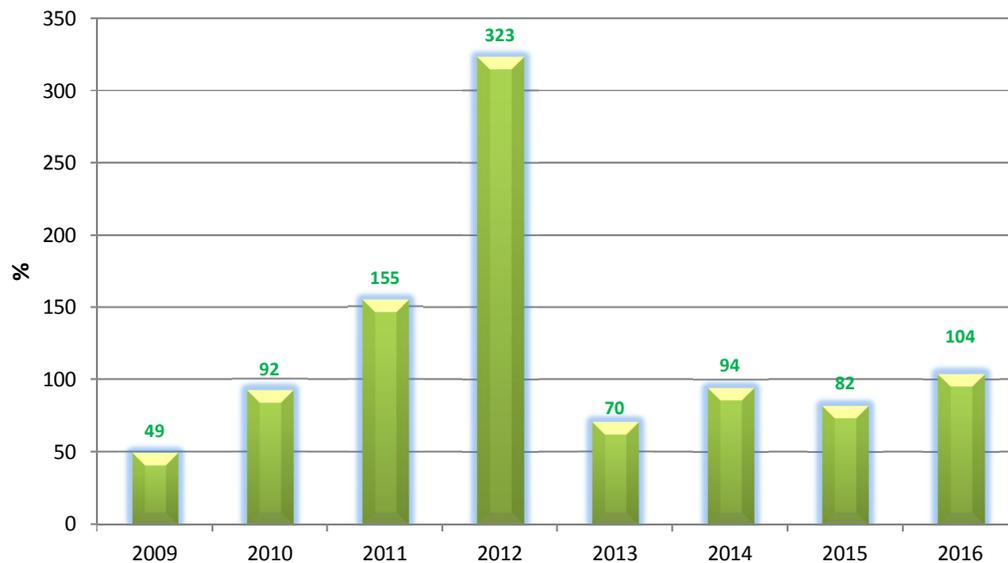
Since October 1997, the exploration activity has been carried out in 8 blocks in Transylvania, Moldova, Muntenia, and Oltenia, in accordance with the Concession Agreement approved by Government Decision No 23/2000. Fourteen exploration wells were completed in 2016, with the following results:

- 2 discoveries with a prospective geological resource (P50) of 27.0 billion m<sup>3</sup>;
- confirmation of hydrocarbon accumulations with a contingent resource (2C) evaluated at approx. 2.7 billion m<sup>3</sup>.

Romgaz designs and plans all exploration works based on its own concepts by using modern specialized software, evaluations of the geological area's prospectivity displaying specific features within the blocks under concession, and these are carried out by specific surface exploration methods for the identification of the areas with hydrocarbon accumulations (prospects), followed by exploration drilling to prove the presence of accumulations.

The results materialised in reserve replacement ratios, with a highest value of 323% reached in 2012.

The table below shows the evolution of the reserves replacement ratio during 2009-2016:



### ***Production***



The 2016 annual program for petroleum operations considered the dynamics of gas demand, reactivation, recompletion and well work over operations, bringing in production wells resulted from exploration activities and production wells, maintenance programs of compressor stations and of dehydration stations, commissioning of new compressor units and the dynamics of import gas flows injected into/withdrawn from UGS.

*The company's gas production* was lower than the 2015 production (4.219 million m<sup>3</sup> vs 5.563 million m<sup>3</sup>). According to ANRE data, this production ensured Romgaz a 42.5% market share of deliveries in the gas consumption from internal production and a 41.46% market share among the gas producers.

The production in amount of 4,219 million m<sup>3</sup> was about 7.6% lower than the planned one, due to:

- A mild winter at the beginning of 2016;
- Drastic decrease of gas demand in the chemical industry;
- Decrease of gas demand for building up the minimal gas stock for the 2016-2017 winter due to an imprecise and incoherent regulatory framework;
- Increased competition from gas importers induced by the steep decline of gas price in Europe.

## Underground Gas Storage (UGS)



Currently, in Romania there are 8 UGSs constructed in depleted gas reservoirs out of which 7 are in operation. Romgaz owns and operates 6 UGSs having a total capacity of 4.335 billion m<sup>3</sup> and a working gas volume of 2.920 billion m<sup>3</sup>.

At national level, the ratio between the working gas volume and the annual consumption was about 27% in 2016. This level is in the first upper half of 2015 international values (Great Britain 6.4%, Spain 9.8%, Holland 40.6%, Poland 19.9%, Italy 26.2%, Germany 29.8%, France 29.5%, Denmark 33.6%, and Hungary 69.6%).

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

## Natural Gas Supply



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

As of July 1, 2007 the gas market is fully open for all consumers. They may freely choose a gas supplier from the ones licensed by ANRE and directly negotiate the gas supply terms and price. The consumer may directly exercise its quality as eligible consumer without an obligation to carry out any kind of administrative procedure.

Law no. 123/2012 sets the legal framework to converge the domestic gas price to the import gas price. Government Decision no.22/January 22, 2013, as amended by Government Decision no. 511/June 26, 2014 and Government Decision no. 816/September 22, 2014, set calendars for the increase of the acquisition price of domestic gas for the regulated market. During Q3 (Government Decision no. 511/2014) and Q4 (Government Decision no. 816/2014) the domestic gas price was the same price as in Q2 (Government Decision no. 22/2013) for non-household customers. For household customers, CPT, the Q3 2014 price increases as compared to Q2 2014 in accordance with GD No 511/2014, and such price remained valid for Q4, too (GD No.816/2014).

Until the convergence of prices is reached and to ensure equal access of all consumers to cheap natural gas sources from the domestic production, the supply of gas to the consumers is carried out according to ANRE Order no. 15/2013 as an import/domestic gas mixture established monthly according to the different consumer categories (households and producers of thermal power for the consumption of population and non-households).

In terms of supply, Romgaz held during 2009-2016 a national market share ranging between 37 and 46%:

	M.U.	2009	2010	2011	2012	2013	2014	2015	2016
National consumption	bcm	13.3	14.0	14.4	13.5	12.5	12.2	11.6	11.8
Romgaz traded volumes (domestic + import)	bcm	6.1	6.4	6.3	5.9	5.7	5.7	5.1	4.4
Romgaz market share	%	45.86	45.81	43.87	42.82	44.5	46.1	44.0	37.1

The above quantities include gas from own domestic production, domestic gas purchased from third parties, 100% gas from Schlumberger joint venture and import gas. As compared to previous years, 2016 deliveries include gas delivered to Iernut and Cojocna for electricity production.

### **Well Workover, Recompletions and Special Operations**

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

The branch performs two 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 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 supplied to other companies in Romania 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. Gas supply, industrial water and power discharge facilities are forthcoming.

CTE Iernut is operated under Romgaz Electricity Generation Branch (SPEE).

CTE Iernut has an installed capacity of 600 MW split into 4 energy groups: two 100 MW energy units of Czechoslovakian manufacturing and two 200 MW energy units of Soviet manufacturing. The groups were commissioned between 1963 and 1967. As of January 1, 2016, the energy units 2 and 3 were put into a dry storage condition.

**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 the respective area. The wells were located far from each other and also from the National Transmission System (NTS).

Thus, during 2009-2010 solutions were sought, feasibility and opportunity studies were prepared, and further to their approval it was decided to use the gas from wells 2 and 4 Cojocna as fuel gas for two 1.5 MW power generation units, bearing in mind that the connection to the National Energy System (NES) didn't raise any major issue.

This power generation pilot project using units that do not require special installations works is an alternate option for gas production and valorisation from isolated wells that would imply building kilometre long gathering pipes, thus, representing a not justifiable option due to the high costs and multiple impediments related to access on outside build-over areas belonging to legal or individual persons.

Commissioning the two electricity production units using the gas from wells 2 and 4 Cojocna was a technological success but unfortunately a short termed one, because of reduced gas flows that led to intermittent operation of wells and units.

Our specialists focused during year 2015 both on productivity stimulation from both wells (re-perforation of productive layers, addition of new pay zones) and on setting the best layout of gathering pipes where other isolated wells may deliver, ensuring thereby the necessary gas volumes for both units.

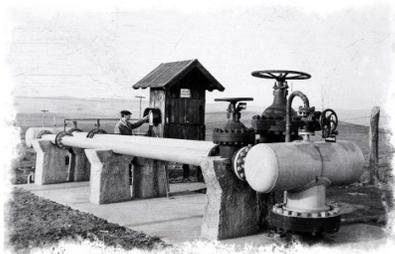
Further to approving a feasibility study, it has been decided to implement the scenario on building a pipeline network to collect gas from the neighbouring wells and transmission of gas to the two power generation units (in progress).

In 2016, the documentation prepared in accordance with Law No 50 as of June 29, 1991 regarding authorization of construction work performance was filed at the Cluj County Council, regarding the work: „*Pipelines and Technological Installations related to Putting wells 1 Palatca, 1 Vaida and 2 Vaida on Experimental Production*”.

### **Natural Gas Distribution**

The natural gas distribution is a regulated business segment and the company's activity is currently limited to Ghercesti and Piscu Stejari areas. Romgaz has concession agreements with the Ministry of Economy 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 the drilling of well Sarmasel-2.

The most important historic benchmarks are:



### 3.3. Mergers and Reorganizations, Acquisitions and Divestment of Assets

In compliance with European and national applicable laws, Romgaz has to legally unbundle the gas storage activity from gas production and supply activities.

Further to adopting Directive 2009/73/CE of the European Parliament and Council on July 13, 2009 concerning common rules of the internal market in natural gas and repealing Directive 2003/55/CE, the Romanian Parliament adopted the Energy and Gas Law no. 123/2012. This was published in the Official Gazette of Romania no. 485 on July 16, 2012 and became effective on July 20, 2012.

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 and underground storage activities at least from legal, organizational and decision-making perspective.

Therefore, considering the above mentioned matters, it is compulsory to legally separate 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.

Both the Directive and the Law recommend as solution to set up an independent subsidiary that should act as storage operator, as follows:

- ❖ Article 15 paragraph 2 let. c) of the Directive provides that: *“the storage system operator shall have effective decision making rights, independent from the integrated natural gas undertaking, with respect to assets necessary to operate, maintain or develop the storage facilities. This shall not preclude the existence of appropriate coordination mechanisms to ensure the economic and management supervision rights of the parent company in respect of return on assets [...]”*
- ❖ Article 141 paragraph 3 let. c) of the Law also provides that: *“the storage system operator shall have effective decision making rights, independent from the parent company, with respect to assets necessary to operate, maintain or develop the storage facilities; this shall not preclude the existence of appropriate coordination mechanisms to ensure the economic and management supervision rights of the parent company in respect of return on assets owned by a subsidiary”*.

For fulfilling the legal requirements set by the Directive and by Law, respectively, the following steps have been taken:

- ✎ a study has been prepared to identify the best version for performing the legal unbundling of the storage activity from the gas production and supply activity. The solution recommended by Ernst&Young was to create an independent subsidiary, owned 100% by Romgaz to perform gas storage activities;
- ✎ the Board of Directors, endorsed in Resolution no. 22/30.10.2014 at article 10 the incorporation, registration an declaration to the Trade Office Register by Prahova Court the subsidiary *“SNGN Romgaz SA – Filiala de Inmagazinare Gaze Naturale “Depogaz” Ploiesti S.R.L.”*;
- ✎ the Extraordinary General Meeting of Shareholders approved by Resolution no. 10/19.12.2014 (item II) to set up the subsidiary *“SNGN Romgaz SA – Filiala de Inmagazinare Gaze Naturale “Depogaz” Ploiesti S.R.L.”*;

- ✎ On March 17, 2015, the General Meeting of Shareholders approved the Article of Incorporation of the subsidiary;
- ✎ A consultancy agreement on “Assistance in performing the legal unbundling of UGS activity in accordance with applicable law (Law no. 123/2012 on Energy and natural gas and European Directive 2009/73/CE)” has been concluded and the Final Report prepared by the consultancy agency (K.P.M.G.) was submitted to the National Authority for Energy Regulation;
- ✎ The Company has submitted a request to the National Agency for Fiscal Administration for an advanced tax ruling (SFAI);
- ✎ During the Board of Directors Meeting on August 13, 2015 the fixed assets lease Agreement to be concluded between SNGN Romgaz SA and subsidiary has been endorsed.
- ✎ The following agreements have been concluded between the company and subsidiary:
  - a) The Agreement no. 9523 as of September 22, 2015 regarding the lease of fixed assets
  - b) The Agreement no. 9525 as of September 22, 2015 regarding services related to gas compression and gas dehydration and services related to maintenance of the underground gas storage system;
- ✎ ANRM issued the Attestation Certificate no. 1691 as of October 1<sup>st</sup>, 2015 certifying that the subsidiary meets the Attestation Procedure requirements and agreed that the subsidiary (operator) may perform the petroleum operations in the blocks where the UGS are located;
- ✎ By Resolution no. 2588 as of December 30, 2015, ANRE amends the Licence no. 1942/2014 on operation of UGS system by changing the owner from SNGN ROMGAZ SA Medias into SC SNGN ROMGAZ SA- Filiala de Inmagazinare Gaze Naturale “Depogaz” Ploiesti S.R.L, and shall be valid as of April 1<sup>st</sup>, 2016;
- ✎ the executive management will urgently initiate the procedure for selecting the subsidiary's administrators. This procedure must comply with the independence criterion stipulated in Directive 2009/73/CE and implemented in Electricity and Natural Gas Law no. 123/2012, as amended and supplemented, and will consult the competent institutions/authorities so that the new company obtains the endorsements/approvals necessary for performing the activities included in the main activity.
- ✎ By Decision No 446 as of March 23, 2016, ANRE postponed until April 1, 2017 the entering into force of the Decision No 2588 as of December 30, 2015 on modifying the License No 1942/2014 on operating the UGS system, in terms of changing the titleholder of such, namely from SNGN ROMGAZ S.A Medias to SC SNGN ROMGAZ S.A. - Filiala de Inmagazinare Subterana a Gazelor Naturale DEPOGAZ Ploiesti SRL;

- ✎ the National Agency for Fiscal Administration issued the final fiscal anticipated individual solution A-RFC 1527/September 05, 2016 as regards profit tax and applicable VAT, for the operations described by Romgaz, with the purpose of separating the UGS activity from the production activity and the supply activity.

A series of ***changes to the organizational structure*** have been performed during 2016:

- By Decision No 113 of the Director General as of April 1, 2016 on modifying the organizational structure of SNGN ROMGAZ S.A., following changes were made:
  - Grouping the HSEQ specific activities under a direction - *the Quality, Health, Security, Environment Direction* - subordinated to the director general, which groups the activities of prevention and protection, emergency situations, security structure, environmental protection, in accordance with the good practices employed in companies similar to Romgaz;
  - Subordinating the Human Resource Direction to the Director General;
  - Bringing together certain support activities under one direction - *the Management Support Direction* - subordinated to the Director General, such as corporate governance, technical regulations and authorizations, legal, public relations and communication, counsellors;
  - Setting up the Controlling and Risk Analysis Office under the Budget and Economic Analysis Service, subordinated to the Head of Service;
- By the Decision of the Director General No 90/March 4, 2016 and No 91/April 4, 2016 –Medias Branch project units responsible for “Reservoir Rehabilitation Projects” were set up with the aim of ensuring implementation of projects for the rehabilitation of mature gas reservoirs within the two branches.

***No mergers of the company*** took place in financial year 2016.

### 3.4. Company Business performance

#### 3.4.1. Company Overall Performance

The Company'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 energy and from other specific services.

#### Financial Results

\* RON thousand \*

Item No	Description	2015	2016	Ratio (2016/2015)
0	1	2	3	4=3/2x100
<b>1</b>	<b>Total Income, out of which:</b>	<b>4,315,926</b>	<b>3,816,770</b>	<b>88.43%</b>
	*operating income	4,271,610	3,794,123	88.82%
	*financial income	44,316	22,647	51.10%
<b>2</b>	Revenue	4,052,684	3,411,868	84.19%
<b>3</b>	<b>Expenses, out of which:</b>	<b>2,847,088</b>	<b>2,536,075</b>	<b>89.08%</b>
	*operating expenses	2,817,525	2,516,978	89.33%
	*financial expenses	29,563	19,097	64.60%
<b>4</b>	<b>Gross Profit</b>	<b>1,468,838</b>	<b>1,280,695</b>	<b>87.19%</b>
5	Income Tax	274,553	256,116	93.28%
<b>6</b>	<b>Net Profit</b>	<b>1,194,285</b>	<b>1,024,579</b>	<b>85.79%</b>

The Total Income was lower than the 2015 income by 11.57%.

Below are the compared economic-financial indicators for 2015 and 2016 and their detailed structure split by activity:

#### Compared economic-financial indicators

\* RON thousand \*

Description	2015	2016	Indices (2016/2015)
1	2	3	4=3/2x100
Revenue	4,052,684	3,411,868	84.19%
Cost of commodities sold	- 40,228	- 49,878	123.99%
Investment Income	44,185	22,117	50.06%
Other gains and losses	- 318,903	- 468,218	146.82%
Changes in inventories	138,181	20,963	15.17%
Raw materials and consumables	- 78,262	- 54,632	69.81%
Depreciation, amortization and impairment	- 793,598	- 311,012	39.19%
Employee benefit expense	- 511,647	- 498,114	97.36%
Interest and expenses with decommissioning provision	- 20,302	- 18,275	90.02%
Exploration Expenses	- 42,95	- 253,348	595.59%
Other Expenses	-1,040,670	- 881,923	84.75%

Other Income	79,793	361,147	452.60%
<b>Profit before tax</b>	<b>1,468,838</b>	<b>1,280,695</b>	<b>87.19%</b>
Income tax expense	- 274,553	- 256,116	93.28%
<b>Profit for the year</b>	<b>1,194,285</b>	<b>1,024,579</b>	<b>85.79%</b>

*Structure of indicators split by activity-2016*

\* RON thousand \*

Description	TOTAL 2016, including:	Gas production and deliveries	Underground Gas Storage	Electricity	Other activities	Settlement between segments
1	2	3	4	5	6	7
Revenue	4,052,684	3,511,385	332,639	443,164	254,667	- 489,171
Cost of commodities sold	- 40,228	- 16,733	- 29	- 22,706	- 759	
Investment Income	44,185	1,681	5,593	1	36,910	
Other gains and losses	- 318,903	- 310,017	- 1,368	- 471	- 7,047	
Changes in inventories	138,181	112,745	21,832	182	3,422	
Raw materials and consumables	- 78,262	- 53,917	- 12,345	- 1,692	- 14,553	4,245
Depreciation, amortization and impairment	- 793,598	- 673,420	- 88,262	- 4,790	- 27,126	
Employee benefit expense	- 511,647	- 316,177	- 47,335	- 33,085	- 115,050	
Interest and expenses with decommissioning provision	- 20,302	- 18,642	- 1,660			
Exploration Expenses	- 42,395	- 42,395				
Other Expenses	-1,040,670	-1,075,831	- 95,265	-	- 80,594	486,682
Other Income	79,793	76,855	2,884	111	1,700	- 1,756
<b>Profit before tax</b>	<b>1,468,838</b>	<b>1,195,534</b>	<b>116,684</b>	<b>105,051</b>	<b>51,569</b>	
Income tax expense	- 274,553				- 274,553	
<b>Profit for the year</b>	<b>1,194,285</b>	<b>1,195,534</b>	<b>116,684</b>	<b>105,051</b>	<b>- 222,984</b>	

*Structure of indicators split by activity-2016*

\* RON thousand \*

Description	TOTAL 2016, including:	Gas production and deliveries	Underground gas storage	Electricity	Other activities	Settlement between segments
1	2	3	4	5	6	7
Revenue	3,411,868	2,857,683	358,568	399,042	239,230	- 442,655
Cost of commodities sold	- 49,878	- 18,443	- 432	- 30,229	- 774	-
Investment income	22,117	844	3,949	40	17,284	-
Other gains and losses	- 468,218	- 445,340	- 1,915	- 445	- 20,518	-
Changes in inventories	20,963	2,765	13,522	233	4,443	-
Raw materials and consumables	- 54,632	- 37,389	- 7,142	- 1,460	- 10,660	2,019
Depreciation, amortization and impairment	- 311,012	- 185,959	- 95,784	- 6,940	- 22,329	-
Employee benefit expense	- 498,114	- 313,449	- 47,163	- 30,028	- 107,474	-

Finance cost	- 18,275	- 16,674	- 1,601	-	-	-
Exploration expense	- 253,348	- 253,348	-	-	-	-
Other expenses	- 881,923	- 915,298	- 91,057	- 256,113	- 61,076	441,621
Other income	361,147	356,420	2,223	122	3,367	- 985
<b>Profit before tax</b>	<b>1,280,695</b>	<b>1,031,812</b>	<b>133,168</b>	<b>74,222</b>	<b>41,493</b>	<b>-</b>
Income tax expense	- 256,116	-	-	-	- 256.116	-
<b>Profit for the year</b>	<b>1,024,579</b>	<b>1,031,812</b>	<b>133,168</b>	<b>74,222</b>	<b>- 214,623</b>	<b>-</b>

## Revenue

The table below compares the 2016 revenue with the 2015 revenue, for each activity (RON thousand):

Description	2015	2016	Ratio (2016/2015)
1	2	3	4=3/2x100
<b>Revenue, including:</b>	<b>4,052,684</b>	<b>3,411,868</b>	<b>84.19%</b>
↳ <b>gas production and deliveries activity, including:</b>	<b>3,511,385</b>	<b>2,857,683</b>	<b>81.38%</b>
* sale of own domestic gas – third parties	3,159,884	2,558,848	80.98%
* sale of own domestic gas-settlements between branches	157,064	136,481	86.90%
* sale of own domestic gas produced by joint ventures	131,373	108,323	82.45%
* sale of import gas	4,169	10,885	261.09%
* sale of domestic gas from acquisitions	14,545	9,332	64.16%
* distribution services	192	384	200.00%
* other revenues from production- third parties	44,158	33,430	75.71%
↳ <b>underground gas storage activity-total, including:</b>	<b>332,639</b>	<b>358,568</b>	<b>107.79%</b>
* third parties	332,639	346,141	104.06%
* settlements between branches	-	12,427	-
↳ <b>Electricity generation – total, including:</b>	<b>443,164</b>	<b>399,042</b>	<b>90.04%</b>
* third parties	356,620	336,430	94.34%
* settlements between branches	86,544	62,612	72.35%
↳ <b>Other activities – total, including:</b>	<b>254,667</b>	<b>239,230</b>	<b>93.94%</b>
* third parties	9,104	8,095	88.91%
* settlements between branches	245,563	231,135	94.12%
↳ <b>settlements between branches – total</b>	<b>- 489,171</b>	<b>- 442,655</b>	<b>90.49%</b>

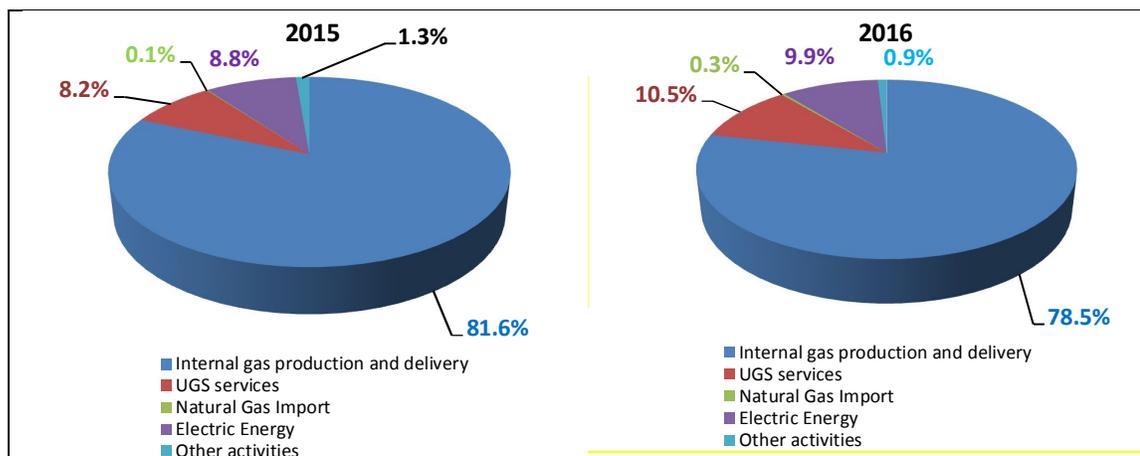
The table below shows the revenue weight in different business segments:

Description	2014		2015		2016	
	RON mil	% R	RON mil	% R	RON mil	% R
Gas production and delivery activity	3,853.0	85.75	3,511.4	86.64	2,857.7	83.76
UGS activity	425.8	9.48	332.6	8.21	346.1	10.14
Electricity generation and delivery activity	424.1	9.44	443.2	10.94	336.4	9.86

Other activities	324.7	7.22	254.7	6.28	314.3	9.21
Settlement between branches	317.7	-11.89	-489.2	-12.07	-442.7	-12.97
<b>TOTAL Revenue (R)</b>	<b>4,493.3</b>	<b>100.00</b>	<b>4,052.7</b>	<b>100.00</b>	<b>3,411.9</b>	<b>100.00</b>

Revenue was lower by 15.81% than the revenue of the previous year.

The 2015 and 2016 revenue structure is shown in the figures below:



### Financial Income

The financial income is lower by 48.90% than the one recorded in the previous year. Financial income consists mainly of interests on bank deposits and of interest on state bonds. In 2016, this income decreased because of a reduction of interest rates.

### Expenses

Description	Year 2015 (RON thousand)	Year 2016 (RON thousand)	Ratio (2016/2015)
1	2	3	4=3/2x100
Operating expenses	2,817,525	2,516,978	89.33%
Financial expenses	29,563	19,097	64.60%
<b>Total expenses</b>	<b>2,847,088</b>	<b>2,536,075</b>	<b>89.08%</b>

Expenses incurred during January–December 2016 have been lower by 10.92% than those of the similar period in the previous year, as a result of the decreasing acquisition costs of imported natural gas.

### Financial Expenses

Financial expenses during 2016 are lower by 35.40% as compared to the previous year due to the decrease of unwinding costs applied to decommissioning provision for fixed assets.

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

## Financial Results

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

Description	2015	2016	Ratio (2016/2015)
1	2	3	4=3/2x100
Operating results	1,454,085	1,277,145	87.83%
Financial results	14,753	3,550	24.06%
<b>Gross result</b>	<b>1,468,838</b>	<b>1,280,695</b>	<b>87.19%</b>
Income tax	-274,553	-256,116	93.28%
<b>Net Result</b>	<b>1,194,285</b>	<b>1,024,579</b>	<b>85.79%</b>

Gross result during January – December 2016 in amount of **RON 1,280,695 thousand** is lower than the gross result of the similar period of 2015 by 12.81%.

The 2016 financial result is below the 2015 one, due to the decrease of financial income.

Income tax calculated for 2016 is lower by 6.72% than in 2015 due to the decrease of expenses related to current tax and increase of income resulted from deferred tax calculation.

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

Indicators	Calculation Formula	M.U.	2015	2016
1	2	3	4	5
Working capital (WC)	$C_{lt}-A_f = E+L_{nc}+Pr+S_i-A_f$	RON mil	3,562	3,772
Working capital requirements (WCR)	$(A_{st}-L+P_p) - (L_{crt}-C_{rst}+I_{df})$	RON mil	2,821	3,492
Net cash	$WC-WCR = L-C_{rst}$	Ron thousand	740	281
Economic Rate of Return (ERR)	$P_g/C_{lt} \times 100$	%	14.60	12.77
Return on Equity	$P_n/E \times 100$	%	12.32	10.59
Return on Sales	$P_g/R \times 100$	%	36.24	37.54
Return on Assets	$P_n/A \times 100$	%	11.18	9.33
EBIT	$P_g+Ex_i-I_r$	RON thousand	1,425	1,259
EBITDA	$EBIT+Am$	RON thousand	2,218	1,570
ROCE	$EBIT/C_{emp} \times 100$	%	14,16	12,55
Asset Solvency	$E/L \times 100$	%	90,71	88,15

where:

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

---

Cr<sub>st</sub> short-term credit; L total liabilities

---

### 3.4.2. 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 are set by Law No. 123/2012, which provides in Chapter XII "*Prices and Tariffs*", Article 179 for the following:

- ✘ activities in the regulated market comprise the following:
  - supply of natural gas to non-household customers at regulated price and under frame contracts until December 31, 2014. On January 1, 2015 regulated prices for non-household customers were eliminated.
  - supply of natural gas to household customers at regulated price and under frame contracts until December 31, 2021. To ensure non-discrimination between customer categories until the end of the regulated period, the household consumers and the thermal energy producers receive the same treatment in terms of security of supply and sale price of consumed gas, exclusively for the gas quantities used for producing thermal energy in cogeneration plants and thermal power plants intended for household consumption, irrespective of their option to be eligible or regulated customers ;
  - supply of last resort of natural gas;
  - natural gas transmission;
  - natural gas transmission through upstream supply pipelines, in accordance with the provisions of license validity conditions;
  - underground gas storage;
  - natural gas storage in pipelines;
  - natural gas, bio-gas and bio-methane distribution;
  - related activities performed by licensed operators;
  - activities related to LNG terminal operation;
- ✘ prices and tariffs on the regulated market are set by ANRE, based on methodologies approved and published by the authority after informing and consulting all parties concerned;
- ✘ the calendar for gradual deregulation of prices for the final customers is set by the Government in compliance with the schedule of producer price progress proposed by ANRE and ANRM, taking into account possible adverse effects of price deregulation, in order to mitigate the consequences for customers;

- ANRE will annually monitor the results of the gradual price deregulation calendar and, as the case may be, submit to the Government the proposal to trade domestic gas production on the domestic market until fulfilment of the approved calendar, i.e. June 30, 2021.

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

### ***Underground Gas Storage***

The underground gas storage business is included in the regulated segment of the gas market.

The revenues from the underground gas 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 approval of prices and setting regulated tariffs in the gas sector, published in the Official Gazette No. 379 of June 6, 2012.

ANRE Order No. 26 of April 26, 2013 approved the regulated revenue for the first year of the third regulatory period (April 2012 – March 2013), the regulated revenue for the second year of the regulatory period (April 2013 – March 2014), and the regulated tariffs for the period April 2013 – March 2014.

ANRE Order No. 29 of April 9, 2014 approved the regulated revenue of the third year of the regulatory period (April 2014 – March 2015) and the regulated tariffs for the period April 2014 – March 2015.

ANRE Order No. 58 of March 27, 2015 approved the regulated revenue for the fourth year of the regulatory period (April 2015 – March 2016), and the regulated tariffs for the period April 2015 – March 2016.

Order No. 9 of March 23, 2016 extended the application of Order No. 58/2015 “*until the end of the underground natural gas storage cycle 2016 – 2017*”.

Thus, the storage tariffs applied between January 2014 and December 2016 are as follows:

- 1) Tariffs approved by Order No.26/2013 are as follows:

<b><i>Tariff Component</i></b>	<b><i>M.U.</i></b>	<b><i>Value</i></b>
Volumetric component for gas injection	RON/MWh	2.37
Fixed component for capacity reservation	RON/MWh/full storage cycle	13.12
Volumetric component for gas withdrawal	RON/MWh	1.80

- 2) Tariffs approved by Order 29/2014 are as follows:

<b><i>Tariff Component</i></b>	<b><i>M.U.</i></b>	<b><i>Value</i></b>
Volumetric component for gas injection	RON/MWh	2.53
Fixed component for capacity	RON/MWh/full	13.14

reservation Volumetric component for gas withdrawal	storage cycle RON/MWh	1.80
---	--------------------------	------

3) Tariffs approved by Order 58/2015, extended by Order No. 9/2016 are as follows:

<i>Tariff Component</i>	<i>M.U.</i>	<i>Value</i>
Volumetric component for gas injection	RON/MWh	2.37
Fixed component for <i>capacity reservation</i>	RON/MWh/full storage cycle	13.68
Volumetric component for gas <i>withdrawal</i>	RON/MWh	1.87

### ***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:

$$\text{Final price} = \text{Weighted average price of gas acquisition} + \text{Transmission tariff} + \text{Storage tariff} + \text{Distribution tariff} + \text{Trading component}$$

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 Romanian authorities agreed with the international financial bodies a calendar for gradual deregulation of prices until December 31, 2014 for the final non-household customers (except when on such date there is a significant difference between the trading price of domestic production and the European import price that may jeopardize the market stability, than the term would be extended until December 31, 2015); for household customers the term of completion of the above mentioned process is December 31, 2018. The Romanian Government signed with IMF, the World Bank and the European Commission a “*Memorandum on the Calendar for Gradual Deregulation of Gas Prices*”. This calendar for price increase until the end of 2014 was approved by *Government Decision No. 22 of January 22, 2013 on setting the acquisition price of gas from domestic production on the regulated gas market*.

At the same time, according to Article 124, paragraph (1), letter e) of Law 123/2012, the gas producer has to make available gas quantities from their own production to suppliers, with precedence, to cover the regulated market, in accordance with the ANRE regulations on compliance with the price deregulation calendar, and to secure gas supply to the captive

consumers, while suppliers have to keep the destination of such gas quantities. The remaining domestic production, less the gas quantity necessary for technological consumption, shall be made available to the competitive market.

Domestic gas production allocated to final customers on the regulated market comprises current gas production and a part of stored gas.

The table below shows the gas supply average prices in the period 2014-2016:

Description	M.U.	2014	2015	2016
1	2	3	4	5
Average supply price for internal gas production <sup>3</sup>	RON/1000 m <sup>3</sup>	687.86	717.80	698.30
	RON/MWh	65.48	68.27	66.36
Average price for import gas	RON/1000 m <sup>3</sup>	1,436.22	1,928.72	1,597.47
	RON/MWh	132.24	184.06	105.74

### *Natural Gas Distribution*

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

- ↳ ANRE Order No. 103 of June 26, 2008 on setting regulated tariffs for gas distribution services and approval of prices for regulated gas supply performed by SNGN ROMGAZ SA, modified by ANRE Order No. 31 of August 30, 2012 (for the period January 1st –November 30,2014);
- ↳ ANRE Order no. 120/2014 on setting regulated tariffs for gas distribution services and approval of prices for regulated gas supply performed by SNGN ROMGAZ SA Medias, (for the period December 1st 2014-June 30, 2015);
- ↳ ANRE Order no. 57/2015 on modification of ANRE Order no. 120/2014 on setting regulated tariffs for gas distribution services and approval of prices for regulated gas supply performed by SNGN ROMGAZ SA Medias, (starting with July 1st, 2015);
- ↳ Order No. 58/2016 on setting regulated tariffs for gas distribution service and approval of prices for regulated gas supply performed by Societatea Nationala de Gaze Naturale "ROMGAZ" - S.A. Medias (starting with October 1<sup>st</sup>, 2016).

<sup>3</sup> Including gas commodity and gas from association with Schlumberger and without storage services costs

Tariffs and prices are presented in the table below:

Description	January 1 <sup>st</sup> – November 30 <sup>th</sup> , 2014	December 1 <sup>st</sup> , 2014 – June 30 <sup>th</sup> , 2015	July 1 <sup>st</sup> , 2015 – September 30 <sup>th</sup> , 2016	October 1 <sup>st</sup> , 2016 - present
Distribution tariffs (RON/MWh):				
*B1 consumption up to 23.25 MWh	21.66	44.01	44.01	52.48
*B1 annual consumption between 23.26 and 116.28 MWh	21.25	40.06	40.06	47.71
*B1 annual consumption between 116.29 and 1,116.78 MWh			44.01	46.81
* B1 annual consumption between 1,116.79 and 11,627.78 MWh			40.06	45.77
Final regulated prices (RON/MWH):				
*B1 consumption up to 23.25 MWh	117.8	120.67	117.75	123.27
*B1 annual consumption between 23.26 and 116.28 MWh	116.95	116.03	113.13	118.49

### 3.4.3. Human Resources

On December 31, 2016 the company had 6,246 employees.

The evolution of the company's number of employees between January 1, 2014 and December 31, 2016 is shown in the table below:

Description	2014	2015	2016
1	2	3	4
Employees at the beginning of the year	6,472	6,344	6,356
Newly hired employees	92	159	168
Employees who terminated their labour relationship with the company	220	147	278
Employees at the end of the year	6,344	6,356	6,246

The structure of employees at the end of 2016 was the following:

*a) by level of education*

- University 23.49 %
- Secondary education 26.59 %
- Foreman education 3.79 %
- Vocational school 34.12 %
- Middle school 12.01 %

*b) by age*

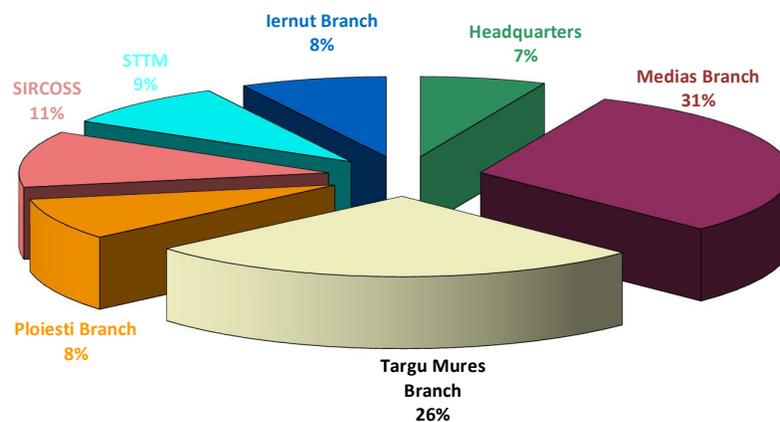
- under 30 years 3.97 %
- 30-40 years 15.91 %

- 40-50 years 40.95 %
- 50-60 years 30.88 %
- over 60 years 8.28 %

c) by activities

- Gas production 62.47 %
- Production tests/well special operations 11.34 %
- Health 1.23 %
- Transportation 8.92 %
- Gas storage 8.41 %
- Electricity production 7.64 %.

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



The employees' structure at the headquarters and branches is shown in the table below:

Entity	Workers	Foremen	Admin employees	Total
1	2	3	4	5
Headquarters	31		379	410
Medias Branch	1,488	92	347	1,927
Targu-Mures Branch	1,316	51	275	1,642
Ploiesti Branch	338	30	157	525
SIRCOSS	511	52	145	708
STTM	427	19	111	557
Iernut Branch	320	44	113	447
<b>TOTAL</b>	<b>4,431</b>	<b>288</b>	<b>1,527</b>	<b>6,246</b>

The main areas of *training* during 2016 were:

- Training of administrative employees in various areas of activity, in cooperation with training suppliers from the country and abroad;
- Authorization/re-authorization, according to specialization and work place;

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

A number of 1,948 employees were trained during 2016, and the costs of such professional training and skills improvement training courses were RON 1,175,809.79.

The annual training program was implemented as follows:

- in accordance with the Labour Code, a total of 460 persons did not participate to any training over the past 2 years out of which 149 administrative employees and 311 workers were trained and 610 employees participated in training courses to obtain authorization/reauthorization in accordance with their specialization and work place.
- 511 persons participated to professional training programs with professional subjects applicable to their activity.

During 2016, the professional training activity focused mainly on sustaining increase of adaptability to new economy requirements based on knowledge, in order to ensure and update required competencies for employees working in the technical, economic and research-development field, such as:

- Certification of technical, drilling and oil and gas wells-related competencies for 11 persons, experts and professionals, who attended IWCF certification courses at U.P.G. Ploiesti;
- implementation of the International Financial Reporting Standards required training and skills improvement of employees in the economic and financial field. 9 employees participated to such training courses in 2016;
- to comply with the legislation in force and to offer the employees information meant to reduce the risk degree in the field, 41 employees, heads of organizational units, participated in 2016 in courses with the theme combating corruption risk.

Within Romgaz there are two **trade unions**, as follows:

- “*Sindicatul Liber din cadrul SNGN Romgaz SA*”, consisting of 6,204 members;
- “*Sindicatul Extracție Gaze și Servicii*”, consisting of 17 members.

The total number of union members is 6,221 as compared to 6,246 representing the total number of employees. The union members/total number of employees' ratio is 99.69%.

**Relationship between manager and employees:** following negotiations, the parties have agreed to conclude a new Collective Labour Agreement, valid for 2017 and 2018.

During 2016, **there were conflicts between the management and the trade union** (see Annex no.3 - Litigations: Items 73, 79, 80, 97, 100, 116, 173, 186 and 189).

### 3.4.4. Environmental Aspects

In 2016, the environment protection activity continued to focus on compliance of Romgaz activities 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 submitted to public authorities;

- ↳ Rendering efficiency to environment protection, a support for Romgaz management process.

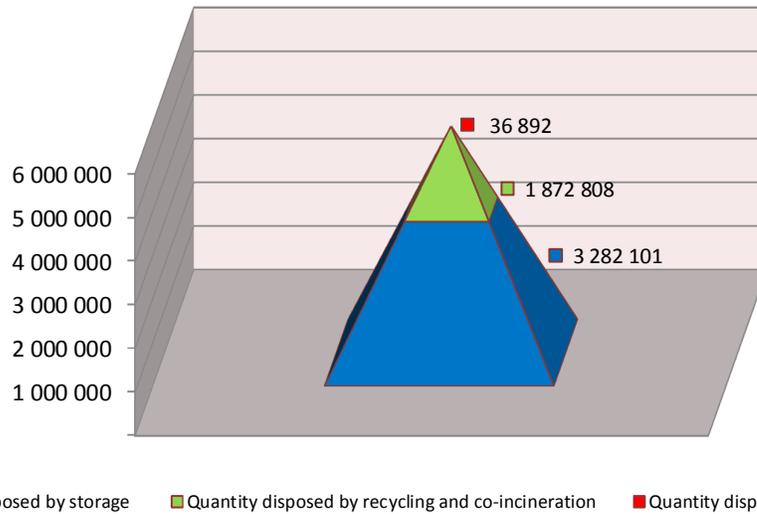
The environment protection activities during 2016 focused on:

- fulfilment of requirements deriving from the ISO:14001 and ISO:9001 standards;
- complying with permitting requirements:
  - complying with legal requirements relating to environment permits for all 141 units. The conformity degree is 100% - for 1 objective the company has requested the review of the permit, for 1 objective the authorization documentation is submitted (new objective) and for 1 objective the regulation document sets a conformity plan containing - measures to reduce current and future effects of the activity. Measures consist of equipping 3 wells with safety equipment (packer and TRSV safety valve). Completion dates are December 31, 2015, December 31, 2016 (for 2 wells), and for 1 well the completion date is December 31, 2017 and will be financed by own means. The December 31, 2015 and December 31, 2016 deadline were observed, the conformity inspection was carried out by the Environment Guard – Mures County Office and by Mures Environment Protection Agency;
  - complying with legal requirements regarding waste water management permits, for:
    - ✓ 83 units for which the conformity degree is 100% - to be noted that for 5 objectives permits are renewed; and,
    - ✓ 38 units related to systems/injection wells, out of which 7 are under renewal process.

A company-wide application has been developed to monitor environment permits, and to permanently analyse and continuously supervise compliance with legal requirements in the field of environment protection;

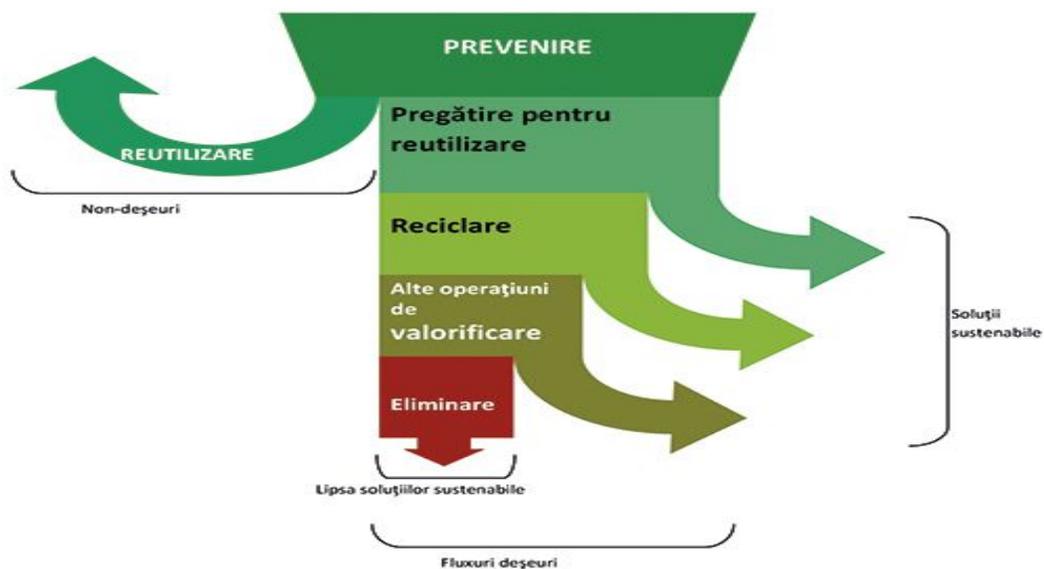
- Disposal of waste generated from own activity, in accordance with legal requirements in force. In 2016, the company's activity generated 5,191.851 tons of wastes out of which 1,872.808 tons were recycled and co-incinerated (1,869.137 tons were recycled and 3.671 tons were co-incinerated), 36.892 tons of wastes were disposed by incineration and 3,282.101 tons of wastes were disposed by storage.

**2016 AMOUNT OF GENERATED WASTE (5,191.851 tons)**



In 2016, the “Program for Prevention and Reduction of Waste Generated by S.N.G.N. Romgaz S.A. activity” was updated with specific legal requirements related to package waste management. This program considers measures and methods for the prevention and reduction of quantities of waste resulting from the company’s activity. Such Program complies with the applicable regulations and contains a preferred prioritization of waste management. The Program aims at identifying objectives, targets and policy actions which the company is required to comply in its waste management activity in order to fulfil the company’s strategic objectives.

**Romgaz Waste Flow**



Measures and methods were identified in the assessments on waste quantity reduction and in the references of the internal audit relating to waste. The priority of waste management relates to reduction of waste at source, recycling, valorisation, treatment

and last but not least disposal by incineration or storage. This Program was drafted in accordance with the Romgaz Quality and Environment Policy Statement and was endorsed by the National Agency for Environment Protection.

Also in this case, Romgaz developed an application for waste management control, whereby a permanent analysis and a continuous supervision of compliance with legal requirements (waste management in accordance with legal requirements, tracking of waste management performed by authorized contractors etc.);

- monitoring the compliance with legal requirements on environment protection, by monitoring ways to clarify the exceeding of limits permitted by regulations in force. For the entire company, permanent analysis and continuous supervision is carried out in connection with the physical-chemical, bacteriological and biological indicators of emitted pollutants, the frequency and ways of using results. In 2016, Romgaz exceeded the legally allowed limit, when loading pollutants exceeding the maximum allowed level when discharging faeces of the wastewaters in Sublozac Runlet; penalties were paid in this respect;
- monitoring the settlement of environment notifications and complaints against Romgaz. In 2016, four external environment complaints were recorded, as follows :
  - notification regarding oil products iridescences for Zeletin Runlet, Glavanesti Commune, Razesu Village, in accordance with the Inspection Report no. 35 of January 5, 2016. Romgaz representatives called Emergency Services 112 on January 5, 2016 and the organizational units appointed to analyse/research the recorded irregularities were:
    - National Environmental Guard of Bacau;
    - ISUJ Bacau (Inspectoratul pentru Situatii de Urgenta - Inspectorate for Emergency Situations of Bacau County);
    - National Administration "Apele Romane";
    - A.B.A. Prut-Barlad Iasi (Administratia Bazinala de Apa, Water - Basin Administration) – SGA Galati.

Subsequently, the oil product film was eliminated, the corroded pipe section was replaced with a new section for a distance of 9 m long, being put into function after pressure tests were run, restarting pumping the oil-filled waters in Well 70 Glavanesti;

- Annual flood of a soil, nearby the under-crossing area of the railway of a collector, Aninoasa Commune, Bobaia Village, Gorj County, claim no. 10088/29.03.2016. On April 7, 2016 the employees of Bibesti Work Formation transported soil and levelled the whole at the end of the protective pipe of the collector, to stop the drainage of the rain water over the claimer's land;
- Pollution of approximately 2,500 m<sup>2</sup> land located downstream of Group 5 Hurezani, Gorj County, claim no 5859/15.02.2016. The pedological study contracted by Romgaz highlighted the fact that the analysed land, unlike the adjacent areas, is weakly, moderately and strongly salinized, being in V quality class, unlike the adjacent which is III quality class. The study proposes ameliorative measures, intended to be implemented. The negotiation procedure with the land's owner and the implementation of the ameliorative measures proposed by the Pedological Study are in progress. The claimer, through his statement of December 6, 2016, mentions that he has no material claim as far as concerns the ameliorative measures proposed by the pedological study;

- Soil pollution at approximately 50 m downstream of Well 46 Hurezani and two wells from the yard of the claimer, claim no. 13960/27.04.2016, Hurezani Village, no.75, Gorj County. Following the analysis taken at the scene, it was determined that the vegetation has a normal evolution, just that the soil is inclined. A pedological study was proposed to confirm the quality of the soil as compared to the adjacent areas as well as an analysis of the water from the wells in the claimer's yard. Thus, on July 18, 2016, 4 water samples were taken and the indicators which could derive from the formation waters drainages were analysed (chloride, oil products, copper, zinc, lead, nickel, manganese, chrome and ammonium). It was noted that all four samples presented very close values and they respected the provisions of the Drinking Water Law no. 148 of July 8, 2002, as subsequently amended and completed. On September 12, 2016, by Order no. 7293-S-MEC, a pedological study was required from OSPA Gorj (the National Institute for Research and Development for Pedology, Agro-chemistry and Environment Protection) to certify the soil quality as compared to the adjacent areas. OSPA Gorj took soil samples, as compared to the adjacent areas of the claimer's land. The pedological study elaborated by OSPA Gorj presents the following conclusions: "the soil is not salinized, its quality class is IV, like the adjacent areas";
- after extending the scope of business by taking over Iernut thermoelectric power plant, the aim was complying with the legal requirements applicable in this field of activity, in 2016 has been monitored a total of 895,835 CO<sub>2</sub> volume tons for burners IMA 1, 2, 3, 4, 5. In Annex no. 3 "National Investment Plan" of the Government Decision no. 1096/2013 for the approval of provisional free allocation of greenhouse certificates to electricity producers during 2013-2020, Romgaz is included at line 22 with the "Combined Cycle Gas Turbine" investment (according to Government Decision no. 151/2015 for the amendment of Government Decision no. 1096/2013 for the approval of provisional free allocation of greenhouse certificates to electricity producers during 2013-2020, the National Investment Plan included). According to Annex 1 of the same Government Decision, Romgaz, as operator, received for CTE Iernut for 2016, 549,763 greenhouse certificates (EUA). Romgaz acquired in 2016 a total number of 549,763 greenhouse certificates. As of December 31, 2016, Romgaz held in the account of the Sole Register of Greenhouse Gas Emissions a number of 762,416 CO<sub>2</sub> certificates, as follows:
  - 984053 certificates were used for conformity of 2015 emissions ;
  - 687204 certificates acquired in September 2015, namely the first 2015 tranche (50%) and in November 2015 the second 2015 tranche (50%);
  - 824645 certificates for 2014 were used for partial conformity of 2014 emissions, namely 828793 tones of CO<sub>2</sub>;
  - of the total of 962085 certificates acquired for 2013, 507620 were submitted for conformity of 2013 emissions. Therefore Romgaz used out of the 454465 remaining certificates - 4148 for 2014 conformity, and was left with 450317 certificates;
  - 7587 certificates submitted at Electrocentrale Register, Bucuresti, afferent to the conformity of January 2013 emissions. Romgaz intended to obtain conformity when acquiring CET Iernut, respectively on February 2013;
  - 549763 CO<sub>2</sub> certificates for 2016, acquired in two tranches on December 2016.

Starting with 2016, Romgaz-SPEE Iernut lacks CO<sub>2</sub> certificates necessary for emissions conformity, thus:

- In 2016 the Electric Power Station released 895,835 tons of CO<sub>2</sub>, the account of the Sole Register of Greenhouse Gas Emissions on December 31, 2016 being 762,416 CO<sub>2</sub> certificates. Thus, a shortage of 133,419 CO<sub>2</sub> certificates is registered, necessary for conformity of 2016, which are about to be acquired during the first quarter of 2017 and no later than April 30, 2017 (the legal term for conformity of 2016 emissions), from the Stock Exchange, by means of a brokerage firm.

According to Commission Regulation (EU) No. 1123/2013 of November 2013 on determining international credit entitlements pursuant to Directive 2003/87/EC of the European Parliament and the Council, the Protocol to the United Nations Framework Convention on Climate Change (the Kyoto Protocol) establishes two mechanisms for the creation of international credits that Parties may use to offset emissions. Joint Implementation (JI) provides for the creation of emission reduction units (ERDs), whereas the Clean Development Mechanism (CDM) provides for the creation of certified emission reductions (CRs). The industries the fall under the European emissions trading system to atmosphere (EU ETS) may use these credits to compensate their obligations as regards the greenhouse gas emissions.

In this respect, Romgaz acquired as availability of linking (availability of EUA – ERU certificates correlation) a number of 51598 ERU certificates available to be used for conformity for 2013 – 2020.

According to Decision No. 1096 of December 17, 2013 for the approval of provisional free allocation of greenhouse certificates to electricity producers during 2013-2020, as operator, Romgaz received CO<sub>2</sub> certificates, as follows:

Operator	Installation	Annual Allocation (tCO <sub>2</sub> /year)							
		2013	2014	2015	2016	2017	2018	2019	2020
SNGN Romgaz SA	SNGN Romgaz SA - CTE Iernut	962,085	824,645	687,204	549,763	412,322	274,882	137,441	-

- based on the recommendations made by the Due Diligence Study, performed with the aim of establishing the conformity level of the company to the environmental legislation in force, identification of past and present environmental issues, as well as future environmental risks the company may face, a Report on Significant Environment Issues Remediation was prepared whereby costs, solutions and implementation terms for remedy measures were assumed. In 2016, Romgaz monitored the implementation of permanent measures and of multiannual implementation terms measures contained in the Remediation Report (maintaining the perchloroethylene consumption below 1 ton/year for each location so that the provisions of Government Decision no. 699/2003 on setting measures to reduce emissions of volatile organic compounds due to use of organic solvents for specific activities and installations; requesting the renewal of environment permits with 45 days prior to the expiration; locating industrial objectives at sufficient distance from the protected receptors: reducing fugitive emissions in the area of calibration tanks, of metal tanks and of concrete tanks for temporary storage of reservoir water by equipping the tanks with ecological dispersion systems; periodic payment to the “Closing Fund” until the set value of provision is met for the specific waste storage at

Ogra; annual monitoring frequency for Dumbravioara drilling waste storage closed in 2003, etc.);

- scheduling and organizing the environmental internal inspection, in order to verify conformity with legal requirements applicable to inspected activities.

In 2016, 42 environmental internal inspections were scheduled and performed (from Romgaz headquarters on authorized units of the branches), further to which 22 Reports of Determined/Potential Nonconformity were made, out of which 16 were closed within assumed time limit, 1 open (within assumed time limit), and 5 closed, with outdated time limit. Also, Romgaz branches scheduled and performed 119 environmental internal inspections further to which 2 Reports of Determined/Potential Nonconformity were made, which were closed within the time limit;

- assessment of conformity level to environment protection requirements and contractual requirements of contractors and sub-contractors of drilling works contracted by Romgaz in 2016;
- implementation of the 2016 action/measure programs for preventing and/or mitigating impact on the environment, that were implemented as follows:
  - works for noise reduction and heat recovery from moto-compressor exhaust system;
  - greening of contaminated areas;
  - landslide fighting;
  - installing waste water collection tanks;
  - installing impurities filtering systems;
  - transforming abandoned wells into reservoir water injection wells;
  - installing waste water discharge installations;
  - installing soundproof panels;
  - making payments for environment protection and permitting;
  - environment protection works required for well modernization; environment protection works for modernization of well clusters by installing safety power generators;
  - modernization of technological installations and of infrastructures (platforms);
  - environment restoration works upon abandoning well;
  - maintenance and repair works at waste water treatment plants;
  - expenses in connection with transportation, takeover and disposal of hazardous and non-hazardous waste;
  - environment works at decommissioning;
  - expenses in connection with reservoir water transportation and waste water discharge;
  - expenses in connection with lab analyses;
  - installing environment-friendly discharge systems;
  - expenses in connection with maintenance and cleaning of waste industrial water separators;
  - CO2 account management fee (SPEE Iernut);
  - CO2 validation report fee;
  - Expenses in connection with metering NOx emissions and dust at boilers 1, 4, and 5 of SPEE Iernut;
  - Equivalent value of CO2 certificates.

In 2016, The Environment Guard made 33 inspections at Romgaz locations, and “Romanian waters” National Administration made 10 inspections. Following such inspections **Romgaz was not sanctioned / fined.**

***In 2016, no environment accident was recorded by Romgaz.***

### 3.4.5. Litigation

The summarized statement of litigations is the following:

- ☐ 198 litigations, out of which:
  - ✗ 109 cases where Romgaz is complainant;
  - ✗ 83 cases where Romgaz is defendant;
  - ✗ 5 cases where Romgaz is plaintiff claiming damages/injured party;
- ☐ the (approximately) total value of the files where Romgaz is complainant is RON 2,081,718,247.18;
- ☐ the (approximately) total value of the files where Romgaz is defendant is RON 38,046,596.59 and Euro 80,000.

The detailed list of litigations is shown in Annex 3 to this report.

## IV. 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 unique gas infrastructure for those times started to outline in Europe at a reduced scale, consisting of the following assets:

- ☐ gas transmission pipeline, the first of this kind in Europe, build in 1914, connecting towns Sarmasel and Turda (Cluj county) and
- ☐ gas compressor station from Sarmasel; build 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 even today considerable gas quantities.

---

## Exploration - Production

The infrastructure related to field production and to gas storage in depleted fields turned into underground storages, looks today as 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 and to the considerable reservoir energy of most 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 drying stations, gas compressor stations.

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

1. Gas wells (actually producing wells, temporary suspended wells waiting 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 separators, surface separators);
5. Flow metering panels (technological flow metering panels for almost every gas field, fiscal or commercial flow metering panel located at the interface with the NTS);
6. Gas drying stations (conditioning);
7. Gas compression units:
  - low capacity portable compressors installed at the well head or at the cluster,
  - booster compressors for one or more fields,
  - compressor stations, usually consisting of one or more units, intermediate or final compressor stations (outlet to the NTS);
8. Industrial or reservoir water pumping stations;
9. Other facilities (buildings, workshops, electric lines, well access roads etc.).

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

Currently 148 gas fields are producing out of which 143 are well defined blocks and the rest are fields with experimental production.

Production from these fields is made by approximately 3260 wells and by almost the same number of technological surface facilities consisting of flowlines, heaters (where the case may be) liquid separators and gas flow metering panels.

From the total number of wells, 26% of the wells produce at depths over 2,000m. Pressure and flow limits of production wells are operated by 115 compressor units, 91 units are

grouped in 19 compressor stations, 17 units are the so-called booster compressors and 7 units are located at well clusters.

One technical demand required by applicable laws is the quality of gas which is fulfilled more than 99% by means of 71 gas drying stations.

The other component of the company's infrastructure, namely the information – technical system consists of all information equipment and programs (software) used to monitor the parameters related to gas research, production and storage activities. These complex information programs consist of a series of modules that process the data received further to seismic surveys of the earth crust, collects information resulting from gas wells researches, information related to production history and other technical input data for performing cash flow analyses.

Processing and interpretation of these input data leads to preparing extensive technic and economic specifications called geological studies. These studies also analyse and substantiate the investments planned for the field in question. The investments together with other production stimulation works become mandatory once the geological study is approved by the ANRM.

### **Underground storage**

#### ***Bilciuresti Storage***

Characteristics:

- ↗ Location: Dâmbovița County, approximately 40 km V-NV from Bucharest;
- ↗ Commissioned in 1983;
- ↗ Capacity:
  - Working capacity: 1,310 million m<sup>3</sup>;
  - Delivery capacity: 17 million m<sup>3</sup>/day;
- ↗ Main fixed assets: 61 wells out of which 57 injection/extraction wells, 3 piezometric wells, 1 residual water injection well, 26 km of gathering pipelines for 57 injection/extraction wells, 50 gas heaters, 24 separators, 14 gas metering facilities, 7 drying stations, 33 km gathering pipeline, 3 reservoir monitoring parameters systems, bi-dimensional fiscal metering system equipped with ultrasonic meter, two-stage compression station (Butimanu) composed of three compression modules and waste water injection station.

Currently, design works for UGS upgrading were contracted with the scope of ensuring the quality of the delivered gas quantities through the NTS as well as to increase the withdrawal capacity to a maximum of 20 million m<sup>3</sup>/day.

#### ***Sarmasel Storage***

Characteristics:

- ↗ Location: near Sarmasel, approximately 35 km NW from Tirgu-Mures, 35 km north from Ludus and 48 km east from Cluj-Napoca.;
- ↗ Commissioned in 1996;
- ↗ Capacity:
  - Working capacity: 950 million m<sup>3</sup>;
  - Delivery capacity: 9.0 million m<sup>3</sup>/day ;

- ↵ Main fixed assets: 63 wells, 26 km gathering pipeline for 63 wells, 77 separators, 9 km collector, 1 reservoir monitoring parameters system, bi-directional fiscal metering system equipped with ultrasonic meters, compressor station (Sarmasel)

In 2016, following investments are in progress in order to increase the working capacity of the storage up to 900 million m<sup>3</sup>/cycle:

- A new gas compressor station equipped with 4 compression units ;
- 3 gas drying stations;
- Upgrading and flexibility of the fiscal metering system;
- 4 injection/extraction wells, including afferent technological installations;
- 5.5 km collectors, the link between the new compressor station – ISM measure panel.

### ***Urziceni Storage***

Characteristics:

- ↵ Location: Ialomita county approximately 50 km NE from Bucharest
- ↵ Commissioned in 1978;
- ↵ Capacity:
- Working capacity: 360 million m<sup>3</sup>;
  - Delivery capacity: 4.7 million m<sup>3</sup>/day;
- ↵ Main fixed assets: 30 wells out of which 28 injection/extraction wells and 2 piezometric wells, 18 km of gathering pipelines for 28 injection/extraction wells, 28 gas heaters, 6 technological gas metering facilities, 1 drying station, 3.3 km gathering pipeline, 3 reservoir monitoring parameters system, bi-directional fiscal metering system equipped with ultrasonic meters, optic fibre data acquisition system; compressor station (Urziceni).

In 2016, the following investments are in progress in order to ensure the delivered gas quality in the NTS as well as to constantly maintain the daily extraction capacity at an average of 4 million m<sup>3</sup>/day:

- Upgrading natural gas drying station;
- Upgrading surface infrastructure.

For 2017, 2 new injection/extraction wells were put into operation, works that are currently under tender.

### ***Cetatea de Balta Storage***

Characteristics:

- ↵ Location: approximately 12 km S-V from Târnăveni;
- ↵ Commissioned in 2002;
- ↵ Capacity:
- Working capacity: 100 million m<sup>3</sup>;
  - Delivery capacity: 1 million m<sup>3</sup>/day;
- ↵ Main fixed assets: 14 wells, 7 km gathering pipelines for 14 wells, 6 separators, 6 technological gas metering facilities, 10 km gathering pipeline, field supervising system and fiber-optic data acquisition system.

### ***Ghercesti Storage***

Characteristics:

- ↵ Location: Dolj County, near Craiova;

- ↪ Commissioned in 2002;
- ↪ Capacity:
  - Working capacity: 150 million m<sup>3</sup>;
  - Delivery capacity: 1.5 million m<sup>3</sup>/day;
- ↪ Main fixed assets: 83 wells, 157 km gathering pipelines for 83 wells, 13 separators, 6 technological gas metering facilities, 1 drying station, 42 km gathering pipelines, 7 reservoir monitoring parameters systems, bi-directional fiscal metering system with two metering lines, equipped with ultrasonic meters and communication system and fiber-optic data acquisition system.

### ***Balaceanca Storage***

Characteristics:

- ↪ Location: approximately 4 km from Bucharest;
- ↪ Commissioned in 1989;
- ↪ Capacities:
  - Working capacity: 50 million m<sup>3</sup>;
  - Delivery capacity: 1.2 million m<sup>3</sup>/day;
- ↪ Main fixed assets: 21 wells, 10 km gathering pipelines, 15 gas heaters, 4 separators, 4 technological gas metering facilities, 1 drying station, 1.7 km gathering pipelines, 1 reservoir monitoring parameters system, bi-directional fiscal metering system equipped with ultrasonic meters, compressor station (Balaceanca) and communication system and fiber-optic data acquisition system.

### **Workover and Special Operations**

*Well workover, capital repairs 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, rental of tools and utilities, tubing cutting, packer assembling device, hydraulic packer recovery tools, technical assistance for special well operations, well fire-fighting equipment.

Future well workover and special well operations are required in order to stop production decline.

### **Transportation and Maintenance**

The car fleet of the Branch for Technological Transportation and Maintenance consists of 635 vehicles and machinery, as follows:

- passenger carriers: cars (117), land vehicles (105), minibuses (11), buses (2) and large buses (2);
- passengers and cargo carriers < than 3.5 t (33) and > than 3.5 t (83);
- vehicles for cargo transportation: dumpers (23), cesspit emptier (33), platform trucks (16), tank truck (3);

- vehicles for heavy transportation: truck-tractors (3) and semitrailer trucks (10);
- handling machinery: cranes from 12-18 t (6) and 24-35 t (12);
- special vehicles: mobile laboratory for equipment testing and checking (1);
- heavy machinery: bulldozers (8), caterpillar shovels (2), wheel loaders (13), motor grader (3), compactor (3), front end loaders (11);
- other machinery: tractor trucks (70), fork lift trucks, etc.;
- other vehicles: trailers for heavy transportations, trailers and semitrailers.

STTM plans to ensure qualitative and economically efficient services due to the future dynamics of Romgaz core business over the medium term (approximately 5 years).

### **Electricity Production**

CTE Iernut has an installed capacity of 800MW, including 6 power units: 4 Czechoslovakian power units with an installed capacity of 100 MW each and 2 Soviet power units with an installed capacity of 200 MW each. The units have been commissioned between 1963 and 1967.

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

#### ***Operating restrictions imposed by applicable environmental regulations***

##### *The 100 MW Power Units 1 and 4*

During 2013, by commissioning a flue gas recirculation system for boiler no. 1, NOx emissions were reduced from 800 mg/Ncm flue gas to 300 mg/Ncm, complying therefore with environmental regulations.

In compliance with the integrated environmental authorization for CTE Iernut, power units no.1 and 4, with an installed capacity of 100MW each, may operate on a transition period until June 30, 2020. The maximum NOx emissions must be reduced from 300 to 100 mg/Ncm flue gas within this period.

If this last measure is not taken, the units will not be allowed to operate after June 30, 2020.

##### *The 100MW Power Units 2 and 3*

Change of environment protection legislation, namely, Directive CE 2010/75/EU allow limited time of operation for units 2 and 3 in case the emission reduction equipment of one or more groups break down and power supply is a priority requirement. Therefore, as of January 2016, units 2 and 3 shall be put in dry preservation.

##### *The 200MW power units 5 and 6*

Low NOx emission burners have been installed in years 2010 and 2011. As such, an environmental requirement included in the integrated environmental authorization was fulfilled.

Due to these measures, the power units automatically enter the new transition period during January 01, 2016 - December 31, 2020.

## 4.2. Investments

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

The company invested during 2013-2016 approximately RON 3.37 billion, as follows:

Year	2013	2014	2015	2016	Total
Amount (RON thousand)	848,247	1,085,497	937,916	497,716	3,369,376

For 2016, Romgaz scheduled investments worth RON 1,020 million and invests RON 497.7 million, with 51.2% less than scheduled. In 2016 investments were RON 440.2 million lower than the investments made in 2015. The company financed all investments from own sources.

The value of fixed assets commissioned during the reporting period was of RON 581.5 million.

The Director General approved the 2016 investment program and the relating budget was approved as Annex 4 to the income and expenditures budget by GMS Resolution no.5 of June, 2016.

Major investments target in general projects such as:

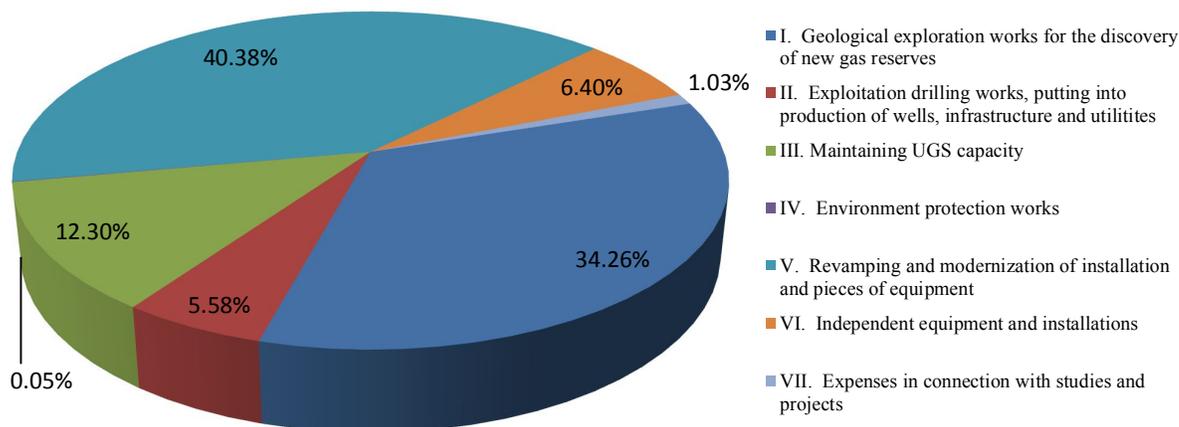
- continuing geological research works by performing surveys and drillings for the discovery of new gas reserves;
- production development by adding new facilities on existing structures;
- improving the performance of facilities and equipment and increasing production safety;
- increase of underground storage capacities, flexibility and security of the existing storages;

The table below shows the actual investments in relation to the scheduled ones and to the 2016 results:

Item no.	Investment chapter	2015	2016		% '16/'15
			Schedule	Results	
			3	4	
1.	<b>Investment in progress– total, out of which:</b>	352,467	327,899	238,433	72.71
1.1	Natural gas exploration, production works	319,051	252,819	178,285	55.88
1.2	Maintaining UGS capacity	32,374	75,000	59,953	185.19
1.3	Environment protection works	1,042	80	195	18.71
2.	<b>New investment – total, out of which:</b>	297,039	325,201	21,316	7.18
2.1	Natural gas exploration, production works	292,440	305,237	19,995	6.84
2.2	Maintaining UGS capacity	112	15,000	1,287	1,149.11
2.3	Environment protection works	4,487	4,964	34	0.76
3.	<b>Investment in existing tangible assets</b>	224,664	245,441	200,983	89.46

4.	Equipment (other acquisition of tangible assets)	54,080	88,897	31,838	58.87
5.	Other investment (studies, licenses, software, financial assets etc.)	9,666	32,562	5,146	53.24
*	<b>TOTAL</b>	<b>937,916</b>	<b>1,020,000</b>	<b>497,716</b>	<b>53.07</b>

The chart below shows the main investment chapters:



The summary of the achieved investment projects is shown below:

Item No.	Main Projects	Planned 2016	Achieved 2016
1.	Drilling, exploration	31 wells	14 wells completed 3 wells in progress
2.	Production drilling	3 wells	-
3.	Surface facilities – gas wells	15 wells	10 wells completed 3 wells in progress
4.	Compressor stations and drying stations in gas fields	SC Tigmandru II SU Galbenu II	completion postponed in progress
5.	Maintaining storage capacity	Sarmasel Storage: - compressor station - drilling 4 wells Urziceni Storage - injection/withdrawal system - adapting surface facilities	completed completed 95% completed 95%
6.	Well recompletion	125 wells	121 wells
7.	Well capitalized repair	140 wells	150 wells
8.	Electricity production	Performance of capitalized repairs and procurement of equipment	full
9.	Partnerships	Aurelian Petroleum (Brodina):	

	- the drilling of Voitinel 2 well	completed
	<i>Raffles Energy (Bilca):</i> - abandoning Fratauti 1 well	not completed
	- AVO study	completed
	<i>Raffles Energy (Bacau):</i> - feasibility study for Lilieci GTP – extension of the capacity	not completed
	<i>Lukoil:</i> - drilling 1 new exploration well	not performed
	- drilling prepare works	partially completed
	- electromagnetic and geochemical survey	completed
	-TT&T	partially completed
	<i>Schlumberger:</i> - drilling of well 212	partially completed
	- Well 212- hydraulic stimulation	
	- Well 212- surface facilities	
	- Well 135- directional drilling	
	- Well 125- recompletion operations	
	- snubbing operations for wells 131 and 134	
	- remote flow rate monitoring system	
	- automated foam injection unit	
	<i>Amromco:</i> - seismic acquisition in 2 blocks	completed
	- drilling 3 wells	partially completed- 2 wells
	- recompletion operations for 9 wells	partially completed- 7 wells
	- surface facilities for 3 wells	partially completed (50%)
	<i>Slovakia:</i> - drilling 3 wells in blocks Svidnik, Snina and Medzilaborce	not performed
	<i>Poland:</i> - <i>Torzym:</i> maintaining licences, preparation of G&G and G&A, Works for abandoning Sosna- 1 well	partially completed
	- <i>Cybinka:</i> preparation of G&G and G&A	completed
10. Studies	Reservoir studies	100%

Procurement contracts have been concluded by the end of 2016 for works to be provided during 2016-2020 of RON 1,660 million, including works rendered by the company.

A significant event is the contract conclusion (design and execution) for “*Developing CET Iernut through construction of a new electricity station, with combined cycle gas turbine*”, with deadline for completion in 2020.

Main investments commissioned during the analysed period of RON 581.5 million:

- drilling: 14 wells;
- surface facilities: 10
- Sarmasel compressor station;
- Well recompletions: 121 wells;
- Well capitalizable repairs: 150 wells;
- Separate equipment.

*One very complex issue largely impacting the implementation of the investment plan is found in the investment preparation phase and consists of obtaining land permits, approvals, agreements and authorizations required for the performance of works. In order to solve the above-mentioned issues, the company constantly approaches the state institutions in order to have simple and short procedures for obtaining required approvals.*

The level of results was negatively influenced by causes specific for the second phase:

- Difficulties regarding access to public roads for drilling activity;
- Impossibility to obtain lands and implicitly, notifications and authorizations to build well technological surface facilities and gas collectors;
- Delays of approximately 2 months when performing the procurement procedures generated by the change of procurement legislation.

The work completion degree in relation to the work programs for each partnership is indicated below:

Item No.	Partnership	2016 Schedule	2016 Results	Results/ Schedule
1	Romgaz, Alpine Oil&Gas and JKX Oil&Gas - Slovakia	6,080.51	1,704.32	28.03%
2	Romgaz, Aurelian Oil&Gas Poland and Sceptre Oil&Gas - Poland (financial investment)	1,005.66	311.03	30.93%
3	Romgaz and Aurelian	5,478.96	4,854.07	88.59%
4	Romgaz and Amromco	27,488.75	18,112.19	65.89%
5	Romgaz and Schlumberger	43,562.87	3,766.82	8.65%
6	Romgaz, Lukoil and PanAtlantic	17,147.41	7,424.52	43.30%
*	<b>Total work program</b>	<b>100,764.16</b>	<b>36,172.96</b>	<b>35.90%</b>

---

**Important issues to be noted:**

- ☞ By the end of 2016, electromagnetic and geochemical survey works were performed for exploration stage II within Trident Block. The differences between the budgeted and accounted amounts for G&G Studies are explained by obtaining 50% lower prices than the provided ones for the geo and electromagnetic studies. In addition, the budgeted sums for T&TT, of USD 500 thousand were not completely spent, these being reported for the following period. Exploration Stage II was extended with a year and a half, and it caused the postponement of the preparing drilling works, geohazard (seismical) works and other technical studies. This postponement reflected upon the budget execution of 2016, meaning the unfulfilment of the approved investments (Romgaz, Lukoil and PanAtlantic Association);
- ☞ At the beginning of the year, drilling activities started at well Voitinell 2, which was subsequently abandoned. The well Voitinell 1 is plugged and abandoned until September 23, 2017. The Operator proposed the budget for 2016 only for the first 10 months of the year, as they expressed their intention to withdraw from the association in October 2016. On January 2017, ANRM issued a Notice of Abandonment for Well Voitinell 2 (Romgaz and Aurelian Association);
- ☞ Related to the blocks in Poland, unfavourable results were obtained further to drilling Sosna 1, as well as the continuous delay of drilling works performance by the partners for the last 2 years, which determined Romgaz to decide to withdraw from the Polish concessions. Currently, Romgaz is no longer shareholder in the two entities, but the full withdrawal formalities have not been completed, because there are still discrepancies between Romgaz and the Operator's opinion as regarding Romgaz's rights and obligations assignment resulting from the Loan Agreement (Romgaz, Aurelian Oil & Gas Poland and Sceptre Oil & Gas- Poland Association);
- ☞ 3D seismic acquisition in the fields Balta Alba and Gura Șutii was acquired in 2016. The 3D seismic acquisition in the fields Fierbinti and Zatrene-Tetoiu was postponed according to the decision of the Management Steering Committee, by Minutes of April 7, 2016. In the Investment Program was estimated the drilling of three wells, out of which the drilling of wells Frasin Brazi 121 NW and Bibesti 212 was performed following the drilling of the third well Bibesti 211 to be completed in January 2017. Postponing the drilling was due to the lack of the drilling rig. The mandatory capitalized repairs at Finta-Gheboia 208 and Zatrene 37 were postponed due to the financing problems of the Operator. According to the decision of the Management Steering Committee, by Minutes of September 1, 2016 recompletion operations were performed at wells: Frasin Brazi 121, 121 NW and 123, Finta-Gheboia 206. The construction of gathering pipelines and surface facilities for these wells were also approved; these works were achieved at a rate of 47.46% due to postponing the drilling of Bibesti 211 well for January 2017. The completion of the gathering pipelines Bibesti 211 and 212 were also postponed, following to be performed in the first months of 2017. The abandonment of two wells: Balta Alba 105 and Finta-Gheboia 46 (Romgaz and Amromco Association);
- ☞ In 2016 preparatory drilling works were performed. The drilling of the three wells scheduled for 2016 delayed due to the fact that the Operator encountered hostilities from the local community and authorities. The necessary documentation for obtaining access to the location was submitted to the Environment Ministry, according to Article 29 of Law of Geology. The exceeding of 42.95% of the G&A is due to the fact that this category includes the expenditures with security and legal consultancy determined by the above-mentioned hostilities. This exceeding will be covered by budgetary

reallocation from "Taxes and Licence". (*Romgaz, Alpine Oil&Gas Association-Slovakia*)

- ☞ Snubbing operations at wells LM 131 and LM 134 began in March and ended in April. In 2016 taxes were paid to start the drilling works for well LM 212 and automatic foam stick launching were purchased. Failure to meet with the 2016 Investment Program 2016 is mainly due to not-performing the drilling for well 212, not-performing the deepening works for well 135 and not-performing the recompletion operations for well 125, given that Schlumberger, as associate, has conditioned its participation in the 2016 investment program 2016 upon the approving of an addendum to extend the contract of association (*Romgaz and Schlumberger Association*).

## V. SECURITIES MARKET

### Romgaz – company listed on the Bucharest Stock Exchange (BVB) and the London Stock Exchange

Government Decision no.831/August 4, 2010 on the approval of the privatization strategy by public offering of Societatea Nationala de Gaze Naturale “Romgaz” S.A. Medias, and the mandate of the public institution involved in the development of such process 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 of State Ownership and Privatization in Industry”.

Since November 12, 2013, the company's shares have been traded on the regulated market governed by BVB under the symbol “**SNG**”, and on the regulated market governed by LSE (the London Stock Exchange) as GDRs issued by The Bank of New York Mellon under the symbol “**SNGR**”.

Item No.	Description	2013	2014	2015	2016
1.	Number of shares	385,422,400	385,422,400	385,422,400	385,422,400
2.	Market capitalization <sup>4</sup>				
	*million RON	13,178	14,018	10,483	9,636
	*million EUR	2,952	3,127	2,315	2,122
3.	Maximum price (RON)	35.60	36.37	36.55	27.55
4.	Minimum price (RON)	33.80	32.41	26.30	21.60
5.	Year end price (RON)	34.19	35.36	27.20	25.00
6.	Net profit per share (RON)	2.58	3.66	3.10	2.66
7.	Gross dividend per share (RON)	2.57	3.15	2.70	2.49 <sup>*)</sup>
8.	Dividend yield (7./5.x100)	7.5%	8.9%	9.9%	9.96%
9.	Exchange rate (RON/EUR)	4.4639	4.4834	4.5285	4.5411

<sup>\*)</sup> proposed dividend

At the end of year 2016, Romgaz share price was RON 25.00, lower by 28% than the closing price at year end 2015. The maximum price per share (RON 27.55) recorded on March 25, 2016 (after the announcement of the dividend proposal for 2015), followed by a drop in price reaching the lowest value of RON 21.60 on May 19, 2016. For H 2 the share price oscillated, but the trend continued upwardly reaching by the end of 2016 the value of RON 25.10.

Since the listing date up to present, Romgaz is considered an attractive company for investors and holds a significant position in the top of local issuers, being included in BVB indices as well as in indices of other markets, as follows:

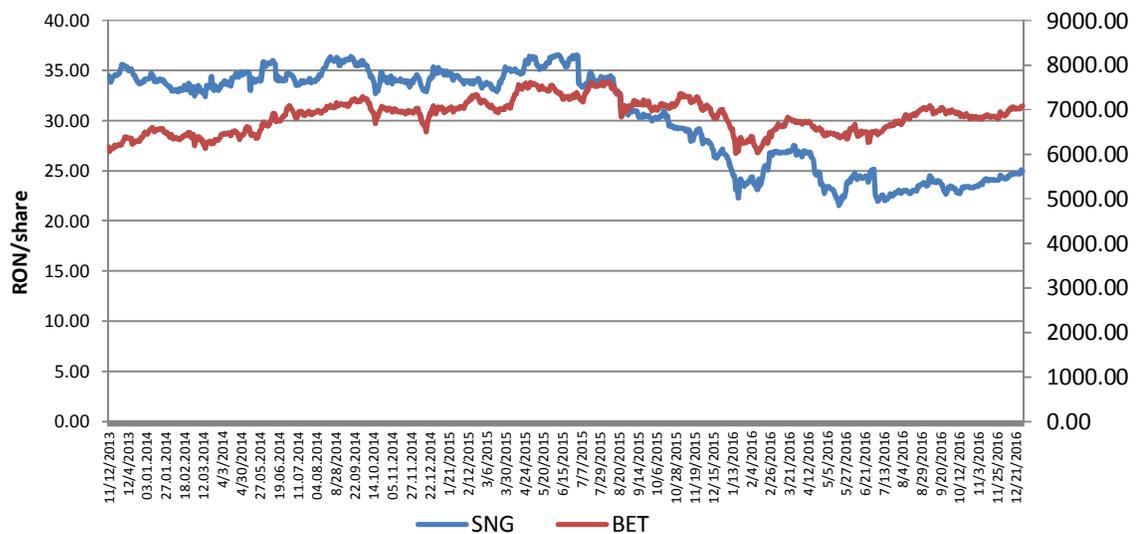
- Second place, by market capitalization, in the top of Premium BVB issuers. With a market capitalization amounting to RON 9,636 million (respectively EUR 2,112 million) as of December 30, 2016, Romgaz is the second largest listed company in Romania, being preceded by OMV Petrom with a capitalization in amount of RON 14,748 million, i.e. EUR 3,256 million;

<sup>4</sup> Calculated on the basis of the closing price of the last trading day in the respective year, and on the basis of the exchange rate announced by BNR, valid for the last trading day in the respective year

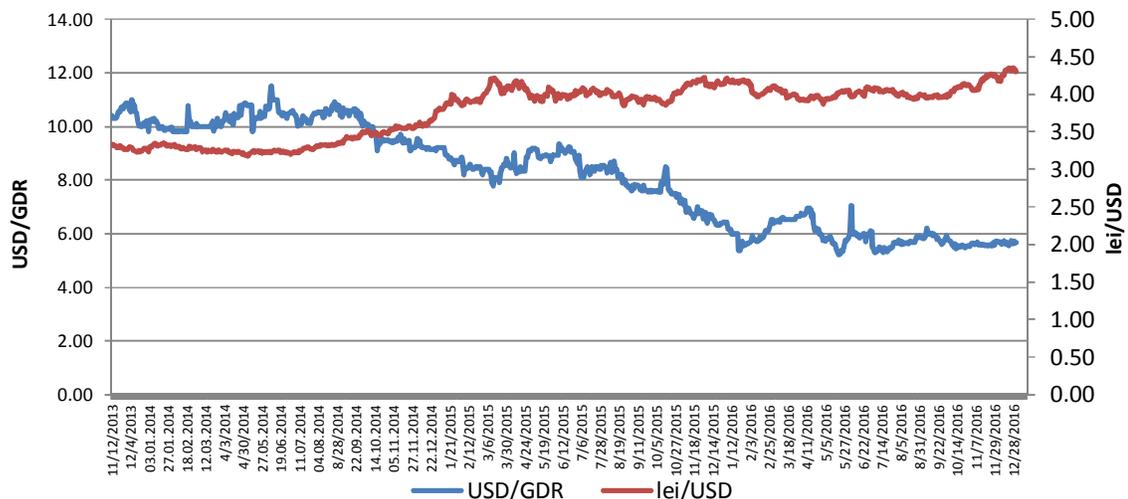
- Third place as regards the total amount of transactions in 2016, in the top of local issuers in the main segment of BVB, preceded by Fondul Proprietatea and Banca Transilvania;
- Weigh of 10.81% in the BET index (top 10 issuers) and 9.80% in the BET-XT index (BET extended), 22.24% in the BET-NG index (energy and utilities) and 10.81 % in the BET-TR (BET Total Return)<sup>5</sup> index;
- Romgaz issuer is also included in global indices with allocation for Romania, for instance in the following index groups: FTSE (Financial Times Stock Exchange), MSCI (Morgan Stanley Capital International), S&P (Standard & Poor's), STOXX (oriented mainly on the European markets), Russell Frontier.

At the end of the first trading day, Romgaz share price was RON 34.5, 15% higher than the price paid by the institutional investors to buy the shares, and the closing price of GDRs was USD 10.4, 13.66% higher than the subscription price.

Performance of Romgaz shares between listing and December 30, 2016, as compared to the BET index, is shown below:



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



<sup>5</sup> Weights according to quarterly adjustments of indices on December 9, 2016.

Romgaz share denominated in USD (GDR) was influenced by the RON/USD quotation, with RON that rose against the Dollar over the last period of review.

### 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 on profits distribution as regards companies where the State acts as majority shareholder and autonomous administrations, approved by Law 769/2001, as subsequently amended and supplemented, provides at article 1, paragraph (1), item (f) that the profit after deduction of profit tax shall be distributed as follows, unless otherwise prescribed under special laws:

- (a) legal reserves;
- (b) other reserves representing tax facilities provided by law;
- (c) covering accounting losses for the previous years, except for the retained accounting losses as a result of adjustments required under the application of IAS 29 "*Financial Reporting in Hyperinflationary Economies*", according to the Accounting Regulations compliant with the International Financial Reporting Standards and the Accounting Regulations in line with the Council Directive 86/635/EEC and the International Accounting Standards applicable to credit institutions;
- (c<sup>1</sup>) setting own financing sources for projects co-financed out of external loans, as well as for the amounts necessary for reimbursing capital instalments, paying interests, commissions and other costs related to these external loans;
- (d) other distributions provided by law;
- (e) employees' participation to profits; national companies and companies fully or majority owned by the state, as well as autonomous administrations which undertook and established in their income and expense budgets the obligation to participate in the distribution of profits, as a result of the employees' services in relation thereto, may grant these rights up to 10% of the net profit, however not exceeding the level of one monthly average base salary of the relevant company during the respective financial year;
- (f) **a minimum of 50%** contribution to the state or local budget, in the case of autonomous administrations, or **dividends**, in the case of national companies and companies fully or majority owned by the state;
- (g) the profit undistributed according to items (a) – (f) above is distributed to other reserves and represents own financing sources.

Profit is distributed for the purposes and in the amounts referred to at paragraph (1) items e), f), and g) after deduction of the amounts related to the purposes determined under special laws stipulated at items a), b), c), c<sup>1</sup>), and d) of the same paragraph.

Profit is distributed subject to the accounting profit recorded under statutory financial statements which have been prepared according to the International Financial Reporting Standards (IFRS), adopted by EU, in compliance with national legislation.

In accounting terms, participation of employees in the distribution of profit is registered as a wage related expense recognized in the financial statement of the year when the profit was obtained by the Company. The participation of employees in the distribution of profit is paid in the subsequent year.

For the financial years ending December 31, 2012 and December 31, 2013, respectively, the state-owned companies and the companies where the State acts as majority shareholder had the obligation, established by the Government, to distribute an 85% share of profit as dividends (under the Memorandum “*Measures which must be observed while drafting the income and expenses budgets of economic operators having whole or majority state participation*”).

Furthermore, since September 6, 2012, by way of derogation from the requirements of Companies Law 31/1990 providing that dividends are to be paid no later than six months after the approval of the annual financial statements, state-owned companies are required, in accordance with the provisions of Government Ordinance no. 64/2001, to pay the dividends to their shareholders within 60 days of the legal deadline for the submission of the annual financial statements to the competent fiscal authorities.

The table below shows the status of dividends for the years 2014-2016:

Description	2014	2015	Proposal 2016
<b>Dividends</b>	1,214,080,560	1,040,640,480	959,701,776
<b>Gross dividend per share (RON/share)</b>	<b>3.15</b>	<b>2.70</b>	<b>2.49</b>
<b>Dividend distribution rate (%)</b>	86.11	87.13	93.67
<b>Number of shares</b>	385,422,400	385,422,400	385,422,400

The Government of Romania mandated the state representatives in the General Meeting of Shareholders/the Board of Directors of the national societies, national companies and majority or entirely state owned companies and the autonomous administrations, to take all the necessary measures for the distribution of a minimum share of 90% of net profit accomplished in 2016 (as dividends/payments) to the state budget.

The Government took this decision through a Memorandum adopted at the meeting of January 27, 2017.

## VI. COMPANY MANAGEMENT

### 6.1. Board of Directors

Since January 1, 2013, the Board of Directors underwent several changes, bearing in mind that in 2013 the *Government Emergency Ordinance no.109/November 30, 2011 on corporate governance in state-owned enterprises* was implemented within the company, as regards the selection and appointment of members in the board of directors based on a cumulative voting procedure, and the number of the members of the board was increased from 5 to 7.

The members of the Board of Directors as of December 31, 2016 are as follows:

Item No	Name	Institution of employment	Position in the Board	Status
1	Chisalita Dumitru	Universitatea "Transilvania" Braşov	Chairperson	non-independent
2	Negrut Aurora	Ministry of Energy	Member	non-independent
3	Jansen Petrus Antonius Maria	Associate Lecturer London School of Business and Finance	Member	independent
4	Tcaciuc Sebastian Gabriel	SC Auris Capital SRL	Member	independent
5	Jude Aristotel Marius	Ministry of Energy	Member	non-independent
6	Stoicescu Razvan Florin	Musat&Asociatii SPARL	Member	independent
7	Buzatu Florin Danut	Societatea de Investitii Financiare Transilvania	Member	independent

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

During 2016, the Board of Directors underwent the following changes:

- On February 22, 2016, Mrs. Sorana Baciuc resigned from Romgaz Board of Directors, and Mr. Sebastian-Gabriel Tcaciuc was appointed member on an interim basis pending full appointment at the following Ordinary General Meeting of the Shareholders of March 25, 2016 (OGMS).
- The mandate of Mr. Dragoş Dorcioman expires on March 25, 2016
- By Resolution No 3/March 25, 2016 of the Ordinary General Meeting of Shareholders Mr. Jude Aristotel-Marius was appointed as member of the Board on the position left vacant by cease of mandate of Mr. Dorcioman Dragoş.
- By Resolution no. 3/March 25, 2016 of the General Meeting of Shareholders, Mr. Tcaciuc Sebastian-Gabriel was appointed as member of the Board.
- By Resolution no. 10/November 15, 2016, of the General Meeting of Shareholders, Mr. Buzatu Florin Danut was appointed as member of the Board, by cumulative vote;
- By Resolution no. 10/November 15, 2016 of the General Meeting of Shareholders, Mr. Stoicescu Florin- Razvan was appointed as member of the Board, by cumulative vote;
- By Resolution no.10/November 15, 2016 of the General Meeting of Shareholders, Mr. Metea Virgil-Marius and Mrs. Popescu Ecaterina were revoked from position for nonconformity as regards the cumulative vote.

*The CVs of the current directors* are to be found on the company's webpage [www.romgaz.ro](http://www.romgaz.ro) at the section "*Investor Relations – Corporate Governance – 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, 2016 the following members hold *shares within the company*:

No	Name and Surname	Number of shares held	Weight in the share capital (%)
0	1	2	3
1	Teaciu Sebastian Gabriel	33.000	0.00856203
2	Buzatu Florin Dănuț	3.000	0.00077837

## 6.2. Executive Management

### Virgil Marius Metea - Director General (CEO)

By Resolution no. 8 of June 12, 2013 the Board of Directors appointed Mr. Virgil Marius Metea as director general and delegated internal management powers and representation competences to him. The Mandate Contract was concluded on a 4 year period (12 June 2013- 13 June 2017) and can be renewed by addendum further a resolution of the Board of Directors.

The table below shows the management positions to which the Board of Directors did not delegate managing powers:

Name	Position
<b>ROMGAZ - headquarters</b>	
Rotar Dumitru Gheorghe	Deputy Director General
Dobrescu Dumitru	Deputy Director General
Bobar Andrei	Chief Financial Officer
Chertes Viorel Claudiu	Management Support Director
Cindrea Corin Emil	Quality, Health, Safety and Environment Director
Ciolpan Vasile	Energy Trade Director
Ștefănescu Dan Paul	Exploration-Production Director
Terciu Iulian Ermil	Human Resources Management Director
Stancu Lucian Adrian	Corporate Management Director
Bodogae Horea Sorin	Procurement Direction Director
Pavlovschi Vlad	Business Development Director
Balasz Bela Atila	Energy Management Director
Morariu Dan Nicolae	Information Technology and Telecommunication Director
Bîrsan Mircea Lucian	Technical Director
Sorescu Eugen	Exploration Director
<b>Medias Branch</b>	
Man Mihai Ioan	Director
Achimeț Teodora Magdalena	Economic Director
Șutoiu Florinel	Production Director
Seician Daniel	Technical Director

<b>Tîrgu Mureş Branch</b>	
Dinca Ispasoan Ioan	Director
Caraivan Viorica	Economic Director
Rusu Gratian	Production Director
Baciu Marius Tiberiu	Technical Director
<b>Ploieşti Branch</b>	
Cârstea Vasile	Director
Ionescu Viorica Maria	Economic Director
Vecerdea Dan Adrian	Storage Director
<b>Iernut Branch</b>	
Bircea Angela	Director
Vlassa Susana Ramona	Economic Director
Oprea Maria Aurica	Commercial Director
David Ştefan	Technical Director
<b>SIRCOSS</b>	
Stanciu Sorin	Director
Bordeu Viorica	Economic Director
Gheorghiu Sorin	Technical Director
<b>STTM</b>	
Pop Traian	Director
Ilinca Cristian Alexandru	Economic Director
Cioban Cristian Augustin	Operation-Development Director

According to the Articles of Incorporation, appointment and dismissal of executive directors is made by the Board of Directors; “*executive director*” means “*the person to whom the Board of Directors delegated competences to manage the Company*” – Article 24, paragraph (15).

The members of the executive management, except the director general, 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 director general based on the competences delegated to him by the Board of Directors.

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

The table below shows the number of ***shares held by the members of the executive management*** as of December 31, 2016:

Item no.	Name and Surname	Number of shares held	Weight in the capital share (%)
0	1	2	3
1	Rotar Dumitru Gheorghe	15,611	0.00405036
2	MeteaVirgil Marius	5,513	0.00143038
3	Baciu Marius Tiberiu	1,485	0.00038529
4	Ştefănescu Dan-Paul	601	0.00015593
5	Cârstea Vasile	412	0.00010690
6	Stăncicu Sorin	76	0.00001972

---

7	Ilinca Cristian Alexandru	74	0.00001920
8	Morariu Dan Nicolae	52	0.00001349
9	Dincă Ispasian Ioan	48	0.00001245
10	Vecerdea Dan Adrian	45	0.00001168
11	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.

## VII. FINANCIAL-ACCOUNTING INFORMATION

### 7.1. Statement of Financial Position

The individual 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 and provisions of PFM Order no. 2844/2016. For the purposes of the preparation of these individual 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 impact on the Company's individual financial statements for the years presented.

The individual 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 individual financial position as of December 31, 2016:

Indicator	31.12.2014 (RON thousand)	31.12.2015 (RON thousand)	31.12.2016 (RON thousand)	Variance (2016/2015)
0	1	2	3	4=(3-2)/2*100
<b>Assets</b>				
<b>Non current Assets</b>				
Property, plant and equipment	5,962,719	5,996,460	5,789,262	-3.46%
Other intangible assets	407,449	399,859	397,864	-0.50%
Subsidiaries	-	1,200	1,200	0.00%
Associates	738	163	120	-26.38%
Other Financial Investments	76,889	70,080	69,657	-0.60%
Other non-current assets	-	29,300	-	-
<b>Total non-current assets</b>	<b>6,447,795</b>	<b>6,497,062</b>	<b>6,258,103</b>	<b>-3.68%</b>
<b>Current Assets</b>				
Inventories	392,108	559,784	575,983	2.89%
Trade and other receivables	1,000,195	601,065	828,610	37.86%
Other financial assets	2,343,864	2,146,827	2,892,751	34.75%
Other Assets	101,886	139,612	141,525	1.37%
Cash and cash equivalents	526,256	740,352	280,526	-62.11%
<b>Total current assets</b>	<b>4,364,309</b>	<b>4,187,640</b>	<b>4,719,395</b>	<b>12.70%</b>
<b>TOTAL ASSETS</b>	<b>10,812,104</b>	<b>1,684,702</b>	<b>10,977,498</b>	<b>2.74%</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>				
Share capital	385,422	385,422	385,422	0.00%
Reserves	2,142,347	2,581,853	3,020,152	16.98%
Retained earnings	7,184,249	6,724,947	6,270,587	-6.76%
<b>Total capital and reserves</b>	<b>9,712,018</b>	<b>9,692,222</b>	<b>9,676,161</b>	<b>-0.17%</b>
<b>Non current liabilities</b>				
Retirement benefit obligation	97,265	102,959	119,986	16.54%
Deferred tax liabilities	131,305	62,589	40,123	-35.89%

Provisions	202,293	200,855	194,048	-3.39%
<b>Total non current liabilities</b>	<b>430,863</b>	<b>36,403</b>	<b>354,157</b>	<b>-3.34%</b>
0	2	3	3	4=(3-2)/2*100
<b>Current liabilities</b>				
Trade and other payables	216.983	186.937	569.941	20488%
Current tax liabilities	93.590	90.838	60.295	-33.62%
Income in advance	-	-	4,924	-
Provisions	35.814	28.779	50.437	75.26%
Other liabilities	322.836	319.523	261.583	-18.13%
<b>Total current liabilities</b>	<b>669.223</b>	<b>626.077</b>	<b>947.180</b>	<b>51.29%</b>
<b>Total liabilities</b>	<b>1.100.086</b>	<b>992.480</b>	<b>1.301.337</b>	<b>31.12%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>10.812.104</b>	<b>10.684.702</b>	<b>10.977.498</b>	<b>2.74%</b>

#### *Non-current assets*

The total non-currents assets decreased by 3.68% (i.e. RON 239.0 million) due to the net depreciation and amortization of fixed assets lower than the investments in new assets. Moreover, on December 31, 2016, the company did not have bank deposit with a maturity date over one year, explaining the decreasing of the line "Other financial assets".

#### *Current assets*

The current assets increased by 12.7% as compared to the previous year, as follows:

- Trade receivables increased by 37.86%, compared to December 31, 2015 as a result of the improvement of the policy on reducing the credit risk related to sales made by the Company. Therefore, the company concluded gas sale contracts that are secured either by the advance payment of deliveries, or by letters of bank guarantees. As a result, the impairment related to sales decreased in 2016 as compared to the previous year, the most significant allowance being recorded further in invoicing penalties to a client that became subsequently insolvent.
- Other financial assets, cash and cash equivalents recorded an increase by 8.8% as compared to the previous year and include cash in bank deposits, fixed-term deposits and government securities;

#### *Capital and reserves*

As of December 31, 2016, Company reserves increased by RON 438.30 million as a result of allocating a share of the 2015 net profit (RON 335.94 million) to the development fund of the Company and a share of the current period profit (RON 83.26 million), following implementation of the fiscal facilities, in accordance with Law 227/2015 on the Fiscal Code.

Retained earnings decreased by RON 454.36 million, further to allocating the previous years' net profit to the destinations approved by the GMS, the positive effect being generated by the value of 2016 net profit.

#### *Non-current liabilities*

Non-current liabilities decreased as of December 31, 2016 compared to the previous year mainly due to a decrease of the deferred income tax liability. The deferred income tax is calculated in compliance with the requirements of the International Financial Reporting Standards and it is not a chargeable liability.

The provision for benefits granted for retirement and other benefits has been updated on December 31, 2016 by actuarial methods. The increase by RON 17.03 million is due to renegotiating the Collective Labour Agreement applicable at the Company.

### *Current liabilities*

Trade payables and other payables increased on December 31, 2016 by 204.88 % as compared to the previous year following the increase of the advances paid by clients for the gas deliveries. At the time the gas balance for November and December 2016 will be finalized these advances will be settled with the invoices issued to the clients for the two months (trade liabilities record the estimated income for the two months in amount of RON 698.37 million).

Short term provisions have increased by RON 21.66 million as of December 31, 2016 as a result of recording the profit share payable to employees. This liability has been recorded in 2015 at "Other Liabilities".

The decrease of other liabilities as of December 31, 2016 by 18.13%, namely RON 57.94 million is due to the decrease of liabilities related to the tax on additional revenue obtained further to the deregulation of prices in the gas sector, the decrease of the petroleum royalty and the liabilities related to output VAT.

The Company **did not issue bonds or other debt instruments** during the 2016 financial year.

## 7.2. Statement of Comprehensive Income

The statement of comprehensive income for the period January 1 – December 31, 2016, as compared to the similar period of the years 2015 and 2014, is shown below:

Indicator	Year 2014 (thousand RON)	Year 2015 (thousand RON)	Year 2016 (thousand RON)	Variance (2015/2016)
0	1	2	3	4=(3-2)*100
Revenue	4,493,341	4,052,684	3,411,868	-15.81%
Cost of commodities sold	(175,638)	(40,228)	(49,878)	23.99%
Investment income	78,729	44,185	22,117	-49.94%
Other gains and losses	(275,141)	(318,903)	(468,218)	46.82%
Changes in inventory of finished goods and work in progress	27,743	138,181	20,963	-84.83%
Raw materials and consumables used	(66,167)	(78,262)	(54,632)	-30.19%
Depreciation, amortization and impairment	(776,839)	(793,598)	(311,021)	-60.81%
Employee benefit expense	(522,785)	(511,647)	(498,114)	-2.64%
Finance cost	(24,476)	(20,302)	(18,275)	-9.97%
Exploration expense	(43,332)	(42,395)	(253,348)	497.59%
Other expenses	(1,034,627)	(1,040,670)	(881,923)	-15.25%
Other income	107,521	79,793	361,147	352.60 %
<b>Profit before tax</b>	<b>1,788,329</b>	<b>1,468,838</b>	<b>1,280,695</b>	<b>-12.81%</b>
Income tax expense	(378,448)	(274,553)	(256,116)	-6.72%
<b>Profit for the year</b>	<b>1,409,881</b>	<b>1,194,285</b>	<b>1,024,579</b>	<b>-14.21%</b>

### *Revenue*

In 2016, Romgaz achieved revenue of RON 3.41 billion, as compared to RON 4.05 billion achieved in 2015, lower by 15.81% due to negative influence of weather condition, drastic decrease of gas demand in the key sectors, competition against import gas and unfavourable fiscal framework for competition on the natural gas market.

### *Cost of Commodities Sold*

In 2016, cost of commodities sold increased by 23.99%, due to an increase by 9.8% of the cost of commodity gas sold and the increase by 33% of costs generated by negative imbalances on electricity balancing market.

### *Investment Income*

In 2016, investment income decreased by 49.94%, to RON 22.12 million, compared to RON 44.12 million in 2015, driven by the reduction of interest rates of the cash placed in bank deposits and state bonds.

### *Other Gains and Losses*

In 2016 the Company estimates a net loss of RON 468.22 million mainly as a result of recording allowances for doubtful debts as regards one of the Company's most important customer. Following entering into insolvency of that customer, in order to conduct the insolvency proceedings and to protect the Company's interests, in 2016 penalties for late payments were invoiced; these penalties were won in court in accordance with a non-final court decision, and they relate to receivables that were paid off in kind in 2013. Bearing in mind the uncertainty of cashing such amount, an equivalent allowance for doubtful debts was created that offsets the income from penalties invoiced to that customer. The income from such penalties is included in "Other Income".

Other Gains and Losses also include the loss from write-off of fixed asset amounting to RON 108.06 million. This loss is compensated by the resuming at income the impairment set up for these assets over the previous periods, the effect in the result of the reviewed period being insignificant. Resuming the impairment for fixed assets at income is reflected in Depreciation, Amortization and Impairment.

Another influence on the estimated loss of RON 468.22 million is due to payment of some amounts further to ANAF investigation (National Agency for Fiscal Administration) carried out in 2014. The control was conducted on income tax for the period 2008 – 2013 and VAT for the period 2009–2013. Following this investigation and the complaints submitted by the Company, the amount to be paid was of RON 18.85 million. By Q3 2016, the Company set up a provision for litigations in amount of RON 15.87 million and such the amount was paid only in Q4 2016. In 2015, the Company sued ANAF, and on the date of publishing the preliminary results for 2016 the process was under trial. Considering these aspects and the fact that the Company regards the payment made as not due, in Q4 2016 a receivable of RON 18.85 million was recorded and impairment for the same value was registered due to ongoing litigation. Such loss is partially annulled by resuming at income the provision for litigation in amount of RON 15.87 million which is reflected at "Other Expenses".

### *Changes in Inventory*

Changes in inventory are estimated to have decreased in the year ended on December 31, 2016 as compared to the previous year, due to the following factors:

- the gas volumes injected in the storage during 2016 have been smaller by 43.8% as compared to the volumes injected in 2015;

- gas volumes withdrawn from the storage in the current year have increased by 12.97% as compared to the previous year;

#### *Raw Materials and Consumables Used*

In 2016, the estimated cost of raw materials has been lower than in the previous year, by 30.19% especially due to the decrease of expenses with fuel.

#### *Depreciation, Amortization and Impairment*

These expenses include expenses with depreciation of non-current assets in amount of RON 527.94 million (2015: RON 560.07 million) and net impairment income in amount of RON 216.93 million (2015: net impairment expenses of RON 233.53 million).

The decrease of expenses with depreciation is generated by the decrease of the natural gas production during the analysed period, the production wells being depreciated depending on the ratio between production and reserves.

As regards the net impairment income, it offsets the exploration expenses of RON 253.35 million representing exploration drilling projects abandoned in 2016 for which the Company has set up impairments in the previous periods (the most significant exploration project refers to abandoning Rapsodia block operated in partnership with Lukoil. The Decision of the National Agency for Mineral Resources on the termination of the petroleum agreement for exploration-development-production in EX-29 Est Rapsodia block has been published in the Official Gazette in December 2016). Moreover, this net impairment income compensates the loss from the write-off of tangible assets, as previously mentioned. Therefore, the effects of abandoning the negative exploration drilling projects and the write-off of fixed assets reflected in the financial results of the year are insignificant.

#### *Exploration expense*

In 2016 exploration expenses recorded an increase of 497.6% as compared to the previous year. As mentioned at "Depreciation, Amortization and Impairment" the effect of these expenses was offset by the reversal of the impairment set up in previous periods, the net effect is a loss of RON 16 million.

#### *Other Expenses*

The breakdown of other expenses by elements of cost is shown in the table below:

Indicator	2014	2015	2016	Variance (2016/015)	
	(thousand RON)	(thousand RON)	(thousand RON)	(thousand RON)	(%)
1	2	3	4	5=4-3	6=5/3x100
Electricity	20,755	18,472	16,964	(1,508)	-8.16
Gas capacity booking	40,427	40,574	37,449	(3,125)	-7.70
Other taxes and duties	816,598	787,182	604,243	(182,939)	-23.24
Provisions	(4,093)	2,128	12,978	10,850	509.87
Other operating expenses	160,940	192,314	210,082	17,768	9.24
<b>Total</b>	<b>1,034,627</b>	<b>1,040,670</b>	<b>881,716</b>	<b>(158,954)</b>	<b>-15.27</b>

In 2016, other expenses recorded a decrease as compared to the previous year by 15.27% reaching RON 881.71 million, as compared to RON 1,040.67 million in 2015. The decrease of such expenses is due to the decrease of petroleum royalty expenses (decrease estimated at RON 85.93 million) and of the tax on additional revenue, such revenues being obtained as a result of deregulating prices in the gas sector (decrease estimated at RON 81.55 million) as a result of reducing gas deliveries.

#### *Other income*

The company recorded in 2016 other income of RON 361.15 million, with 352.60% higher than 2015 due to increase of late payment penalties invoiced to clients for not paying on due date, the most significant amount relates to one of the Company's largest customers. An allowance has been set up for this amount considering the insolvency of such customer the allowance has been reflected at "Other gains and losses".

#### *Income tax expense*

Income tax expense in 2016 includes the current income tax expense in amount of RON 278.58 million (2015: RON 343.27 million) and the deferred tax income in amount of RON 22.47 million (2015: RON 68.72 million).

Decrease of the current income tax in 2016 as compared to 2015 is due to the profit decline.

#### *Profit for the Year*

Pursuant to the evolution of income and expense elements as above mentioned, in 2016 the net profit of the Company decreased by RON 169.71 million that is by 14.21%.

### 7.3. Statement of Cash Flows

Statements of cash flows recorded in the period 2014 – 2016 are shown in the table below:

*\*thousand RON\**

INDICATOR	2014	2015	2016
1	2	3	4
<b>Cash flow from operating activities</b>			
<b>Net Profit for the year</b>	<b>1,409,881</b>	<b>1,194,285</b>	<b>1,024,579</b>
<i>Adjustments for:</i>			
Income tax expense	378,448	274,553	256,116
Investment income	(3,268)	-	-
Interest expense	34	34	15
Unwinding of decommissioning provision	24,442	20,268	18,260
Interest revenue	(75,461)	(44,185)	(22,117)
Loss on disposal of non-current assets	18,024	23,084	108,057
Change in decommissioning provision recognized in profit or loss, other than unwinding	(7,877)	(19,724)	(5,941)
Change in other provisions	3,783	21,852	18,919
Expenses for provisions for impairment of exploration assets	154,077	228,309	(173,701)
Exploration costs	43,332	42,395	253,348
Impairment of property, plant and equipment	137,783	5,219	(43,228)
Depreciation and amortization	484,979	560,070	527,941
Impairment of investment in associates	209	1,328	43
Impairment of other financial assets	11	6,809	(1,554)
Losses from trade receivables and other assets	-	-	1,577
Income from dismantling of assets	233,340	292,146	354,321
Write-down allowance of inventory	-	(2,232)	(1,287)
	21,907	(4,576)	5,714
<b>Movements in working capital</b>	<b>2,823,644</b>	<b>2,599,635</b>	<b>2,321,062</b>
(Increase)/Decrease in inventory	50,008	(162,187)	(21,646)
(Increase)/Decrease in trade and other receivables	(154,869)	54,550	(583,600)
(Increase)/Decrease in trade and other liabilities	95,160	(15,202)	337,707
<b>Cash generated from operations</b>	<b>2,813,943</b>	<b>2,476,796</b>	<b>2,053,523</b>
Interest paid	(34)	(34)	(15)
Income tax paid	(500,975)	(346,021)	(309,125)
<b>Net cash generated by operating activities</b>	<b>2,312,934</b>	<b>2,130,741</b>	<b>1,744,383</b>
<b>Cash flows from investing activities</b>			
Investments in affiliated parts	-	(753)	-
Investments in subsidiaries	-	(1,200)	-
(Increase)/Decrease in other financial assets	(770,854)	158,050	(720,480)
Interest received	77,200	53,872	25,178
Proceeds from sale of non-current assets	154	42	144
Loan granted to associates	-	(726)	-
Loans reimbursed by the associates	-	65	-
Dividends received	1,634	1,634	-
Collection from sales of other financial investments	-	-	400
Acquisition of non-current assets	(580,708)	(357,281)	(296,511)
Acquisition of exploration assets	(485,147)	(555,423)	(172,178)
<b>Net cash used in financing activities</b>	<b>(1,757,721)</b>	<b>(701,720)</b>	<b>(1,163,447)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	(988,287)	(1,214,925)	(1,040,762)
<b>Net cash used in financing activities</b>	<b>(988,287)</b>	<b>(1,214,925)</b>	<b>(1,040,762)</b>
<b>Net Increase/(Decrease) in cash and cash equivalents</b>	<b>(433,074)</b>	<b>214,096</b>	<b>(459,826)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>959,330</b>	<b>526,256</b>	<b>740,352</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>526,256</b>	<b>740,352</b>	<b>280,526</b>

## 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.

Government Emergency Ordinance (OUG) No. 109 of November 30, 2011 on public companies corporate governance, as amended and supplemented (the "Ordinance") and Government Decision no. 772 of September 28, 2016 on Methodological Norms for establishing the financial and nonfinancial performance criteria and variable component of remuneration of the members of the Board of Directors, or if applicable, the supervision of enterprise, and of directors and members of directorate, respectively, applies to Romgaz, as national company.

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

Principles included in the Ordinance are as follows:

- ☐ *Clear separation of authorities deriving from shareholder from those deriving from directorship/managing of the company.*
- ☐ *Principle of transparency, non-discrimination and equal treatment in the selection process of Board members;*
- ☐ *Principle of proportional representation in the Board of Directors;*
- ☐ *Minority shareholders protection by observing transparency principles;*
- ☐ *Transparency principle;*
- ☐ *Principle of mandatory reporting to the GMS as prescribed by law.*

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 Resolution No. 19 of October 18, 2013 and respectively by Resolution No. 5 of July 30, 2014, and Resolution No. 8 of October 29, 2015 (latest update of the Articles of Incorporation).

**The updated Company's Articles of Incorporation** is posted on the internet webpage [www.romgaz.ro](http://www.romgaz.ro), at the section dedicated to "*Investor Relations – Corporate Governance*".

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](http://www.bvb.ro), at the section dedicated to "*Investor Relations – Regulation-BVB Regulation*".

The corporate Governance System was and will be 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:

- ✘ Elaboration of 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 has been updated and shall be submitted for approval in a Meeting of the Board of Directors subsequent to March 23, 2017.

The Company's Articles of Incorporation is posted on the internet webpage [www.romgaz.ro](http://www.romgaz.ro), at the section dedicated to "Investor Relations – Corporate Governance".

- ✘ Board of Directors approval and update of the internal Rules for the advisory committees during the meetings held on March 24, 2016 and June 23, 2016. At the end of the year 2016, internal Rules for the advisory committees have been updated in order to include the latest legal modification regarding corporate governance (Law 111/2016 and Government Decision no. 722/2016). The updated version of the rules of the Strategy Committee was approved by the Board of Directors in the meeting of March 23, 2017, the updated versions of the rules of the other committees shall be submitted for approval in a subsequent meeting.
- ✘ Update of the Board of Directors Organization and Operating Regulation in order to include the legal modification on corporate governance. The regulation was approved by the Board of Directors on March 23, 2017;
- ✘ Elaboration of internal regulation in compliance with the new Corporate Governance Code of BVB. Part of the regulations were approved by the Board of Directors on March 23, 2017 (Policy regarding Dividends and the Policy regarding Forecasts) the other regulations will be approved in a subsequent meeting;
- ✘ Inclusion in the Board's Annual Report of 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 directors, measures to improve the corporate governance, aspects related to internal control and risk management system and aspects related to social responsibility;
- ✘ Inclusion in the Board's Annual Report of a section referring to compliance with the provisions of BVB Corporate Governance Code (Annex 2);
- ✘ Diversify communication ways with shareholders and investors by posting on the website announcements 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 of a specialized department dedicated to investor and shareholder relations;
- ✘ Conclusion of professional liability insurance for directors and managers and appointment of a person to monitor such contracts.
- ✘ Starting the procedures necessary for the adopting and implementing the National Anticorruption Strategy. Therefore, a Commission has been established, responsible with the implementation of the strategy provisions; the Director General has adopted the Statement of Adherence to the National Anticorruption Strategy and Plan of Integrity,

documents which have been posted on the internet website at the section dedicated to “*Public Information- Transparency*”;

Some of the measures to be implemented include:

- ✗ a set of rules on trading of shares by directors or other individuals;
- ✗ a remuneration policy for the management members, which should include a fixed component and a variable component to depend on the results of their assessment. According to London Stock Exchange Corporate Governance Code long term bonus schemes should be approved by GMS.

### **Aspects related to shareholders**

The shareholders structure is described within Chapter II “*Romgaz at a glance*”

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

### **General Meeting of Shareholders**

The General Meeting of Shareholders is called by the Board of Directors, whenever necessary, in accordance with the legal provisions. The convening notices and 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 will be 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 dividends due to shareholders;
- 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 to dismiss the Board members and to set their remuneration;
- f) to make an opinion on the management of the Board members;
- g) to appoint and to dismiss the financial auditor and to set the minimum term of the financial audit contract;
- h) to decide with respect to contracting bank loans with an individual or cumulated value with other bank loans in progress over a financial year of EUR 100 million, equivalent in RON;
- i) approval of 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 incorporate and to conclude or amend incorporation documents of the companies where Romgaz is managing 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 for a period longer than 1 (one) year of tangible assets to the same contractors or to persons involved or acting together, whose value exceeds, separately or cumulatively, 20% of the total tangible 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 governed under an one-tier system by a Board of Directors consisting of 7 (seven) directors. The board members are elected by the general meeting of shareholders, in compliance with legal applicable provisions and the provisions of the Articles of Incorporation.

The majority of the Board members must consist of non-executive and independent directors and, at least one of them, must have a degree in economics and at least 5 years of experience in economics, accounting, audit or financial area.

In accordance with provisions of Article 28, paragraph (3) of the Ordinance „*At least two members of the Board of Directors must have a degree in economics or law and at least 5 years experience in economics, law, accounting, audit or financial area*”.

The board members of the company on December 31, 2015 are mentioned in Chapter VI “*Management*”. According to the independent statements submitted to the company, four of the members of the Board have declared themselves as independent and three as non-independent. The independence of members of the Board of Directors is determined based on the criteria detailed in Corporate Governance Code of Romgaz (Article 6).

The Board of Directors has the following basic competencies which cannot be delegated to executive directors:

- a) to set the core business and development directions of the company;
- b) to approve the Company Management Plan;
- c) to set the accounting policies, the financial control and financial planning system;
- d) to appoint and dismiss the executive directors, including the Director General and to establish their remuneration;
- e) to control the executive directors’ activity;
- f) to draft the annual report of the Board of Directors;
- g) to organise the General Meeting of Shareholders, and to enforce their resolutions;

- h) to file for insolvency prevention and for the insolvency of the company;
- i) to draft rules for its own activity, for the activity of the GMS and that of the advisory committees and of the management, without contradicting the legal provisions or the Articles of Incorporation;
- j) incorporation or dissolution of secondary offices (branches, agencies, work points or any other locations);
- k) granting project bonds with values not exceeding, individually or cumulatively with other project bonds in progress, EUR 100 million, equivalent in RON;
- l) granting loans to companies where Romgaz is shareholder for a value not exceeding, individually or cumulatively with other loans alike in progress, EUR 50 million, equivalent in RON;
- m) other competencies of the Board of Directors that cannot be delegated, according to the law.

The Board of Directors convenes whenever necessary, but at least once every three months. Board meetings may be convened by the Chairman or upon the reasonable request of at least 2 directors or of the Director General. For decisions to be valid, it is necessary that the majority of the Board members participate in the meeting and the decision has to be made by majority of the votes validly casted. If a director has, directly or indirectly, interest in a certain business, contrary to the company's interests, the director has to inform the other directors and the internal auditor of such matter and he/she will not take part in any discussion related to such business. This obligation also is valid when the Director is aware that the husband, wife, relatives or in-laws up to the IV<sup>th</sup> degree inclusively are interested in such business. A minute will be drafted after each Board meeting underlying the resolution of the Board that will include all decisions made in the meetings.

In December 2015, the Board of Directors made its first self-assessment. The result of the self-assessment outlined the following main directions to be improved: strategy, risk management, communication, transparency, investor relations. Some of the measures to be included in the Action Plan are:

- drafting, approval and implementation of anticorruption strategy in the company;
- reviewing the Board's and Advisory Committees' rules, a measure imposed by the new Corporate Governance Code of the company;
- setting the company strategy implementation methodology and drafting a plan of measures for fulfilling strategic objectives;
- implementing a centralised risk management system.

Until December 31, 2016 the Board of Directors did not make a self- assessment for the year 2016.

### **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 47 of GEO No. 90/2008 related to statutory audit of annual financial statements, which consist mainly in monitoring the financial reporting process, the internal control, the internal audit and risk management systems within the company, as well as in controlling the statutory audit activity related to annual financial statements.

The Nomination and Remuneration committee has, basically, the competence to evaluate beforehand and to recommend candidates as members of the Board of Directors and as executive directors, and it can be assisted in this approach by an independent expert specialized in human resources recruitment. As related to remuneration, the main duty of the committee is to elaborate *an annual report on the remunerations and other benefits given to directors and executive directors during the financial year*, report that is presented to the General Meeting of Shareholders which approves the annual financial statements (according to Article 55, paragraph (2) of GEO No. 109/2011).

***Main Responsibilities and Duties of the Nomination and Remuneration Committee*** are as follows:

- ✍ advances proposals for director positions, including the position as Chairperson of the Board of Directors;
- ✍ drafts and submits the candidates selection process for executive director;
- ✍ recommends candidates for executive director positions;
- ✍ submits proposals for remuneration of executive directors;
- ✍ other responsibilities as established by the Board of Directors or as provided by law.

***Main Responsibilities and Duties of the Audit Committee*** are as follows:

- ✍ coordinates the activity of the internal audit;
- ✍ coordinates the selection activity of the statutory auditor or of the audit firm and issues the recommendation for appointment of a statutory auditor or of an audit firm;
- ✍ verifies and monitors the independence of the statutory auditor or of the audit firm;
- ✍ monitors the financial reporting process;
- ✍ monitors the effectiveness of internal control, internal audit and risk management systems;
- ✍ endorses the annual and multiannual internal audit plan;
- ✍ endorses the internal audit reports and recommendations formulated by the internal auditors;
- ✍ monitors the statutory audit of annual financial statements and of consolidated annual financial statements;
- ✍ other responsibilities as established by the Board of Directors or as provided by law.

***Main Responsibilities and Duties of the Strategy Committee*** are as follows:

- ✍ reviews and/or endorses the development strategy of the company and endorses the annual plan for average term (3 years) for implementation of the strategy elaborated by the executive management;
- ✍ analyses the proposals elaborated by the executive management regarding the investment plan, related to strategic proposals, to include the projection of the income and expenditure budget and to make recommendations and to endorse the investment

plan afferent to strategic proposals, including the implementation mode of the strategic objectives;

- ✎ assists the Board of Directors in fulfilling its responsibilities to elaborate and update the general development strategy of the company;
- ✎ analyses the opportunities identified by the executive management regarding the business development and issues recommendations of the Board of Directors as far as regards the identified opportunities.

*On December 31, 2016, the advisory committees' structure was the following:*

I) Nomination and Remuneration Committee:

- ✎ Tcaciuc Sebastian Gabriel (chairman)
- ✎ Negrut Aurora
- ✎ Jansen Petrus Antonius Maria
- ✎ Buzatu Florin Danut
- ✎ Stoicescu Florin Razvan

II) Audit Committee

- ✎ Jansen Petrus Antonius Maria (chairman)
- ✎ Tcaciuc Sebastian Gabriel
- ✎ Jude Aristotel Marius
- ✎ Buzatu Florin Danut
- ✎ Stoicescu Florin Razvan

III) Strategy Committee

- ✎ Negruț Aurora (chairperson)
- ✎ Chisalita Dumitru
- ✎ Tcaciuc Sebastian Gabriel
- ✎ Jude Aristotel Marius
- ✎ Buzatu Florin Danut.

*Information regarding the Board of Directors' meetings and the Advisory Committees during 2016*

During 2016, the Board of Directors held a number of 32 meetings, in compliance with the legal and statutory provisions, out of which:

- 14 meetings with effective meeting of the directors and
- 18 meetings by teleconference.

The attendance at the Board of Directors' meetings:

Name and Surname	Number of meetings in the period:				P		A		Ab	
	I	II	III	IV	no.	%	no.	%	no.	%
Chisalita Dumitru	4	3	20	5	25	78,1			7	21,9
Jansen Peter Antonius Maria					31	96,9			1	3,1
Negruț Aurora					31	96,9			1	3,1
Metea Virgil Marius					24	88,9			3	11,1
Popescu Ecaterina					25	92,6			2	7,4
Buzatu Florin Dănuț				5	5	100,0				
Stoicescu Florin Răzvan				5	5	100,0				
Dorcioman Dragoș	7				6	85,7	1	14,3		
Jude Aristotel Marius				25	23	92,0			2	8,0
Baciu Sorana	4				1	25,0	2	50,0	1	25,0
Tcaciuc Sebastian Gabriel				28	22	78,6	1	3,5	5	17,9

I period January 1<sup>st</sup> – 22 February;  
 II period 23 February – 25 March;  
 III period 26 March – 14 November  
 IV period 15 November – 31 December

**P** = participation;  
**A= authorisation**;  
**A** = absence;

The attendance at Advisory Committees' meetings:

*Nomination and Remuneration Committee: 2 meetings*

Name and Surname	physical attendance
Tcaciuc Sebastian Gabriel	2
Negrut Aurora	2
Popescu Ecaterina	1
Stoicescu Razvan Florin	2
Buzatu Florin Danut	1

**Audit Committee: 5 meetings**

Name and Surname	physical attendance
Jansen Peter Antonius Maria	5
Chisalita Dumitru	4
Popescu Ecaterina	1
Jude Marius Aristotel	4
Tcaciuc Sebastian Gabriel	4
Buzatu Florin Danut	1
Stoicescu Razvan Florin	1

**Strategy Committee: 3 meetings**

Name and Surname	physical attendance
Chisalita Dumitru	3
Jude Marius Aristotel	3
Tcaciuc Sebastian Gabriel	3
Metea Virgil Marius	2

**Director General**

In compliance with the Articles of Incorporation “*the Board of Directors shall assign, totally or part of, the management competences of the Company to one or more executive directors, appointing one of them as Director General*” Article 24, paragraph (1), “*executive director*” means “*the person to whom the Board of Directors delegated authority to manage the company*” Article 24, paragraph (12).

The Board of Directors appointed Mr. Virgil Marius Metea as Director General and delegated him the following responsibilities and duties:

**A. Responsibilities and duties related to internal management:**

- ↳ approves the organization and functioning chart;
- ↳ approves the Organization and Functioning Regulations as well as other internal documents regulating the activity of the company related to its employees;
- ↳ approves the employment, promotion and dismissal of employees;
- ↳ approves the responsibilities and duties of the employees;
- ↳ approves the disciplinary reward and sanction of the employees;
- ↳ approves the specific operations necessary and useful for achieving the scope of activity;
- ↳ fulfils any accessory duties, namely any acts and special operations necessary and useful for achieving the above mentioned duties ;

---

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

- ↳ represents the company when concluding/issuing legal documents;
- ↳ represents the company in pre-contractual, administrative and/legal procedures;
- ↳ fulfills any accessory duties, namely any acts and special operations necessary and useful for achieving the above mentioned duties.

The Director General must 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**

The 2016 Annual Plan draft, together with the supporting documents, were submitted for the Director General's approval on December 8, 2015, under no. 34.504

The company's activities review was the starting point of the Annual Plan. The risks affecting the company's activities and the relating risk assessment were also included in the Annual Plan. Risk assessment factors/criteria were set by taking into account the recommendations for the following 5 factors contained in Romgaz General Internal Audit Norms:

- internal control assessment;
- quantitative assessment;
- qualitative assessment;
- legislative amendments;
- personnel service time.

The calculation methodology of the time available for the annual internal audit plan – according to the form coded by the internal procedure 18F-24, shows that there are:

- 252 days as total available calendar days;
- 170 days as days available for internal audit missions.

In compliance with the law, the remaining 82 days are used for other internal audit activities: annual reports, annual and strategic planning of the internal audit quality improvement program, professional training and other requirements made by the management etc.

The 2016 Audit Plan includes 3 conformity/regularity audit missions:

- Gas sale activity (February 1st - May 13, 2016);
- Activity related to completion of the formalities necessary for carrying out the relationship with capital market (23 May - July 25, 2016);
- Non-current assets inventory activity (September 1<sup>st</sup> - November 14, 2016).

The **audit mission** for 2016, until December 31 were the following:

**I. Assurance mission for Sales Activity**

The main objectives are:

- Assessment of internal control system
- Actual performance of the gas sale activity

To improve the gas Sale activity, the internal auditor team drafted 10 recommendations in Audit Report no.15197/ June 07, 2016.

### ***II. Assurance mission for the Activity related to completion of the formalities necessary for carrying out the relationship with capital market***

The main objectives are:

- Assessment of Internal Control System (at the level of Capital Market Office)
- Actual performance of the activity (within Capital Market Office);
- Aspects related to compliance with the principles of Corporate Governance)

To improve the activity of fulfilment the necessary formalities for carrying on the relationship with capital market, the internal auditor team drafted 55 recommendations in the Audit Report no. 27202/ October 17, 2016

### ***III. Assurance Mission for fixed assets inventory activity***

The main objectives of the mission are:

- Organizing the fixed assets inventory activity
- Identifying the number of inventories and carrying out the inventory activity
- Recording the results of inventory in the accounting
- Verifying the methodology of decommissioning of fixed assets
- Sale of decommissioned fixed assets

To improve the fixed assets inventory activity, the internal auditor team drafted 55 recommendations in the Audit Report no. 5815/ February 27, 2017

The internal audit plan for 2016 was achieved 100%.

### ***IV. Advisory Mission and performance of other actions***

In 2016 three ad hoc missions have been performed:

- Verification and resolution of intimation no. 5046/February 22, 2016 made by SC Adetrans SRL;
- Opinion related to aspects observed by the Court of Auditors on natural gas sale in the Control Report no 12444/May 06, 2016
- Manner of carrying out the public procurement procedure for the contract “Renewal of the centralized licensing contract Microsoft (E.A.)”

In 2016, two internal auditors were part of mixed Commission of verification/assessment of some circumstances occurred at Targu Mures Branch and S.T.T.M. Targu Mureş.

## **Risk Management and Internal Control**

### ***Company's Policies and Objectives related to Risk Management***

In accordance with the Corporate Governance Code, one 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, the necessity of direct implication in the risk management process, as well as the alignment to the latest practices in the sector by complying with the effective laws, standards and norms related to such process.

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

- 📄 the Order of the Ministry of Public Finance no. 400 of June 12, 2015 for approval of the internal / managerial control Code
- 📄 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 Order no. 119/1999,
- 📄 International Standard ISO 31010:2009: "*Risk management – risk assessment techniques*";
- 📄 International Standard ISO 31000:2009: "*Risk management/Principles and guidelines*";
- 📄 Romanian Standard SR Guidelines 73:2009: "*Risk management-Vocabulary*".

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 risk management system implemented within the company is an integral part of the decision making process by setting the requirement to use a risk management analysis when drafting any and every complex document, at the headquarters as well as the branches (technical projects related to the execution of investment objects; execution projects, assessment studies of geological).

The main benefit of the risk management process is 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 final documents in terms of risk management: Final Risk Register, Final Risk Report, Final 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, who together with the heads of the organizational units form 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 Risk Analysis and Management 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 information systems, and legal and regulatory risks.

All risks are analysed from following perspectives:

- specific objective the risk refers to;
- 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 treatment of initial risks.

### ***Internal control***

The internal control system represents not only documents, technical procedures, programs, instructions, computers and policies books, but people at each level of the organization.

Internal control is a process carried out by the personnel at all levels: Board of Directors, executive management, entire personnel, respectively.

It is carried out by the top management and bottom management, such as compartments responsible and the other employees as well. Each member of the company is responsible with his internal control.

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

The control system developed and implemented in Romgaz, as part of the management process, targets all the activities of the organizational units, at all levels of management, and aims to achieve the objectives under the condition of risk identification and management related to such.

The internal/management control has to ensure the following:

- Compliance with the law in force
- applying the management resolutions
- a good functioning of internal activity
- efficiency of operations
- efficient use of resources
- prevention and control of risks of non-fulfilment of set objectives

Repealing Ministry of Public Finance Order 946/2005<sup>6</sup> and entering into force of SGG Order no 400/2015<sup>7</sup> in June 2015 generated a new conceptualization of the main internal control directions in Romgaz aiming at creating a tighter and more coherent bond with the other management control instruments – internal audit and risk management system, and internal audit and risk management system, and to establish a reporting and monitoring system for the Board of Director through its Audit Committee for monitoring such activity<sup>8</sup>.

The internal/management control system developed and implemented in Romgaz targets the achievement of 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 efficiency, economy and efficiency conditions;
- 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 preparation, implementation, development and assessment of internal/management control system for Romgaz are achieved in compliance with the provisions set in Government Ordinance No. 119/1999<sup>9</sup> and with the standards provided by Order SGG no. 400/2015, supplemented with Order SGG NO 200/2016<sup>10</sup> grouped in five main categories:

Category	Main aspects
Control environment	Company organization, human resources management, ethics principles and rules, deontology and integrity
Risk management and performance	Applicable to all of the company's processes and activities, targets how objectives were set, sets risk identification methods and risk management, planning (multiannual planning), scheduling (governing plan and management plan) and performance monitoring
Control activities	Internal procedures are documented and drafted in relation to the main processes so that the initiation and verification functions separation is maintained in order to mitigate error and fraud risk, and in relation to

<sup>6</sup> Public Finance Ministry Order no. 946 as of July 4, 2005 for the approval of Internal Control Code comprising internal/management control standards at public entities and for the development of internal/management systems;

<sup>7</sup> Government General Secretary Order No. 400/2015 for the approval of internal/management control systems of public entities;

<sup>8</sup> Issue included in 2016 in the Corporate Governance Code

<sup>9</sup> Government Ordinance no. 119 as of August 31, 1999 regarding internal control and preventive financial control

<sup>10</sup> Government General Secretary Order No. 200/ February 26, 2016 regarding the amendment and supplementation of Government General Secretary Order No. 400/2015 for the approval of internal/management control systems of public entities;

	operation continuity by means of continuous supervision and management of deviations from set procedures
Information and communication	Targets the creation and development of a flexible and rapid information system to ensure both information quality and usage of proper communication methods and channels for each information type. Development of reporting system for the implementation of the governing and management plan, entity budget, management of resources use and document.
Evaluation and audit	Drafting and implementation of policies, plans and schedules for the development of internal/management control in terms of perfecting such by the assessment of the implementation carried out by the internal audit compartment

Among the 2016 internal/management control system development/improvement actions we specify the following:

- Romgaz's adherence at the end of 2016 to the National Anticorruption Strategy 2016-2020 and assuming the principals and fundamental values promoted by this strategy- Adherence statement is posted on the internet website, correlated with Standard 1 of Order SGG no 400/2015 "*Ethic and integrity*"
- Development of the Internal/ Management Control System application, an IT application allowing the online access and filling in the Questionnaire of self-assessment of the implementation status of internal/management control standards by all the employees with executive positions and an easy and efficient access of the Monitoring Commission both for analysis and approval of procedures and viewing and analysing in real time, the application of the Commission's Resolutions.
- development of an IT application allowing all of Romgaz personnel to consult the internal decision register and to view the content;
- reviewing internal procedures on:
  - irregularities management, completed at the end of the year 2016;
  - preparation of the procedure which sets the framework of identification, classification and use of confidential and internal use information and of resources related to it in order to protect the company against operational, legal and image risks caused by the unauthorized or accidentally revealing, modification or destruction of them; this procedure entered into force on December 8, 2016
- drafting and updating Romgaz Risk Register;

According to the self-assessment results for the implementation of Internal/Management Control System, in 2016 (in relation to the 16 internal/management control standards provided in Order no. 200/2016), the Internal/Management Control System is *partially implemented*.

In order to increase the quality of the internal control activity and the performance of management act as regards the use of public resources, the following are recommended:

- increase the managers responsibility as regards the organization of internal control and implementation of control findings;
- supervising the systematic update of the procedures in terms of legal changes and risks evolution;
- Coordinating the internal control system of the company with the risk management
- Supporting the management in implementation of the internal auditors recommendations
- Ensuring the consultancy requested by the management.

### Code of Conduct

Romgaz's Code of Conduct was prepared in 2013. For the moment is being updated. The effective document is posted on the website [www.romgaz.ro](http://www.romgaz.ro), at "Investor Relations-Corporate Governance" in order to ensure the principles of transparency.

The periodical reports on the indicators relevant for compliance with the rules of conduct have been prepared by the person responsible with monitoring the compliance of the Code of Conduct and have been posted on the intranet webpage of the Company.

### 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.

Also, 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 domains: education, social, sport, health and environment.

Supporting these projects, within the limits of the budgeted financial resources, has revealed the pro-active attitude of the company in the field of social responsibility and has increased the awareness degree of the involved parties as regards the importance and benefits of the social responsibility.

In 2016, Romgaz supported, totally or partially, actions and initiatives stipulated into the Government Emergency Ordinance ("GEO") no.2/2015, complying with the budget, as follows:

Expenses/activities Name	Program (RON)	Actual (RON)
<b>Total of sponsorship expenses, out of which</b>	<b>9,600,000</b>	<b>9,255,687</b>
• Expenses with sponsorships in medical and health domains - Article.XIV letter.a)	3,840,000	3,666,687
• Expenses with sponsorships in education and sport domains – Article XIV letter.b) – total, out of which:	3,840,000	3,706,148
○ For Sports Clubs	3,427,000	3,427,000
• Sponsorships for other actions and activities - Article.XIV letter.c)	1,920,000	1,882,852

The detailed description of the projects as regards the sponsorship provided in Government Emergency Ordinance no.2/2015 is included in Annex 4 to this Report. *The Report on social*

*responsibility sponsorship/Patronage actions for 2016* can be found on the internet page [www.romgaz.ro](http://www.romgaz.ro), at the section “*Investor Relations- Corporate Governance- Social Responsibility*”.

All the above mentioned projects had, besides the benefits for the community, detailed for each case separately, a benefit for the Company, promoting Romgaz image as a company that sustains by means of sponsorships a series of events that help the community. Such benefit is reflected also in the perception of Romgaz in front of its investors, local and central authorities, media and other parties. In this sense, the award for social responsibility won by Romgaz for the “Program for the communities’ health” awarded at Energonomics Awards IVth edition validates and confirms this direction of Romgaz.

When supporting/performing projects, actions, social responsibility initiatives, Romgaz took into consideration the provisions of Sponsorship Policy and Sponsorship Guide applicable in 2016, published on the company’s website at Social Responsibility section.

## **Politics and Remuneration Criteria of the Executive and Non-Executive Members of the Board of Directors**

### ***Legal Framework***

The politics and remuneration 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 amended;
- GEO no. 109/2011 on corporate governance of public enterprises, as amended;
- The company’s Articles of Incorporation, approved by the Extraordinary General Meeting of Shareholders no. 12/September 26, 2012, as amended;
- Resolution no. 14/August 26, 2013 of the Ordinary General Meeting of Shareholders which established the general limits of the remuneration of the director general, executive member of the Board of Directors;
- Resolution no. 29/December 16, 2013 of the Board of Directors through which the Mandate Contract of the Director General of the company was approved;
- Resolution no. 12/July 26, 2013 of the Ordinary General Meeting of Shareholders through which the Directors’ Contracts were approved.

For the compliance with the Requirements of BVB Corporate Governance Code and Emergency Government Ordinance no 109/2011, Romgaz drafted the Policy on remuneration which shall be analysed by the Board of Directors in a meeting subsequent to March 23, 2017.

### ***The structure of the remuneration granted to non-executive directors***

#### ***Fixed Remuneration***

The fixed monthly remuneration for each non-executive member of the Board of Directors was established according to Article 37, paragraph (3) of the GEO no. 109/2011 on corporate governance of public enterprises, as modified through GEO no. 51/2013 and provided in the Director Framework Contract approved through Resolution no. 12/July 26, 2013 of the General Meeting of Shareholders.

The fixed monthly allowance is paid considering the following criteria:

- ✓ The Chairperson and members of the Board of Directors who belong to at least two advisory committees at Board's level benefit from a fixed monthly salary at maximum value;
- ✓ The Board members who belong to an advisory committee constituted at the board's level, benefits from a fixed monthly salary representing 90% of the fixed monthly salary at maximum value;
- ✓ The Board members who do not belong to any advisory committees at the board's level, benefit from a fixed monthly salary representing 85% of the fixed monthly salary at maximum value

#### *Variable Remuneration*

The variable remuneration was established according to provisions of Article 37, paragraph (5) of the GEO no. 109/2011 on corporate governance of public enterprises, as amended through GEO no. 51/2013, which provides that:

*“The level of the variable component is determined according to duly justified recommendations, formulated on the basis of a comparative study on the payment conditions for similar positions in companies, from the same activity field, whose majority shareholder is state, in and other European states, or based on the nomination committee or, if applicable, by human resources recruitment experts whose services were contracted for the procedure of selecting the Board members /supervisory committee...”*

It was also corroborated with the provisions of the Directors' Contracts, whose frame content was approved through Resolution no. 12/July 26, 2013 of the General Meeting of Shareholders.

According to the Directors' Contracts the variable remuneration is divided into two sub-components, a first component depending on the fulfilment of performance indicators, while the second sub-component could be granted in case of exceeding the accomplished net profit level with a higher percentage of 0.4% as compared to the one approved through the income and expenditure budget of the company, respectively the amount which represents the difference between the actual accomplished net profit and the estimated net profit for every financial year, but not larger than the value of the annual fixed salary determined according to Article 16 from the Directors' Contract.

Mandate contract concluded with the members of the Board of Directors elected in accordance with the Ordinary General Meeting of Shareholders Resolution no. 10/November 15, 2016, as it has been approved by the Resolution no. 13/December 30, 2016 of the Ordinary General Meeting of Shareholders, does not include the variable component.

#### ***The structure of the remuneration granted to the executive director, namely Director General***

##### *Fixed remuneration*

The fixed monthly remuneration of the executive director – Director General, was established corroborating the provisions of Article 37, paragraph (4) of the GEO no. 109/2011, providing that:

*“Article 37 (4) The fixed monthly remuneration of the executive members cannot exceed the mean of the average gross monthly salary on the last 12 months in the company's field of activity, as communicated by the National Statistics Institute prior to appointment.”* corroborated with Resolution no. 14/2013 of the General Meeting of Shareholders, which provides that:

*“Item 1. Establishes the general limits of the remuneration of the Director General of SNGN Romgaz SA, executive director of the Board of Directors, as follows:*

- *For the fixed monthly average gross salary between 4 and 6 times on the last 12 months of the gross monthly salary in the company's filed of activity, as communicated by the National Statistics Institute prior to appointment”.*

*Variable Remuneration*

The variable remuneration was established according to provisions of Article 37, paragraph (5) of the GEO no. 109/2011 on corporate governance of public enterprises, as amended through GEO no. 51/2013, which provides that:

*“(5) The level of the variable component is determined according to duly justified recommendations, formulated on the basis of a comparative study on the payment conditions for similar positions in companies, from the same activity field, whose majority shareholder is state, in and other European states, or based on the nomination committee or, if applicable, by human resources recruitment experts whose services were contracted for the procedure of selecting the Board members /supervisory committee...”*

together with provisions of Article 38, paragraph (2) of the GEO no. 109/2011, providing that:

*“The remuneration consists of a fixed monthly salary within the limits provided at Article 37, paragraph (4) and of a variable component, consisting of a share of the company's net profit, a retirement scheme or other forms of remuneration based on performance indicators.”*

corroborated with provision of Mandate Contract and Resolution no. 14/August 26, 2013 of the General Meeting of Shareholders.

In this context, according to the provisions of the mandate contract, the variable remuneration is divided into two sub-components, a first component depending on the fulfilment of performance indicators, while the second sub-component could be granted in case of exceeding the accomplished net profit level with a higher percentage of 0.4% as compare to the one approved through the income and expenditure budget of the company, respectively the amount which represents the difference between the actual accomplished net profit and the estimated net profit for every financial year, but not larger than the value of the annual fixed salary determined according to Article 12 (i) from the Mandate Contract of the Director General.

## IX. PERFORMANCE OF THE MANDATE CONTRACT/DIRECTOR'S AGREEMENTS

*The timeline* of the directors' contracts, the mandate contract, the Management Plan and the Directors' Plan is the following:

- ✘ **June 12, 2013** – The Board of Directors' Resolution no. 8 approves the appointment of “*Mr. Virgil Marius Metea as executive director - Director General*”;
- ✘ **July 26, 2013** – The GSM Resolution no. 12 approves the Director's Contract to be concluded with the members of the Board of Directors;
- ✘ **September 25, 2013** – the GSM Resolution no. 16 approves the 2013-2017 Directors' Plan prepared and presented by the Board of Directors;
- ✘ **December 16, 2013** – the Board's Resolution no. 29 approves the Mandate Contract between Romgaz and Mr. Virgil Marius Metea as executive director-Director General.
- ✘ **January 29, 2014** – the Board's Resolution no. 1 approves the “Management Plan of Romgaz's Director General over the mandate contract's term *i.e.* 2013-2017”.
- ✘ **November 15, 2016** - By Resolution no.10, the Board of Directors revoke *Mr. Virgil Marius Metea* from the position of executive director.
- ✘ **December 30, 2016** – by Resolution no.13, the General Meeting of Shareholders approves the Directors Agreement which shall be concluded with the new members of the Board of Directors.

### 9.1. Objectives and Performance Criteria

The Director General's Management Plan encloses his vision for the fulfilment of the company's strategic objectives as provided in the Directors' Plan and the fulfilment of performance criteria and objectives set in the Director's Contracts.

The Director General's performance criteria and objectives are the same with the performance criteria and objectives provided in the Director's Contracts.

The main *performance objectives* provided in the Directors' Contracts and the Management Contract may be summarized as follows:

- ✘ Increasing the company's gas resources and gas reserves portfolio by discovering new resources and by developing and improving the recovery degree of already discovered resources;
- ✘ Consolidating the company's position on the electricity supply market;
- ✘ Optimizing, developing and diversifying the underground storage activity by reconsidering its importance for ensuring safety, continuity and flexibility in supplying natural gas;
- ✘ Increasing the company's performance;
- ✘ Identifying of new growth and diversification opportunities;
- ✘ Improving the company's organization structure, including the reorganization of the internal audit function.

Together with the specific measures taken for fulfilling each objective, Romgaz committed to implement general measures supporting the fulfilment of the company's strategic objectives.

Such measures target the following activity segments:

- Human resources management;
- Corporate governance and social responsibility;
- Optimization of budgeting and control process;
- Improving the company's image;
- Implementation of legal provisions on legal separation of UGS activity;
- Developing the role of the company's risk management.

Considering that the Management Plan was approved only on January 2014, the reporting of measures and actions undertaken to fulfil the company's strategic objectives begins only in Q1 2014.

The measures and actions for the fulfilment of strategic objectives, as set in the Directors' Plan, are quarterly and annually monitored by the following *indicators and performance criteria*:

No.	Indicator	M.U.	Performance criterion	Indicator	Weighting coefficient
0	1	2	3	4	5
1.	EBITDA	thousand RON	increasing	4.50%/year	0.25
2.	Revenue	thousand RON	increasing	6%/ year	0.20
3.	Labour productivity	RON/person	increasing	6%/ year	0.10
4.	OPEX to RON 1000 operating income	RON	decreasing	0.60%/ year	0.10
5.	Geological resources	million m <sup>3</sup>	increasing	1%/ year	0.10
6.	Natural gas production decline	%	keeping stable	1.5%/ year	0.15
7.	Outstanding payments	thousand RON	keeping stable	0	0.10

For the purpose of mitigating pronounced fluctuations of the indicators due to external factors beyond the company's management control, the indicators are calculated by means of relating their resulting value over the reporting period to the arithmetic means of the indicators' values resulting during the past three time periods previous to the reporting period.

In view of the fact that:

- ✎ Government Decision provisions no. 831 dated August 4, 2010 approved the selling by the Ministry of Economy, Commerce and Business Environment (through OPSPI) of 15% of SNGN Romgaz S.A. share capital;
- ✎ the shares selling process, respectively the approval for trading of shares on the regulated market operated by Bucharest Stock Exchange and of GDRs on London Stock Exchange was finalized in November 2013;

✎ from an accounting perspective, by the time shares were admitted for trading on a regulated market Romgaz carried out its activities in accordance with Public Finance Ministry Order no. 3055/2009;

✎ in 2012, after issuing **Order no. 881 dated June 25, 2012**, the Public Finance Minister decided to expand the scope of IFRS. According to this piece of legislation, the companies whose securities are admitted for trading on a regulated market must apply as of 2012 the IFRS when preparing the annual financial statements;

According to **Public Finance Minister Order no. 1121/2006**, these entities had the option (not the obligation) to prepare separate financial statements based on IRS for other users than the Romanian state entities.

Order no. 881/2012 repeals Article 4 of Order no. 1,121/2006 requesting the IFRS applying entities to also draft financial statements in accordance with national accounting provisions;

✎ the **Public Finance Minister Order no. 1286/October 1, 2012** approved the Accounting Regulations complying with IFRS applicable to companies whose securities are admitted for trading on a regulated market.( repealed by PFM Order no. 2844/2016)

✎ the **Public Finance Minister Order no. 2844/December 19, 2016** repealed the Accounting Regulations complying with IFRS applicable to companies whose securities are admitted for trading on a regulated market.

Romgaz is obliged to apply IFRS as of 2013.

Because prior to trading of shares the company's statutory accounting was according to Public Finance Minister Order 3055/2009 and as of 2013 it is according to IFRS, some clarifications are due in relation to how the performance indicators' achievement degree is calculated. The Board of Directors approved on November 13, 2013 the required clarifications:

✎ "quarter" means the accumulated time starting from the beginning of the year until the end of the quarter for which performance indicators are calculated;

✎ for comparison purposes, as of 2014, for the interim periods of the year (QI, QII and QIII), the indicators relating to the similar time periods of previous 3 years which were calculated according to Public Finance Ministry Order no. 3055/2009 are established as follows:

$$Indicator_{Q,i}(IFRS) = \frac{Indicator_{Q,i}(OMFP 3055)}{Indicator_{year}(OMFP 3055)} \times Indicator_{year}(IFRS),$$

where:  $i=1 \div 3$ ;

✎ for 2013, indicators were calculated based on the financial statements prepared according to Public Finance Ministry Order no. 3055/2009; at the end of the year, these are recalculated according to IFRS. Adjustments were made at the end of the year after the approval of financial statements when annual indicators are calculated according to IFRS;

✎ the target indicators will be set at the beginning of each year (after closing the previous year's financial statements). They are calculated as an average over the past three years and of the envisaged performance indicator.

In 2016, the following actions have been carried out as regards the modification of performance indicators included in the Directors Plan for the period 2013-2017, approved by the General Meeting of Shareholders Resolution no 16/ September 25, 2013:

- ✎ by Resolution no 5/June 16, 2016, the General Meeting of Shareholders approved “the modification of the performance indicators calculation method, namely to eliminate the effects of the external factors that are beyond the control of the company’s management”
- ✎ By Resolution no.7/August 11, 2016, the item referring to the modification of performance indicators calculation method approved by Resolution no.5/June 16, 2016 had been repealed.
- ✎ By Resolution no. 10/November 15, 2016, further the analysis of the proposal to modify the performance indicators, the General Meeting of Shareholders decided ”not to approve the modification of the calculation method of the performance indicators weighting factors, as well as the amendment of the Directors Plan in this respect and the performance criteria and objectives”

## 9.2. 2016 Results

The achievement of performance indicators and criteria in 2016 is shown below:

	Weighting factor	Indicator	Average values 2011-2013	Target values	Achieved values	Achievement rate	Weight
1	2	3	4	5	6	7=6/5x100	8=2x7
<b>EBITDA</b>	0.25	+4.5%	2,579,419.0	2,695,492.9	1,989,547.7	<b>73.8</b>	<b>18.45</b>
<b>CA</b>	0.20	+6%	4,146,764.1	4,395,569.9	3,411,867.7	<b>77.6</b>	<b>15.52</b>
<b>W</b>	0.10	+6%	664.5	704.4	559.1	<b>79.4</b>	<b>7.94</b>
<b>C<sub>expl</sub>/V<sub>expl</sub></b>	0.10	-0.6%	604.0	600.4	585.1	<b>102.6</b>	<b>10.26</b>
<b>RES</b>	0.10	+1%	2,279.3	2,302.1	2,605.0	<b>113.2</b>	<b>11.32</b>
<b>d<sub>Q</sub></b>	0.15	-1.5%	5,663.3 <sup>11</sup>	5,331.1	4,219.4	<b>79.1</b>	<b>11.87</b>
<b>P<sub>res</sub></b>	0.10	0	0	0	0	<b>110.0</b>	<b>11.00</b>
<b>Total</b>	<b>1.00</b>	-	-	-	-	-	<b>86,36</b>

EBITDA	– (RON thousand);
CA	– revenue (RON thousand);
W	– labour productivity (RON thousand/employee);
C <sub>expl</sub> /V <sub>expl</sub>	– operating expenses to 1000 RON operating income;
RES	– volume of geological resources (million m <sup>3</sup> );
d <sub>Q</sub>	– gas production decline (%);
P <sub>res</sub>	– outstanding payments (thousand RON).

The performance criteria and objectives achievement degree is **86.36%**.

The failure to achieve the performance indicators and the performance criteria has been influenced by:

- ✎ *EBITDA* –lower by RON 705.5 million (-26.2 %) compared to target value;
- ✎ *Revenue*– lower by RON 983.7 million (- 22.38%) compared to target value;

<sup>1</sup> It is the production for 2012, corrected with 1.5% target decline, year 2012 considered as “base year”.

- ✎ *Labour productivity*- lower by RON 145.3 million /person (-20.60%) compared to target value
- ✎ *Gas production decline* – lower by 1,111.7 million m<sup>3</sup> compared to target value.

From the first year of mandate, a number of contingencies arrived beyond the control of the board of directors or of the company's management that impede the fulfillment of the objectives and performance indicators included in the Directors Agreement and Governing Plan, respectively, such as:

- ✎ non- compliance of the calendar related to the gradual increase of the market sale price for domestic gas production considered when preparing and approving the Governing Plan;
- ✎ fiscal regulations with a significant impact on the company's performances, such as:
  - extending after December 31, 2014 the period for applying the windfall tax for gas producers as a result of price deregulation;
  - the tax on special constructions as of January 1, 2014, the so called "pole tax";
- ✎ reduced national gas consumption.

As a result, in accordance with the provisions of the Governing Plan and the Directors Agreement, the company's Board requested to shareholders to amend the calculation method of performance indicators included in the Directors Agreement. The request was substantiated by the Note no. 13293 on May 16, 2016 presented to shareholders and discussed during the ordinary meeting on **June 16, 2016**.

Further the analysis of the substantiated requests, by item I of Resolution no. 5 as of June 16, 2016, the General Meeting of Shareholders approved "*the amendment of the calculation method of the performance indicators, namely by eliminating the effects of the influence of external factors that are beyond the control of the company's management*". By Item II of the same Resolution, the General Meeting of Shareholders approved "*the conclusion of an Addendum to the Directors Agreement for amending the calculation method of performance indicators, namely by eliminating the effects of the influence of external factors that are beyond the control of the company's management*", mandating the representative of the majority shareholder to sign the Addendum to the Directors Agreement (item III).

Further the request of the Ministry of Energy, as a majority shareholder, the agenda of the Ordinary General Meeting of Shareholders on **August 11, 2016** was supplemented with the proposal to revoke the approvals of the GMS during the meeting of June 16, 2016 concerning the amendment of calculation method of performance indicators, conclusion of an Addendum to the Directors Agreement and mandating the representative of the majority shareholder to sign it. By Resolution No 7 as of August 11, 2016, the GMS approved the requests of the Ministry of Energy.

On the agenda of the Ordinary General Meeting of Shareholders of **November 15, 2016** the *Report no 25988 of October 5, 2016 has been added regarding the proposal to modify the performance indicators included in the Director Agreement. By this Report, the Board of Directors requested "to set the performance indicators in conjunction with the Income and Expenditure Budget indicators, as approved by Resolution No.5/June 16, 2016 of the General Meeting of Shareholders"*. By Resolution No.10 of November 15, 2016, the GMS did not approve "*the criteria and performance targets, in conjunction with the Income and Expenditure Budget indicators of S.N.G.N. Romgaz S.A. approved by Resolution No. 5/2016*".



**Signatures**

---

**Chairman of the Board of Directors,  
DUMITRU CHISALITA**

**Director General,  
MARIUS MERGIL METEA**



**Chief Financial Officer,  
ANDREI BOBAR**

---

## S.N.G.N. "ROMGAZ" S.A. ORGANISATION CHART

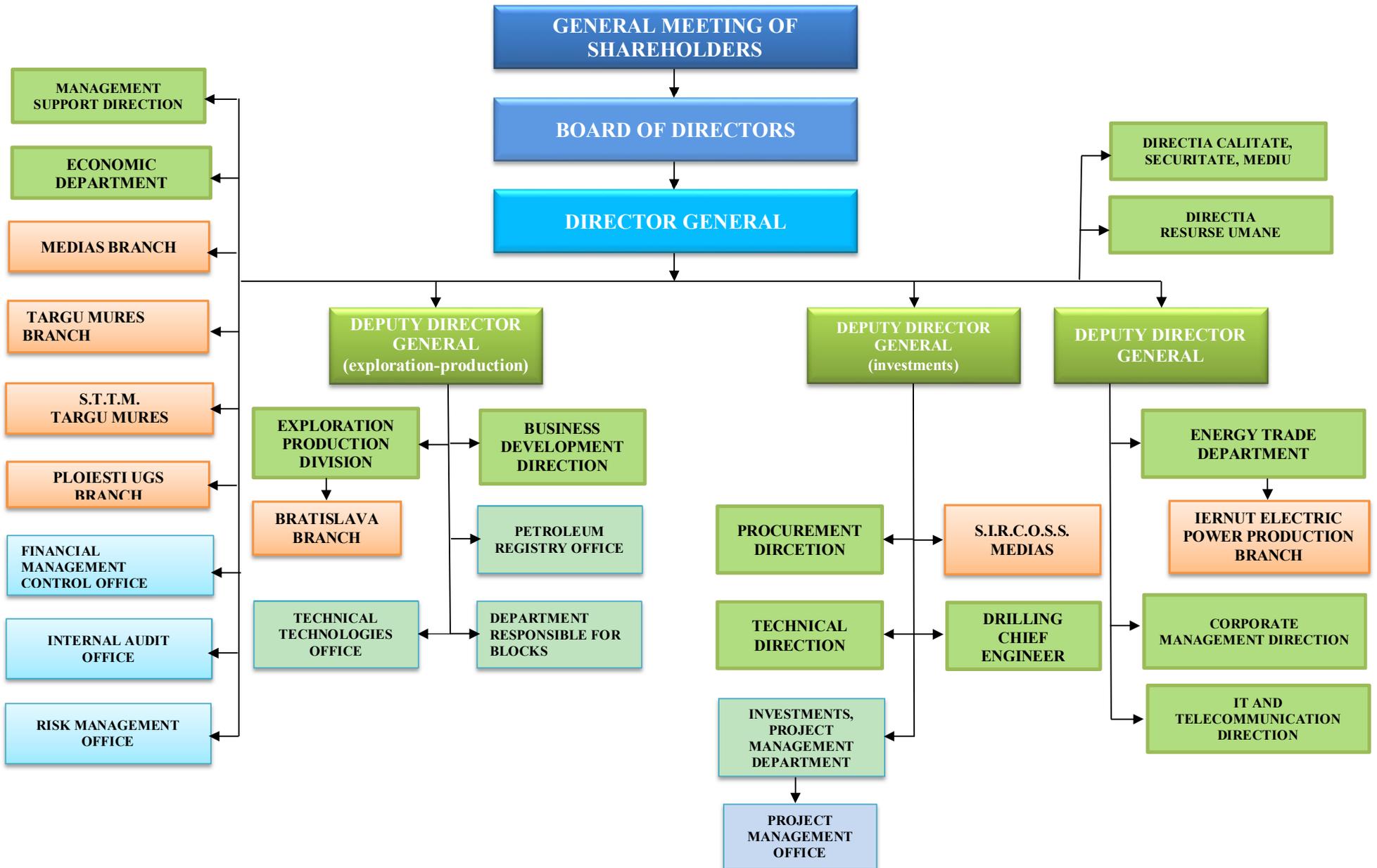


Table of Compliance with the Bucharest Stock Exchange Code of Corporate Governance

<i>Code provisions</i>		<i>Complies</i>	<i>Does not comply or partially complies</i>	<i>Reason for non-compliance</i>
1		2	3	4
A.1	All the companies must have an Internal Regulation of BoD that includes the reference terms/ the responsibilities of the Board and the company's key management positions, and that applies, among others, the General Principles in section A.	x		The ToR of the BoD has been updated and approved by the Board of Directors.
A.2	The ToR of the BoD should include provisions on the management of conflict of interest stating that members of the Board should notify any conflicts of interest which have arisen or may arise, to the Board and should refrain from taking part in the discussion (including by not being present where this does not render the meeting non-quotate) and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.	x		Items on the conflict of interests are found in the Corporate Governance of Romgaz, as well as in the company's Code of Conduct, both documents being published on the company website.  The ToR of the BoD has been updated in this respect.
A.3	The BoD has at least five members	x		
A.4	The majority of the members of the BoD is non-executive; not less than two non-executive members of the BoD are independent.  Each independent member of the BoD must 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 not-for-profit institutions, 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 report which may affect the member's position on matters decided by the Council.	x		This provision is already mentioned at Art. 6, par. 15 of CCG ROMGAZ.  The ToR of the BoD has been updated in this respect.

				Also, Romgaz has developed a <i>Policy on related parties</i> referring to this obligation; it will be submitted for the approval of the Board in a meeting subsequent to this statement. Following the approval, it will be published on the company website.
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 it has, summarize key action points and changes resulting from it. The company should have a policy/guidance regarding the evaluation of the BoD containing the purpose, criteria and frequency of the evaluation process.		x partially	The section on <i>Statement on corporate governance</i> in the Annual Board of Directors' Report includes statements on the evaluation of the BoD.  Romgaz prepared the <i>Policy regarding evaluation</i> and it will be submitted for the approval of the Board in a meeting subsequent to this statement. Following the approval it will be published on the company website.
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 formed of non-executives, which will lead the process for Board appointments 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 composed 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 accounting and auditing experience.	x		
B.2	The President of the Audit Committee should be an independent non-executive member.	x		
B.3	Among its responsibilities, the Audit Committee should undertake an annual assessment of the system of internal control.		x partially	The responsibility for monitoring the effectiveness of the company's internal

				<p>control systems, internal audit and risk management is specified in the ToR of the Audit Committee.</p> <p>Internal Rules of the Committee has been updated to clarify responsibilities, and it will be submitted for the approval of the Board in a meeting subsequent to this statement. Following the approval, it will be published on the company website, replacing the current Internal Regulation.</p>
B.4	The provision 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 identified internal control failings or weaknesses and submit relevant reports to the Board.		x partially	See <i>Section B.3</i> .
B.5	The Audit Committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties.		x partially	<p>This provision is already mentioned under Art. 8, par. 2 of CCG ROMGAZ.</p> <p>The ToR of the Audit Committee has been updated in order to include this provision and it will be submitted for the approval of the Board in a meeting subsequent to this statement.</p> <p>Also, Romgaz has developed a <i>Policy on related parties</i> and the document will be submitted for the approval of the Board in a meeting subsequent to this statement. Following the approval it will be published on the company website.</p>
B.6	The Audit Committee should evaluate the efficiency of the internal control system and risk management system		x partially	<p>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.</p> <p>The ToR of the Committee has been updated to clarify responsibilities and it will be submitted for the approval of the Board</p>

				in a meeting subsequent to this statement. Following the approval, it will be published on the company website, replacing the current ToR.
B.7	The Audit Committee should monitor the application of statutory and generally accepted standards of internal auditing and 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 analyzes 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 with which it has close relations, that is equal to or more than 5% of the net assets of the company (as stated in the latest financial report), should be approved by the Board following an obligatory opinion of the Audit Committee and fairly disclosed to the shareholders and potential investors, to the extent that such transactions fall under the category of events subject to disclosure requirements.		x	The provision is already mentioned under Art. 9 of CCG ROMGAZ and will be implemented by <i>the Policy on related parties</i> and it will be submitted for the approval of the BoD in a meeting subsequent to this statement. Following the approval, it will be published on the company website.
B.11	The internal audits should be carried out by a separate structural division (internal audit department) within the company or by retaining an independent third-party entity	x		
B.12	The Internal Audit Department should report functionally to the BoD via the Audit Committee. For administrative purposes and in 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 partially	The ToR of the BoD has been updated and approved by the BoD.
C.1	The company should publish a Remuneration Policy on its website. The Remuneration Policy must 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 Manager. Any significant change occurred in the Remuneration Policy must be posted in due time on the company's website.		x partially	This provision is already mentioned under Art. 11, par. 5 of CCG ROMGAZ, and it will be implemented by <i>the Remuneration Policy</i> , and it will be submitted for the approval of the BoD in a meeting

	<p>The company must include in its Annual Report a remuneration statement on the implementation of this Policy during the annual period under review.</p> <p>The Report on Remuneration must submit implementation of the Remuneration Policy for persons identified in this Policy during the annual period under review.</p>			<p>subsequent to this statement. Following the approval, it will be published on the company website.</p> <p>The section on <i>Statement on corporate governance</i> in the Annual Board of Directors' Report includes statements regarding the implementation of the Remuneration Policy and the remuneration of the Board of Directors members and the remuneration of the Director General.</p> <p>The Annual Report on Remuneration is presented together with the Annual Board of Directors' Report.</p>
D.1	<p>The company should establish an Investors Relation Department - indicating to the public the responsible person/persons or the organizational unit.</p> <p>Besides the information required by the legal provisions, the company should also include on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all the relevant information of interest for investors, including:</p>	x		
D.1.1	Principal corporate regulations: the articles of incorporation, general shareholders' meeting procedure		x partially	Items on the GMS organization are presented to shareholders at each meeting. A separate document on the GMS procedure will be prepared and approved.
D.1.2	Professional CVs of the members of the company's governing bodies; Board member's other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions.	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 rationale 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, inclusively the decisions taken by the GMS	x		
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 applied to such operations. The information will be published within a period so that investors are permitted 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), financial statements (quarterly, semi-annual, annual), auditor reports and annual reports	x		
D.2	The company will have an annual cash distribution of dividend policy or other benefits for shareholders, proposed by the Director General and adopted by the BoD as the company's Guideline on net profits distribution. The principles of the annual distribution of dividends policy to Shareholders will be published on the company's website.		x partially	Romgaz prepared the Dividend Policy; it will be submitted for the approval of the Board.
D.3	The company should have adopted a policy with respect to forecasts, whether they are made public or not. The Policy on forecasts will determine the forecasts' frequency, period and content and will be published on the company's website.		x	Romgaz prepared the Policy on forecast; it will be submitted for the approval of the Board.
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		
D.6	The BoD should present to the annual 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, 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		
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 website in the IR section at the time of 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:*

ToR = Terms of Reference

BoD = Board of Directors

CV = Curriculum Vitae

GMS = General Meeting of Shareholders

CCG = Code of Corporate Governance

BSE = Bucharest Stock Exchange

CCG ROMGAZ = the Code of Corporate Governance of S.N.G.N. ROMGAZ S.A., approved on January 28, 2016.

## Litigations

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
0	1	2	3	4	5	6	7
1	3878/110/2007 - Bacau County Court of Law	insolvency proceedings	Romgaz - creditor	S.C.Uzina Termica Comanesti S,A - debtor	328,646.82	Decision no. 318/2009 of Bacau Court approved SNGN ROMGAZ SA's request to initiate insolvency proceedings. Currently, the specific insolvency proceedings acts are performed.	May 25, 2017
2	513/87/2012 - Teleorman County Court of Law	insolvency proceedings	Romgaz - creditor	SC Termaserv SRL Alexandria - debtor	7,200,862	Receivable: RON 7,200,862.08 (on December 31, 2011 - equivalent value of delivered gas, penalties, interest)	May 11, 2017
3	2177/99/2012 - Iasi County Court of Law	insolvency proceedings	Romgaz - creditor	SC CET Iasi SA - debtor	46,270,753	Receivables: RON 46,270,752.91 (equivalent value of delivered gas, late payment penalties, interest, court fees). Civil court decision no. 697/April 17, 2012 issued by Iasi County Court of Law established the opening of the general insolvency procedure for the debtor and appointed an interim official receiver	March 14, 2017
4	1318/87/2013 - Teleorman County Court of Law	insolvency proceedings	Romgaz - creditor	SC Termaconfort SRL Rosiorii de Vede - debtor	1,888,201	Receivables: RON 1,888,200.99 (delivered gas price, late payment penalties, interest/penalties calculated according to Payment Schedule Agreement, fees related to enforcement procedure).	April 13, 2017
5	10917/107/2010/a 2 - Alba County Court of Law	insolvency proceedings	Romgaz - creditor	SC GHCL UPSOM ROMANIA SA- debtor	68,573,109	On 29.11.2010, SNGN ROMGAZ SA filed against the SC GHCL UPSOM ROMANIA SA an application to open insolvency proceedings. (File no. 10917/107/2010). SNGN ROMGAZ SA requested acceptance of a certain, liquid and due receivable in amount of RON 60,841,881.14 (representing the equivalent value of natural gas, penalties calculated according to Payment Schedule Agreement no. 100/May 5, 2009, late payment penalties calculated until February 28, 2011, equivalent value of assignment of receivables according to Assignment of Receivables Contract no. 1/June 2, 2009) Against decision no. 351/F/May 18, 2011, the debtor filed recourse requesting the discarding of sentence and referring the case back to Alba Court of Law.	July 3, 2017

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
6	564/2005 - Official Receiver Office Milos Cristian	enforcement proceedings	Romgaz - creditor	SC PEET Termoelectrica SA Bucuresti - debtor	42,665,005	Based on the enforcement order, Civil Decision no. 181/C/2005 issued by Sibiu County Court of Law the debtor was obliged to pay the creditor the amount of 148,826,365 (delivered gas price, default fees, interest, court fees), bailiff office Milos Cristian requested the enforcement of the order against the monies the company has in bank accounts opened in Bucharest. Following the approval of attachment of bank accounts, the bailiff sent letters of attachment of bank accounts opened in Bucharest.	insolvency
7	6659/85/2012 - Sibiu County Court of Law	Claims	Romgaz-creditor	S.C.Grup de Comert si Investitii SRL - debtor	1,135,220	SNGN ROMGAZ SA filed a summons requesting the debtor to pay RON 1,135,220	finalised
8	8028/95/2013 - Gorj County Court of Law	insolvency proceedings	Romgaz - creditor	S.C. Grup de Comert si Investitii SRL (by the official receiver-Divizia de Reorganizare Judiciara si Executare Creante IPURL) - debtor	1,135,220	On October 24, 2013, Gorj Court allowed the application of the debtor S.C.Grup de Comert si Investitii SRL by court Decision no. 446/2013, requesting the opening of insolvency proceedings in order to reorganize its activity.	March 27, 2017
9	7779/85/2014 - Sibiu County Court of Law	Adjustment of work contract no. 22/2012	SC FORAJ SONDE SA	Romgaz	4,333,255	The plaintiff requested by the summons: - to adjust the work contract No. 221/2012, concluded between the parties, in the sense of enforcing the payment of the amount of RON4,333,255 by the defendant, as equivalent value of additional works performed following the extension of the contract duration.	finalised
10	6991/236/2009 - Giurgiu Court of Law	claims	S.C. Uzina Termoelectrica Giurgiu - defendant	Romgaz - plaintiff	45,973	Amount of claims: RON 45,973.26 - overdue payments penalties calculated according to Natural Gas Sale Contract No.14/2008. Recourse. Recourse dismissed by Giurgiu Court of Law.	finalised
11	110/228/2011 - Braila County Court of Law	proceedings for real estate claim	SC Foradex SA - plaintiff	Romgaz, SC Amromco Energy SRL - defendants	n/a	The plaintiff requested the defendants to grant full possession of Well 22 Balta Alba to Foradex, decommissioning of the rig and payment of penalties.	finalised

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
12	5910/228/2010 - Braila County Court of Law	eviction proceedings	SC Foradex SA - plaintiff	Romgaz, SC Amromco Energy SRL- defendants		The scope of the summons is the eviction of the defendants with respect to well 22 Est Balta Alba.	stay of trial proceedings
13	1299/57/2011 - Appeal Court of Law in Alba Iulia	Annulment of administrative action no. 5951/08.04.2011 issued by the National Agency for Fiscal Administration DGFP Sibiu	Romgaz - plaintiff	Agentia Nationala de Administrare Fiscala; DGFP SIBIU) - defendant	1,688,843	Amount of claim: RON 1,688,843, High Court of Cassation and Justice rejects the recourse due to ANAF lack of grounds. SNGN ROMGAZ SA brought the action before administrative appeal requesting annulment of financial control protocol no. 5951/April 8, 2011 issued by ANAF-DGFP Sibiu establishing the unconformity with legal provisions in relation with setting and payment of dividends for 2008 financial year, in relation to which default interest of RON 1,688,843 is calculated.	complying enforcement
14	598/57/2011 - Sibiu County Court of Law (retrial at the High Court of Cassation and Justice)	Bring the action before administrative appeal	Romgaz - plaintiff	Court of Accounts of Romania - defendant	102,357,059	SNGN ROMGAZ SA brought the action before administrative appeal requesting annulment of actions issued by the Romanian Court of Accounts – Sibiu Chamber of Accounts, namely: Note no.3/2011; Decision No.10/24.01.2011; Finding report registered at SNGN Romgaz SA under no. 2033/10.12.2010	currently not established
15	7852/85/2013 - Sibiu County Court of Law	Claims -undue payment	Romgaz - plaintiff	SC APROV SA; SC ROMOIL SA - defendant	20,052,457	In the summons, SNGN ROMGAZ SA requested the court to compel the defendants to pay jointly the amount of RON 20,052,457 : <ul style="list-style-type: none"> <li>- RON 14,408,931 lei – representing the undue payment made according to supply contract no. 42/2010 and</li> <li>- RON 5.643.526 – representing the additional payment made under supply contract no. 6/2010)</li> </ul>	stay of trial proceedings
16	8259/62/2013 - Brasov County Court of Law	Claims -undue payment	Romgaz - plaintiff	SC Condmag SA; Cameron International Corporation - defendants	43,059,199	In the summons, SNGN ROMGAZ SA requested the court to compel the defendants to pay jointly the amount of RON 43.059.199, representing the undue payment in connection with work contract no. 217/2006	stay of trial proceedings

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
17	8258/62/2013 - Brasov County Court of Law	Claims -undue payment, contract for provision of worksno.14/2009	Romgaz - plaintiff	SC INSPET SA; SC Condmag SA; SC Petrostar SA; SC Industrial Trading SRL - defendants	15,596,065	In the summons, SNGN ROMGAZ SA requested the court to compel the defendants to pay jointly the amount of RON 15,596,065 representing the undue payment made related to contract no.14/2009	stay of trial proceedings
18	8260/62/2013 - Brasov County Court of Law	Claims -undue payment	Romgaz - plaintiff	SC Condmag SA - defendant	23,645,128	In the summons, SNGN ROMGAZ SA requested the court to compel the defendants to pay jointly the amount of RON 23,645,128 representing the undue payment related to the contract for provision of works no. 39/2007	stay of trial proceedings
19	19495/3/2013 - Bucuresti Court of Law	claims (equivalent value of delivered and unpaid natural gas, according to gas sale-purchase contract no. 2/2010)	Romgaz - plaintiff	SC G-ON Eurogaz SRL - defendant	11,920,527.50	Claimed amount: RON 11,920,527.50 (equivalent value of delivered and unpaid natural gas)	compulsory enforcement
20	2541/96/2013 - Harghita County Court of Law	insolvency proceedings	Romgaz - creditor	SC MAVEXIM SRL - debtor		The trial date of June 25, 2013 allowed the debtor's request to file for insolvency (in compliance with art. 27 paragraph 5 of law 85/2006). The debtor initiated insolvency procedures.	May 17, 2017
21	13991/320/2012 - Tg. Mures court	Corruption criminal offence	Romgaz - plaintiff claiming damages	Budan Marcel - defendant	579,532	Criminal complaint for investigating Mr. Budan Marcel for corruption charges (Law 78/2000) in connection with repair works to the access road to Schela Corunca. By filing letter JE166/01.04.2013 SNGN ROMGAZ SA became injured party in the file for the amount of RON 579,532. The reason why Romgaz became injured party is the fact that the work was recorded as fixed asset in Romgaz-Mures Branch accounting records, a fixed asset over which it retains no title.	appeal, currently not established
22	781/85/2014 Sibiu Court of Law (Bucuresti Court of Law file no. 28323/3/2014)	Claims	Romgaz - plaintiff	SC Electrocentrale SA Bucuresti - defendant	240,280,906	Amount of claim: RON 240,280,906.05	March 6, 2017
23	11688/85/2012 – Sibiu Court of Law		Romgaz - plaintiff	SC TEHNOTOP GRUP SRL - defendant	112,139.15	Amount of claim: RON 112 139. 15. The compulsory enforcement proceedings were initiated.	finalised

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
24	28218/3/2009 - Mures County Court of Law		SC LORETO EXIM SRL – respondent / appellant	Romgaz-SIRCOSS appellant / respondent Romgaz-STTM Tg Mures (appellant)	965,612	Amount of claims: RON 965,612. Recourse is dismissed. Decision is irrevocable.	finalized
25	921/237/2013 - Gura Humorului Court of Law	complaint of violation	Romgaz SIRCOSS - appellant	Inspectoratul pentru Situatii de Urgenta Suceava - respondent	1,750	Amount of claim: RON 1,750	finalised
26	5768/85/2013 - Sibiu County Court of Law	claims - default fees	SC ALLSTAR PROD SRL - plaintiff	Romgaz (SIRCOSS) - defendant	13,744,98	Amount of claim : RON 13,744.98	finalized
27	149/322/2014 - Targu Secuiesc Court of Law	complaint of violation	Romgaz (SIRCOSS) - appellant	ISCTR - respondent	4,000	The complaint of violation requested the annulment of Offence Report and of the contravention sanction and, alternately, the replacement of fine with a warning.	finalized
28	1213/251/2012 - Luduş Court of Law		Tegla Ciprian, Crişan Flaviu, Timar Romul, Marian Niculina, Maftai Petru, Rădulescu Gheorghe, Stoica Nicuşor, Cosma Călin, Mathe Geza and Pantea Ilie – plaintiffs (employees of SNGN Romgaz SA – SPEE Iernut)	SNGN Romgaz SA - Sucursala de Producţie Energie Electrică Iernut - defendant	36,000	Amount of claims: approx. RON 36,000, appeal, pending trial date SPEE Iernut employees, as tenants of work-related lodging, requested the court of law to: <ul style="list-style-type: none"> <li>- Calculate rent according to Law no. 17/1994, Law no. 114/1996, GEO 40/1999, Government Decision no. 310/2007 and the New Civil Code.</li> <li>- set the reimbursement of amounts paid as rent, in excess of the threshold of computed rent, starting with august 2009 until the final settlement of this cause.</li> <li>- Compel the defendant to pay court fees;</li> </ul> In the course of court proceedings, the defendants Marian Niculina and Radulescu Gheorghe filed a request to waive court proceedings.	Currently not established

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
29	1855/251/2013 - Luduș Court of Law	eviction proceeding	SNGN Romgaz SA - Sucursala de Producție Energie Electrică Iernut - plaintiff	SC Comindal Impex SRL - defendant.		Based on bilateral relationship between the parties, the lease agreement no. 1294/2006 was concluded. Because on June 30, 2013, the lease agreement had expired for the commercial premises located in Iernut, P-ta 1 Decembrie 1918, bl. 1, groundfloor, Mures county, SPEE Iernut organized on June 21, 2013 an open tender. The appointed winner was PFA Cormos Daniela.	compulsory enforcement
30	261/43/2013 – Appeal Court of Law in Tg. Mures	The Bid Awarding Report was challenged	SC Comindal Impex SRL – appellant.	Romgaz - Sucursala de Producție Energie Electrică Iernut - respondent	-	On June 21, 2013, SPEE Iernut organized an open tender for the lease of the commercial premises located in Iernut, P-ta 1 Decembrie 1918, bl. 1, groundfloor, Mures county. Three persons subscribed to the tender among which the appellant, SC Comindal Impex SRL. The appointed winner was PFA Cormos Daniela. SPEE Iernut rejected the challenge filed by SC Comindal Impex SRL. For this reason, it requested the court to cancel the Bid Awarding Report no. 5635/June 21, 2013 and to reorganize the tender. It invoked lack of compliance with the Technical Specifications.	finalised
31	1471/63/2010 Dolj County Court of Law	Establish easement right	Romgaz - SISGN Ploiesti - plaintiff	Draghici Marian and others - defendants		Dolj Court of Law declined the competence in favour of Craiova Court file no.18150/215/2010) which dismisses the action.	currently not established
32	16181*/215/2009 - Craiova Court of Law	Specific performance procedure	Covei Gheorghe - plaintiff	Romgaz - SISGN Ploiesti - defendant	169,938	The plaintiff filed an application to compel SNGN ROMGAZ SA – SISGN Ploiesti to decommission the pipelines allegedly undercrossing the plaintiff's land and to pay the value of absence of usage right of due to said pipeline. Amount of claim: EUR 37.764 Initially, the file was pending before Craiova Court of Law, which dismissed the request.	finalised
33	1540/215/2013 - Craiova Court of Law		Prnoiu Gheorghita - plaintiff	Romgaz - SISGN Ploiesti - defendant	50,000	The plaintiff filed an application to compel SNGN ROMGAZ SA to pay RON 50,000.	stay of trial proceedings
34	12310/63/2011 - Dolj County Court of Law		Constantin Victoria - plaintiff	Romgaz - SISGN Ploiesti - defendant	79,020	Amount of claim: EUR 17.560. The plaintiff filed an application to compel SNGN ROMGAZ SA to decommission the pipelines allegedly undercrossing the plaintiff's land.	stay of trial proceedings

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
35	2471/215/2012 – Craiova Court of Law		Romgaz – SISGN Ploiesti – plaintiff	Zamfiroiu Florina s.a. – defendant	4,875	The defendant paid by mistake to Beldiman Ion (subsequently deceased) the amount of RON 6500 as of June 27, 2008. As a consequence, the company undertook actions to recover the amount and, in accordance with the provisions of Articles 1092, 992 and 993 Civil Code, the Court compelled the defendant Beldiman Rodica, as inheritress (wife) to refund the above mentioned amount. The defendant filed recourse for this decision. At that moment, it was found that besides the defendant Beldiman Rodica there are 4 more legal successors, the deceased's daughters (Zamfiroiu Florina, Barcu Tita, Burtea Petria Georgeta and Ciumuliga Ionela) being defendants to this case.	reinstatement
36	1463/108/2012 – Arad Court of Law		Romgaz – SISGN Ploiesti – creditor	SC Amarad SA – debtor	42,418.48	Upon the debtor's request, prepared in accordance with the provision of Article 27, paragraph 5 of Law 85/2006, insolvency procedures were initiated.	March 23, 2017
37	10980/320/2008 – Tg. Mures Court of Law		Sipos Ioan – plaintiff	Romgaz - Suc. Tg. Mures – defendant (and plaintiff counterclaim )	450	By summons, the plaintiff requested the court to compel the defendant to pay rent in exchange of using the land, which is the property of plaintiff.	stay of trial proceedings
38	488/251/2008 – Ludus Court of Law		Petrea Zachei, Petrea Cornelia – plaintiffs	Romgaz - Tg. Mures Branch– defendant	20,000	By summons, the plaintiffs requested the court to establish the property title in connection with an unincorporated parcel of 11,600sq.m. File suspended until the irrevocable decision of file no. 487/251/2012*	stay of trial proceedings
39	4424/320/2009 – Tg. Mures Court of Law		Sipos Ioan ; Sipos Terez – plaintiffs	Romgaz - Suc. Tg. Mures – defendant	20,600	By summons, the plaintiffs requested the court to compel the defendant to the payment of rent in exchange for using a land parcel, the property of defendants (EUR 4,400).	stay of trial proceedings
40	302/317/2014 – Tg. Carbonești Court of Law		Daianu Maria – plaintiff	Romgaz - Suc. Tg. Mures – defendant	22,500	The defendant is compelled to pay to the plaintiff a compensation of RON 9,216 representing the equivalent value of production made during 2011, 2012, 2013. The defendant is obliged to pay the plaintiff the amount of RON 2,625.8 as court fees. Appeal allowed on January 22, 2016.	finalised
41	17666/320/2010 – Tg. Mures Court Of Law		SC Network Press Concept SRL Medias (fosta RODIPET) – defendant	Romgaz - Suc. Tg. Mures – defendant	6,851.25	The defendant failed to meet the contractual obligation to deliver the Romanian Official Journal for Q2 and Q3/2008: 4 subscriptions to Part I bis and one subscription to Part IV, therefore the defendant is obliged to refund RON 6,851.25 (out of which RON 565,70 is VAT). Currently the case is suspended based on Article 36 of Law 85/2006 on	stay of trial proceedings

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
						Insolvency procedure.	
42	3231/320/2011 – Tg. Mures Court of Law		Cez Vanzare SA Craiova –by authorized representative ROMANIA SRL – creditor	Romgaz - Suc. Tg. Mures – debtor	5,534	Because of overdue payment of some invoices, the creditor requested the court to compel the debtor to pay RON 5,112.85 (late payment penalties) and RON 421.52 (court fees) in accordance with GD 5/2011. As of June 28, 2011, Tg. Mures Court of Law dismissed the request for payment. The decision is not communicated.	finalised
43	7659/320/2011 – Tg. Mures Court of Law	claims	Naghy Bela – plaintiff	Romgaz - Tg. Mures Branch– defendat	100,800	By summons, the defendant requested the court to oblige SNGN ROMGAZ SA Tg. Mures Branch to pay: - RON 100,800 representing rent expenses (for 3 years) for the occupation of land by Well Cluster 8 Ulies (property of the defendant)	finalised
44	13525/320/2011 – Tg. Mures Court of Law		Sipos Ioan - plaintiff	Romgaz – Suc. Tg. Mures – defendant	39,250	By summons, the plaintiff requested the court to oblige SNGN ROMGAZ SA – Suc. Tg. Mures to pay EUR 8,500, a retroactive claim (EUR 100/ month x 85 months) and as of October 26, 2011 to pay EUR1,000/month as rent. The summons grounds on the fact that the plaintiff cannot use a 2,800 sq.m parcel of land due to conditions imposed by Romgaz-Mures Branch, which has 2 wells in the respective land. The first instance dismissed the summons. The decision was not communicated. Claims: EUR 8,500 (retroactively) and EUR 1,000/month for the future. On October 15, 2012 Targu Mures Court of Law annulled the summons. The decision has not been communicated.	request annulled
45	198/315/2012 – Targoviste Court of Law		Nicolescu Georgeta – plaintiff	Romgaz – Suc. Tg. Mures – defendant	96,940	By summons, the plaintiff requested the court to compel SNGN ROMGAZ SA – Tg. Mures Branch to pay RON 96,940 as compensation for decreasing the value of the land use from II category to IV category. The plaintiff's claims are grounded on the fact that Romgaz-Tg Mures Branch did not entirely fulfil the obligations to restore land to its initial use (land where well 1 Iazu was drilled), as established in court decision no. 4646/October 28, 2009 (irrevocable) issued by Targoviste Court of Law in case file no. 438/315.2008. Claims: RON 96,940. On June 3, 2013 the court partly allowed the claim, compelling Romgaz – Tg. Mures Branch to pay RON 2,510 as compensation and RON 1,540 as court fees. Romgaz-Tg. Mures paid both amounts.	finalised

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
46	487/251/2012* – Ludus Court of Law		Romgaz – Suc. Tg. Mures – plaintiff	Bartha F. Irina; Local Commission for application of Law 18/1991 within Zau de Campie city hall; OCPI Mures; County Commission for application of Law 18/1991 within prefecture Mures – defendant		By summons, SNGN ROMGAZ SA – Suc. Tg. Mures requested the court to establish absolute nullity (relative) and the relative nullity of the property title no 132498/2002, by which the property title was re-enacted for Bartha F. Irina over an arable land of 11,600 m <sup>2</sup> , located in village Barbosi, commune Zau de Campie, due to the fact that 426 m <sup>2</sup> was erroneously included in the property title. In fact, the property title was issued on behalf of Bartha Irina with the aid of the defendants 2, 3 and 4. There was an expropriation order for the land according to Decrees 658/1973, 55/1978, 22/1979 and the land was removed from the agricultural use. It could not fall within the scope of Law 18/1991. Subsequently, the defendant disposed of this land by means of selling it to Petrea Zachei and Petrea Cornelia, according to authenticated contract no. 18/1991. The latter have petitioned the court against Romgaz-Tg. Mures Branch for claims. The issuance of a property title in connection with the surface occupied by the Branch's assets is not legal.	
47	493/251/2012 – Ludus Court of Law		Romgaz – Suc. Tg. Mures – plaintiff	Petrea Zachei; Petrea Cornelia – defendant	-	By summons, SNGN ROMGAZ SA – Suc. Tg. Mures requested the court to establish the absolute nullity of land sale contract no. 123/2005; the defendants are the buyers. The summons is grounded on the fact that the authenticated sale contract no. 123/2005 is void because is a subsequent act of the seller's property title (please refer to case file no. 487/251/2012 – Ludus Court of Law. Following the procurement of land, the defendants filed a claim against Romgaz – Tg. Mures Branch (file case no. 448/251/2008 – Ludus Court of Law). Currently, this case is on stay of proceedings until case file 487/251/2012 of Ludus Court of Law is irrevocably settled.	stay of trial proceedings
48	5423/320/2012 –		Kemeny Elena Antonia – plaintiff	Romgaz – Suc. Tg. Mures – defendant	200,000	By summons the plaintiff requested the court to decide: value of claims: RON 200,000. By the date of trial, December 19, 2014, the court dismissed the request. The plaintiff initiated appeal –Mures County Court of Law. By the date of trial, June 09, 2015, the appeal was dismissed. The decision is final.	finalized
49	7399/320/2012 – Tg. Mures Court of Law		CEZ Distributie SA Craiova, by authorized	Romgaz – Suc. Tg. Mures – debtor	1,344.74	By summons, the creditor requested the recovery of claims of RON 1,344.74 resulting from invoices regarding regularization of electricity consumption in several consumption points within SPG Oltenia. Value	

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
			representative COFACE ROMANIA CREDIT MANAGEMENT SRL – creditor			of claims: RON 1,344.74. By the date of retrial, April 16, 2015, Tg. Mures Court of Law dismissed the request.	
50	7070/320/2012 – Tg. Mures Court of Law		Barsan Romulus - plaintiff	Romgaz – Suc. Tg. Mures – defendant	88.000	By summons the plaintiff requested the court to compel the payment of the following claims: RON 80,000; RON 30,000; RON 3,000/month; RON 88,000.	March 28, 2017
51	963/85//2013 – Sibiu Countu Court of Law		Romgaz – Suc. Tg. Mures – plaintiff	Borda Alexandru – defendant	1,307	The case consists of obliging the defendant to refund the plaintiff the amount of RON 1,304 representing the holiday allowance and the holiday remuneration for the period he didn't work and received holiday leave, because after effectuating the holiday leave for the year 2012 (34 days) in March and May 2012, the defendant had a number of 32 (working days) of unjustified absences, which lead to his disciplinary dismissal. Court allowed the action. The enforcement order over the defendant has been initiated.	
52	4320/328/2013 – Turda Court of Law	Claims – compensations	Lasonti Doina Maria – plaintiff	Romgaz – Suc. Tg. Mures – defendant		By summons, the plaintiff requested the court to oblige SNGN ROMGAZ SA-Tg. Mures Branch to pay compensations (to be subsequently settled by expertize) for lack of using the land of 1,221.5 m <sup>2</sup> (during the period July 2010-July 2013) and for contaminating and damaging the plaintiff's piece of land by a group of crossings valves belonging to the defendant and located on the plaintiff's land. The summons was allowed on May 12, 2014. The decision has not been communicated yet.	
53	11278/320/2013 – Tg. Mures Court of Law	claims- compensations	Romgaz – Suc. Tg. Mures – defendant	Serb Neli – plaintiff	5,200	By summons, the plaintiff requested the court to oblige SNGN ROMGAZ SA-Tg. Mures Branch to pay the amount of RON 5,200	finalised
54	6774/85/2013 – Sibiu Court of Law		Romgaz – Suc. Tg. Mures – plaintiff	SC ICPE ELECTROCOND TECHNOLOGIES SA – defendant  SC ENER- G NATURAL POWER LIMITED – defendant  SC INSTASERVICE	441,399	Value of claims: RON 441,398.85 (delay penalties), the enforcement procedure has been suspended, payment in accordance with the agreement on payment installments. By summons, Romgaz-Tg Mures Branch requested the court to compel the defendants to jointly pay RON 441,398.85, representing default penalties calculated for the late fulfillment of obligation to commission two pieces of equipment under the scope of contract no. 11/P/2011 concluded between the plaintiff and the defendants. The case was allowed. The defendants filed for appeal at Alba Iulia Court of Appeal.	finalised

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
				SRL -defendant			
55	3164/330/2013 – Urziceni Court of Law	Payment order ( article 1013 and Civil Procedure Code	Romgaz - Suc. Tg. Mures – Plaintiff-creditor	SC FER MINERVA SRL – defendant debtor	4,361.88	By summons for issuance of a payment order for recover the amount RON 4,361.88 out of which RON 3,896.79 (metallic waste invoices) and RON 465.09 (delay penalties).	compulsory enforcement
56	14630/320/2013 - Tg. Mures Court of Law	Complaint of violation	Romgaz - Suc. Tg. Mures – plaintiff	Comuna Raciú – through mayor – defendant	50,000	SNGN ROMGAZ SA – Suc. Tg. Mures filed a complaint against the Violation Notice and requested the enforcement of violation regarding the construction-demolishing (of 2 cooling towers of Compressor Station Sanmartinu de Campie) without a demolishing authorization. By complaint the plaintiff requested the court to replace the fine of RON 50,000 with warning or the minimum fine provided by law, namely RON 1,000. On the trial date, May 28, 2014, the complaint was dismissed. SNGN ROMGAZ SA filed appeal at Mures County Court of Law. Appeal was dismissed.	finalized
57	1403/3/2014 – Bucuresti Court of Law- declined its competency to Sector 6 Bucuresti Court of Law	Annulment of administrative act	SNGN ROMGAZ SA- Suc. Tg. Mures – plaintiff	Agentia Nationala de Cadastru si Publicitate Imobiliara – defendant	13,879.72		finalised
58	4465/317/2013 – Tg. Carbonești Court of Law	Specific performance procedure	Durla Sabina – plaintiff	Romgaz - Suc. Tg. Mures - defendant	54,000	By summons, the plaintiff requested the court: - value of claims: RON 54,000; - compelling the defendant to sign with the plaintiff a land lease	finalised
59	1434/1371/2007 Mureș Comercial Court of Law	Insolvency procedure	Romgaz – STTM Tg.Mureș – Creditor	SC Poliglot Comimpex SRL - Debtor	6,783.41	As of November 22, 2007, Mures County Court of Law allowed the request for initiating the insolvency procedure against the debtor SC Poliglot Conimpex RL. During November 22, 2007- July 08, 2010 the insolvency procedure was carried out. STTM Tg. Mures is a creditor included in the body of creditors with the amount RON 6,783.41.	May 25, 2017

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
60	7/1371/2009 al Mureş Commercial Court of Law		Romgaz –STTM Tg.Mureş – creditor	SC Coriz SRL, by liquidator Chertes Constanta - debtor	1,451.52	STTM Tg. Mures as creditor is included in the body of creditors with the amount of RON 1,571.82.	finalised
61	580/1371/2010 – Mures Commercial Court of Law		Romgaz – Suc. Medias – creditor	SC Globe Trotters SRL – debtor	9,206.21	Value of claims: RON 9,206.21	March 8, 2017
62	12236/320/2012 – Tg. Mures Court of Law		Romgaz – Suc. Medias – plaintiffs	SC Torpi SRL; SC Manadas SRL – defendands	11,575.52	Value of claims: RON 11,575.52	stay of trial proceedings
63	3295/104/2013 – Olt County Court of Law	Insolvency procedure	Romgaz – Suc. Medias – creditor	SC MIC PETROCHIM INDUSTRIE SRL Ganeasa – debtor	505,02	Value of claims: RON 505.02 (RON 460.66 - unpaid invoice +penalties). Court passed Decision no. 777/2016 dated November 28, 2016 which was not communicated. Possibility to file recourse	
64	2247/200/2015– Buzau Court of Law	Complaint of violation	Romgaz – Suc. Medias – appellant	ISCTR Bucuresti - respondent	3,000	The complaint of violation against the Violation Notice and payment of sanction in amount of RON 3,000 for unlabeled condensate gas transportation. The complaint is allowed. The civil fine sanction was replaced with a warning. The decision is not final. Appeal was not allowed.	finalised
65	119/829/2014 – Podu Turcului Court of Law	Statutory burglary-condensate removal	Romgaz – Suc. Medias – plaintiff claiming damages	Stratulat, Mihoci, Grigoras – defendant	363.20	The file was settled by convicting the defendants and compelling the defendants to return the goods. The loss has been recorded due to the fact that the stolen condensate was returned to Romgaz representatives. Against this decision, the public prosecutor appealed. The Court of Appeal allowed the appeal with respect to custodial sentences and maintained the other dispositions of the appealed decision. The decision is final.	
66	3128/257/2013 – Medias Court of Law	Claims	Romgaz – plaintiff	Asociatia sportiva “Dacia Atel” – defendant	6,247.77	By summons, the court is requested to establish the termination of the Sponsorship Contract no. 178/2011 and, as a consequence, to restore the parties to their initial state by obligating the defendant ASOCIATIA SPORTIVA “DACIA ATEL” to pay RON 6,247.77, RON 5,000 as financial support provided under Contract 178/2011.	compulsory enforcement

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
67	3127/257/2013 – Medias Court of Law	claims	Romgaz – plaintiff	Asociatia transparenta deciziei administrative Medias – defendant	2,926.64	By summons, the court is requested to establish the termination of the Sponsorship Contract no. 8/February 25, 2010 and, as a consequence, to restore the parties to the initial state by obligating the defendant ASOCIATIA “TRANSPARENTA DECIZIEI ADMINISTRATIVE MEDIAS” to pay the amount RON 2,926.64.	compulsory enforcement
68	5026/85/2013 – Sibiu County Court of Law	compensations	Romgaz – plaintiff	Paltan Radu Dan – defendant	4,681.01	By summons, SNGN ROMGAZ SA requested the court to incur property liability of Mr. Dan Paltan, former employee of SNGN ROMGAZ SA, and, as a consequence, to compel him to pay RON 681.01 paid by SNGN ROMGAZ SA pursuant to Article 192, paragraph 1, letter d) of CCM, supplemented with inflation rate until the payment in full of the amount.	compulsory enforcement
69	3035/262/2014 – Moreni Court of Law	claims – recourse action	Romgaz - STTM Targu Mures: plaintiff	Enache Ilie: defendant (employee of STTM Targu Mures)	16.725,40	The scope of the case file is the settlement of recourse action in connection with claims amounting RON 16,725.4. On the trial date, May 28, 2015, the court reserved judgement. Judgement was successively postponed for July 7, 2015. The plaintiff's request was allowed.	
70	611/102/2015 – Mures County Court of Law	Challenging of decision disciplinary sanction	Moldovan Ionel: plaintiff	Romgaz - STTM Targu Mures: defendant		The scope of the case file is the settlement of the challenge filed by the plaintiff against the disciplinary sanction. On May 26, 2015, the court allowed the request and annulled the sanctioning decision and compelled Romgaz to the payment of amounts withheld as a result of the decision and the payment of court fees of RON 2,500. The decision is not communicated.	finalised
71	33727/197/2014 - Brasov Court of Law	Payment injunction	Romgaz - STTM Targu Mures: plaintiff	SC Suppliers Concept SRL: defendant	1.275,89	The scope of the case file is the settlement of the request to issue a payment injunction for RON 1,275.89. On February 24, 2015, the request was dismissed. The decision was not communicated.	finalised
72	2629/317/2015 - Targu Carbonești Court of Law	Complaint of violation	Romgaz - STTM Targu Mures: apelant	ISCTR Bucuresti (State Inspectorate for Control of Road Transportation): respondent	7.000,00	The scope of the case file is the settlement of the complaint of violation filed by STTM Targu Mures against Offence Report no. 51280019/April 28, 2015 setting the fine of RON 7,000 lei. Appeal allowed to ISCTR.	finalised

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
73	3479/102/2014 - Mures County Court of Law	Claims, wage-related rights	Sindicatul "Extractie Gaze si Servicii" Targu Mures: plaintiff	Romgaz: defendant		By summons the plaintiff requested the court to compel Romgaz to make an indexation of the wages of the plaintiff syndicate members as of November 1, 2013. Summons dismissed – Decision no. 150/February 5, 2015 The plaintiff filed an appeal to Tg Mures Court of Appeal. On May 14, 2015 (trial date) the appeal was dismissed. Decision is final.	finalised
74	2382/257/2014 - Medias Court of Law	Complaint of violation	Romgaz: appellant	Autoritatea Nationala de Reglementare in Domeniul Energiei: defendant	500.000,00	The scope of the case file is the settlement of the complaint of violation filed by Romgaz whereby the annulment of ANRE Offence Report no. 40475/June 30, 2014 was requested and, alternately, the replacement of fine with a warning. On the trial date September 29, 2014, Medias Court of Law allowed the complaint and decided to replace the fine with a warning. ANRE filed an appeal with Sibiu County Court of Law. On April 7, 2015 the appeal was allowed and the complaint was dismissed. The Decision is final.	finalised
75	3626/102/2014 - Mures County Court of Law	Damages: wage-related rights	Ilinca Dan Claudiu: plaintiff	Romgaz: defendant	1.139,00	In the summons the plaintiff requested the court to compel Romgaz to the payment of: - inflation-adjusted damages and legal interest as of September 2014 in relation to the allowance representing the equivalent value of 7,500m <sup>3</sup> of gas, of each of Christmas, Easter and Gas Worker's Day allowance and of court fees. Summons dismissed. Appeal was filed with Tag. Mures Court of Appeal. Appeal dismissed.	finalised
76	3104/85/2014 - Sibiu County Court of Law	Public procurement related litigation	Romgaz plaintiff	S.C. ICPE Electrocond Tehnologies S.A., Energ Natural Power Limited, S.C. Instaservice S.R.L.: defendants	274.900,60	Romgaz requested the court to compel the defendants to the joint updated payment of RON 274,900.60 representing the prejudice caused to Romgaz representing the equivalent value of electricity generation not made during December 16, 2013-January 14, 2014 and to the payment of court fees.	January 31, 2017
77	3625/102/2014 - Mures County Court of Law	Reimbursement of monetary differences resulting from wage-related rights	Ilinca Dan Claudiu: plaintiff	Romgaz: defendant	1.743,75	In the summons, the plaintiff requested the court to compel Romgaz to reimburse wage-related monetary rights for September-November 2014 the inflation-adjusted amount of RON 1,743.75 and legal interest until date of actual payment and to the payment of court fees. On March 24, 2015, the trial date, the request was dismissed. Appeal was files with Tg. Mures Court of Appeal. Also the defendant filed an appeal against the reasoning of the judgement decision. The plaintiff's	final

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
						appeal was dismissed.	
78	1794/85/2014 - Sibiu County Court of Law	Adjustment of Work Contract no. 233/September 26, 2012	S.C. Dafora S.A Medias: plaintiff	Romgaz: defendant	3.840.149,47 plus TVA	In the summons, the plaintiff requested the court to establish the adjustment of work contract no. 233/September 26, 2012 meaning the increase of contract price by RON 3,840,149.47 plus VAT and to compel Romgaz to the payment thereof. This amount represents the equivalent value of additional and unforeseen works and the legal interest. Alternately, to compel Romgaz to pay RON 3,840,149.47 plus VAT as damages for contract default, and the relating court fees. The case benefitted from a technical and legal expertise in the field of natural gas, the trial date was September 2, 2015 when the expertise finding was filed. Appeal was filed. Response to appeal. Recourse dismissed.	finalised
79	3456/102/2014 - Mures County Court of Law	damages: wage-related rights	Sindicatul "Extractie Gaze si Servicii" Targu Mures: plaintiff	Romgaz: defendant		In the summons, the plaintiff requests the court to compel Romgaz to: - granting and paying damages equivalent to the inflation-adjusted holiday allowance according to Art. 117 par. 1) of Collective Labour Contract no. 8400/28.02.2012 in force until July 31, 2014, and related legal interest until the actual date of payment for the employees not benefitting from the holiday allowance in July 2014; - granting and paying damages equivalent to 70% of the inflation-adjusted holiday allowance according to Art. 117 par. 1) of Collective Labour Contract no. 8400/28.02.2012 in force until July 31, 2014, and related legal interest until the actual date of payment for the employees who did not benefit from such starting with August 2014; - Court fees On the trial date of April 30, 2015, the court decided to stay the proceedings.	Summons is obsolete
80	4093/85/2014 - Sibiu County Court of Law	Finding nullity of provisions contained under article 117 of the Collective Labour Contract in connection with the holiday allowance	Romgaz: plaintiff	Sindicatul Liber Romgaz Romgaz S.A.: defendant		In the summons, the court was requested to find the nullity of Art. 117 of Collective Labour Contract regarding holiday allowance given the issuance of Law no. 94/2014 for the approval of GED no. 8/2009 on granting holiday tickets. The request was allowed on March 3, 2015, The defendant filed for appeal at Alba Iulia Court of Appeal. Appeal was granted.	finalised

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
81	3477/102/2014 - Mures County Court of Law	Claims: wage-related rights	Rus Maria: plaintiff	Romgaz: defendant  Sindicatul Liber din cadrul SNGN ROMGAZ - defendant	44.198,00	In the summons, the court was requested to: <ul style="list-style-type: none"> <li>- find the nullity of article 1 of the protocol concluded between Romgaz and Sindicatul Prodserv Energetic Mures and of the agreement concluded between Romgaz and Sindicatul Liber SNGN ROMGAZ SA on March 1, 2014;</li> <li>- compel Romgaz to the payment of RON 44,198 as wage-related monetary rights not granted (wage, holiday allowance, gas allowance, retirement entitlements);</li> <li>- compel Romgaz to pay court fees.</li> </ul> The request was dismissed on February 18, 2015. The plaintiff filed an appeal with Tg. Mures Court of Appeal. Appeal was dismissed due to lack of grounds.	finalised
82	48605/301/2014 - Sector 3 Bucuresti Court of Law	Claims	Romgaz: plaintiff	Asociatia Sprijin Maternitatea Bucur: defendant	5.000,00	In the summons, the court was requested to establish the nullity of the Sponsorship Contract no. 111/2014 and consequently, to: <ul style="list-style-type: none"> <li>- compel the defendant to reimburse RON 5,000 granted as financial aid;</li> <li>- compel the defendant to pay amounts representing the rate of inflation and the legal interest relating for the period between the payment date, June 21, 2013 and the repayment date;</li> <li>- compel the defendant to pay court fees.</li> </ul> Request allowed - Decision 94/January 31, 2015. Right to appeal within 30 days from the communication.	finalised
83	1090/1371/2014 - Mures County Court of Law – Commercial Section	Specific performance	Deusan Simion si Maria; Bereczki Francisc si Emilia; Pahontu Dragos si Nicoleta Diana : plaintiffs	Romgaz – Sucursala Targu Mures: defendant		In the summons, the court was requested to compel Romgaz to: <ul style="list-style-type: none"> <li>- reinstate the land (private property) to its initial state;</li> <li>- performance of protection works in relation to the decommissioned well within a range of 20m from the well, not 50 as the defendant had established as safety distance.</li> </ul> Tg. Mures Court of Appeal dismissed the appeal. Appeal filed.	
84	4760/102/2013 - Mures County Court of Law	Criminal court - corruption (Law 78/2000)	Romgaz - Sucursala Medias: injured party	Giurgea Teodor s.a.: defendant		In this case file, Romgaz – Sucursala Medias is injured party because of its quality of creditor to SC Globe Trotters SRL, a company in insolvency. In fact, the prejudice to Romgaz – Sucursala Medias is due to an agreement between the defendants and the directors of SC Globe Trottes SRL for the creation of an unlawful assignment (by making use of fictional documents).	March 17, 2017
85	2699/251/2014 - Ludus Court of Law	Eviction	Romgaz - SPEE Iernut: plaintiff	SC Marele Alb Prodimpex SRL: defendant		The scope of file is the settlement of the eviction request initiated by the plaintiff due to the fact that the defendant has late rent payments. On May 7, 2015, the court allowed the request. The Compulsory enforcement procedure was initiated.	

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
86	1637/85/2014 - Sibiu County Court of Law	Challenging decision on disciplinary sanctioning	Anton Dan: contestator	Romgaz - SIRCOSS Medias: respondent		The scope of file is the settlement of the challenge against the disciplinary sanction of the challenger. The respondent filed a counterclaim to trigger the patrimonial liability of the challenger. The challenge was dismissed on September 25, 2014. The counterclaim was allowed and Decision no. 949/2014 of September 25, 2014 was communicated. The challenger filed for appeal at Alba Iulia Court for Appeal. The appeal was dismissed. The Decision was final. Proceedings are made to recover the amounts claimed in the counterclaim.	
87	3564/257/2014 - Medias Court of Law	Complaint of violation	Romgaz - SIRCOSS Medias: petent	CNADNR – CESTRIN: respondent	2.750,00	The scope of file is to settle the complaint of violation filed against the Offence Report imposing the fine of RON 2,750 for lack of vignette. Complaint was allowed. The fine was replaced with a warning.	finalised
88	3803/257/2014 - Medias Court of Law	Complaint of violation	Romgaz - SIRCOSS Medias - petent	CNADNR – CESTRIN: respondent	250,00	The scope of file is to settle the complaint of violation filed against the Offence Report imposing the fine of RON 250 for lack of vignette. Complaint was allowed. Complaint dismissed. Romgaz – SIRCOSS Medias filed for appeal at Sibiu County Court of Law. On the trial date, May 7, 2015, Sibiu County Court of Law allowed the complaint and annulled the Offence Report.	finalised
89	770/284/2014 - Racari Court of Law	Establishment of easement right	Romgaz - SISGN Ploiesti: plaintiff	Tudor Gheorghita s.a.: defendant		The scope of file is to settle Romgaz request to establish easement rights in order to gain access to wells 116 and 131 Biliuresti. Request dismissed in December 10, 2015. Romgaz filed for appeal. The appeal was allowed.	
90	545/185/2014 - Balcesti Court of Law	Claims	Popa Elena: plaintiff	Romgaz -SISGN Ploiesti; Romgaz – Sucursala Targu Mures: defendant	30.000,00	Our company was sued for decommissioning pipelines which allegedly undercrosss the plaintiff's land and requests the court to compel the defendant to the payment of the equivalent value of lack of land usage – RON 30,000. A technical expertise was ordered for this case file. Appeal was filed with Valcea County Court of Law.	March 7, 2017
91	15600/281/2014 - Ploiesti Court of Law	Claims	Tarca Ileana: plaintiff	Romgaz - SISGN Ploiesti: defendant	10.000,00	Our company was sued for decommissioning pipelines which allegedly undercrosss the plaintiff's land and requests the court to compel the defendant to the payment of the equivalent value of lack of land usage – RON 10,000. Action allowed on the trial date set on June 16, 2015. The Defendant was compelled to pay RON 4,611.68 (damages, stamp duty, expert fee, legal counsel fee) and to reinstate the land to its initial state. Appeal filed at Prahova County Court of Law. Appeal allowed. Final.	finalised

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
92	16535/320/2014 - Targu Mures Court of Law	Claims	Romgaz - STTM Targu Mures: plaintiff	Bad Marcel Ioan: defendant (former employee of STTM Targu Mures)	1.258,84	The scope of file is the settlement of claims amounting RON 1,258.84. On March 18, 2015 (the trial date) the court declined its competency in favour of Tg. Mures County Court of Law. Romgaz request is dismissed. Appeal was allowed by Tg. Mures Court of Appeal on December 10, 2015.	finalised
93	1208/1371/2014 - Mures County Court of Law	Claims	SC Rocada Serv SRL: plaintiff	Romgaz - STTM Targu Mures; Romgaz - SPEE Iernut; Romgaz: defendant	24.045,92	The scope of file is the settlement of claims amounting RON 24.045,92 representing the equivalent value of transportation services provided by the plaintiff, late payment penalties and court fees. The court decided to introduce in this case file Romgaz and SPEE Iernut as defendants. Stay of proceedings. Request dismissed on November 10, 2015.	finalised
94	221/85/2015 - Sibiu County Court of Law	Claims	SC Foraj Sonde SA Craiova: plaintiff	Romgaz: defendant	1.674.003,60	In the summons, the plaintiff requested: - to compel Romgaz to adjust the work contract no. 311/2013 "Preparatory preliminary works, drilling and test at well Frasin 905" so as to extend the work performance deadline and to increase the contract price in connection with the accident no.2 Phase IV drilling of well 905 Frasin in amount of RON 1,674,003.60 lei, including the legal interest until the actual payment date; - compelling Romgaz to the payment of court fees. An expertise with speciality in the oil and gas field was ordered. The request was dismissed. (Decision no. 1105/2016 of November 18, 2016). Rights to file a recourse	Currently not established
95	35/102/2015 - Mures County Court of Law	Claims – undue payment	Romgaz: plaintiff	Ilinca Dan Claudiu: defendant	1.158,00	In the summons, Romgaz requested the court to: - compel the defendant to pay the amount of RON 1,158 plus the inflation adjustment until the actual date of payment, the amount representing unpaid monetary rights unduly paid in August 2014 further to the fact that the defendant did not sign the Addendum no. 22465/16/August 11, 2014 to the individual labour agreement no 9500/July 1, 2006; - compel the defendant to pay court fees. On the trial date of April 27, 2015 the court partly allowed the request and compelled the defendant to pay RON 1,158 lei as undue wage-related rights, amount to be adjusted by the inflation rate. Possibility to appeal. The defendant files appeal which is dismissed by Tg. Mures Court of Appeal. The amount was recovered.	finalised

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
96	205/102/2015 - Mures County Court of Law	Labour related litigation- claims	Sindicatul "Extractie Gaze si Servicii" Targu Mures: plaintiff	Romgaz: defendant		Request dismissed.	finalised
97	151/102/2015 – Mures County Court of Law	Labour related litigation- claims	Tg. Mures "Extractie Gaze si Servicii" Trade Union - plaintiff	Romgaz - defendant		In the summons, the plaintiff requested the court to compel Romgaz to pay compensation in amount of the equivalent value of 312.5 m <sup>3</sup> of gas for the former employee Ilinca Alexandru, for the period March – April 2012, a value discounted by the inflation index and the statutory interest until effective payment. As of the trial date April 23, 2015, the summons was dismissed. Appeal in 10 days of communication. Appeal partly allowed by the Tg. Mures Court of Appeal on October 1, 2015. Final decision	
98	7138/303/2014 – Court of Law Sector 6 Bucuresti	Suspension of compulsory enforcement	Interaction SRL - appellant	Romgaz - respondent		Purpose of the claim is suspension of compulsory enforcement. Claim allowed SNGN ROMGAZ SA has appealed against the decision – Bucharest Court of Law. Appeal dismissed	
99	3591/303/2014 – Court of Law Sector 6 Bucuresti	Challenge of compulsory enforcement	Interagro SA; Interagro SRL - appellants	Romgaz - respondent		Challenge rejected (with reference to compulsory enforcement file Cristian Milos no. 28/2014). The appellants have filed for appeal – Court of Bucharest. As of the trial date June 9, 2015 the appeals were dismissed.	
100	122/57/2015 – Alba Iulia Court of Appeal	Litigation public acquisition	Trade Union Sindicatul Liber SNGN ROMGAZ SA- complainant	Romgaz - respondent		Complaint against the Decision CNSC issued in the course of the public acquisition procedure "Elaborare studiu privind implementarea unui sistem de management prin obiective si a unei politici de remunerare bazata pe managementul prin obiective pentru personalul de conducere din cadrul Romgaz" (Preparing a study for implementing a management system by objectives and remuneration policies based on management by objectives for the Romgaz members of management). On the trial date March 13, 2015, the complaint was dismissed. Final decision	finalised

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
101	48/267/2015 – Novaci Court of Law	Presidential Ordinance–specific performance procedure	Filip Floarea Filip Zamfir plaintiffs	Romgaz - Suc. Tg. Mures - defendant		The plaintiffs requested the Court to compel SNGN ROMGAZ SA to stop operation of well 83 Alunu. Litigation was settled by Decision given in the Council Chamber on February 9, 2015 that annulled the summons. Decision not communicated	finalised
102	49/267/2015 – Novaci Court of Law	Not specified	Filip Floarea Filip Zamfir plaintiff	Romgaz - Suc. Tg. Mures - defendant		In the summons, the plaintiffs did not specify the grounds <i>de facto et de jure</i> of the summons. From the summons it results that the request is to connect the case with File no. 48/267/2015 of the Novaci Court of Law. The Court has given a term for the plaintiffs to specify their claim and to indicate the grounds <i>de facto et de jure</i> for such claim. On trial date April 28, 2015, the stay of proceeding was ordered.	finalised
103	589/102/2015* - Mures County Court of Law	claims, compensation	Romgaz - SA Suc. Tg. Mures - plaintiff	Kovacs Ladislau - defendant	195,253.86	The scope of the dispute is the settlement of the claim for establishing patrimonial liability and payment of compensation in amount of RON 195,253.86 to replace/ purchase 718.68 m of casing that is missing inventory. Claim allowed. Decision not communicated.	finalised
104	225/251/2015 – Ludus Court of Law	Establishing the nullity of an act	Romgaz - plaintiff	Bartha F. Irina; Local Committee to Enforce Law no. 18/1991 under the City Hall of Zau de Campie; OCPI Mures; County Commission to Enforce Law no. 18/1991 under the Mures Prefecture – defendant		The present file is separated from Case File no. 487/251/2015* (of Ludus Court of Law) where it was listed as alternative head of claim (establishing absolute nullity and annulment of land documentation received by OCPI Mures under no. 1932/2006). Appeal dismissed on May 26, 2016 due to lack of grounds	finalised
105	2042/320/2015 – Tg. Mures Court of Law	claims - compensation	Chiciudean Vasile - plaintiff	Romgaz - Suc. Tg. Mures - defendant	5,112	In the claim, the plaintiff requested the court to compel SNGN ROMGAZ SA to pay the amount of RON 5,112 as compensation for the plaintiff's land degradation, effects on the fertility of the soil due to laying a well gathering pipeline to separate the technological installation of well 21 Grebenis from well 214 Grebenis, without the plaintiff's agreement. Claim allowed. Right to recourse.	Currently not established

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
106	1081/1371/2014- Tg. Mures Court of Law	Payment ordinance	SC Ambient SA – creditor plaintiff	Romgaz - STTM Tg. Mures – debtor defendant	130,496.59	The scope of the dispute is the settlement of the request to issue a payment ordinance for the amount of RON 130,496.59 representing claims made by Ambient pursuant to the debt assumption contract no. 121/ September 21, 2012 concluded between SC ATL Constructii SRL, SC Ambient SA and Romgaz SA. On the trial date April 16, 2015 the court dismissed the application. Decision not communicated.	
107	847/1285/2014 - Cluj County Specialized Court of Law	Insolvency proceedings	Romgaz - SPEE lernut - creditor	SC Marele Alb Prodimpex SRL - debtor	64,742	By the civil decision no. 101/16.01.2015, the specialized Court of Cluj has decided to open the general insolvency proceedings against the debtor. To recover the outstanding debt in amount of RON 64,742 (as a result of the debtor's failure to comply with the rental contract no. 10394/01.11.2010), SPEE lernut was listed in the preliminary Table of outstanding debts with the amount of RON 60,605.36 lei. Appeal was filed.	May 12, 2017
108	2738/251/2014 – Ludus Court of Law	claims - compensation	Romgaz - SISGN Ploiesti - defendant	Tanase Rodica - plaintiff	8,837	The scope of the dispute is settlement of the claim by which the plaintiff requested SNGN ROMGAZ SA to be compelled to decommission the pipelines allegedly undercrossing the plaintiff's land and to pay the value relating to lack of land use. For the case, a topographical expertise was ordered. On February 18, 2015, claim allowed. Appealed.	
109	674/85/2015 – Sibiu County Court	Payment ordinance	Romgaz - SIRCOSS - creditor	SC AMGAZ SA - debtor	1,333.975.14	An order for payment was filed, and after the 15 days' term, a request was filed at the County Court of Sibiu. On the trial date May 15, 2015, the Court partially allowed the request and compelled the debtor to pay RON 781,921, dismissing the head of claim referring to compelling the debtor defendant to pay the penalties amounting to RON 484,694.70. Decision not communicated. Subsequent to the communication, a remedy at law will be formulated for recovering the amount representing late payment penalties. Request partially allowed.	
110	93/43/2015 – Tg. Mures Court of Appeal	Revision of Decision in Case File no. 1622/102/2013	Romgaz – applicant for revision	Moldovan Ionel- respondent		The scope of the dispute is settlement of the request for revision filed by SNGN ROMGAZ SA regarding the Decision in case file no. 1622/102/2013. On the trial date April 27, 2015, the request for revision was dismissed. Final	

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
111	3843/121/2014 – Galati County Court of Law	Insolvency procedure	Romgaz - creditor	Electrocentrale Galati SA - debtor	162,281,861.83	The subject matter of the case file is the settlement of the request filed by the debtor SC Electrocentrale Galati SA, under Law no.85/2006 on insolvency procedure. On June 16, 2014, the Court allowed the application, decided to open the general insolvency procedure against the debtor. SNGN ROMGAZ SA filed an application to acknowledge the outstanding debt in amount of RON 162,281,861.83 (equivalent value of natural gas, penalties and interests). In relation to this amount to be included for Romgaz in the body of creditors, only RON 139,056,681.91 was allowed by the liquidator of assets of SC Electrocentrale Galati SA. Romgaz, as creditor, challenged the preliminary table of receivables. (Currently, the challenges to the preliminary table are on trial) For subsequent procedure – trial date: June 15, 2015	May 15, 2017
112	2246/303/2015 – Court of Law Sector 6 Bucuresti	challenge to compulsory enforcement	SC Interagro SA - challenger	Romgaz - respondent		Challenge to the compulsory enforcement performed by BEJ Milos in the Enforcement Case File no.28/2014. On the trial date March 18, 2015, the challenge was dismissed. SC Interagro SA filed appeal –County Court Bucuresti. The appeal was dismissed.	
113	2859/320/2015 – Tg. Mures Court of Law	Specific performance procedure	Szabo Maria - plaintiff Szabo Maria Matilda- intervener on her behalf	Romgaz - Suc. Tg. Mures - defendant		In the summons the plaintiff requested the Court to compel the defendant to: - decommission the pipelines laid on the land within her property - authorize the plaintiff to perform such works at the expense of the defendant (in case of refusal); - payment of court fees. Plaintiff's application dismissed	
114	1352/102/2015 – Mures County Court of Law	Specific performance procedure	Ban Onoriu, Ban Maria Cristina - plaintiffs	Romgaz - Suc. Tg. Mures - defendant	500 EUR/month 80,000 EUR - compensation	In the summons the plaintiff requested the court to compel the defendant to: - full decommission of well 18 Acatari (abandoned); or - payment of a rent amounting to 500 EUR/month in case the defendant refuses to decommission the well; - payment of EUR 80,000 as compensation for land not used for the purpose it was purchased for. Stay of proceedings	finalised

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
115	2190/257/2015-Medias Court of Law	Complaint of violation	Romgaz - complainant	Autoritatea Nationala de Reglementare in Domeniul Energiei (Romanian National Regulatory Authority for Energy)- respondent	75,000	The scope of the dispute is settlement of the complaint of violation filed by SNGN ROMGAZ SA that requested, mainly, annulment of the Finding Report and Sanctioning of Non-Criminal Offences no. 43376/June 11, 2015 prepared by ANRE, and, alternatively, replacement of the fine sanction by a warning. Complainant's application allowed, responded entitled to appeal. Appeal filed	Currently not established
116	1765/85/2015 – Sibiu County Court of Law	challenge of public acquisition	Sindicatul Liber "ROMGAZ" – appellant	Romgaz - respondent		The scope of the dispute is settlement of the challenge filed against the technical specifications prepared by ROMGAZ SA under the award procedure of the contract for "Consultancy services for developing a strategy for reorganizing and organization redesign of ROMGAZ SA". On the trial date of June 30, 2015, the challenge was dismissed. The Decision was not communicated. Filed appeal was dismissed on September 15, 2015	
117	1644/85/2015 – Sibiu County Court of Law	claims	Romgaz - SIRCOSS Medias - plaintiff	Inspectoratul de Stat in Constructii - defendant	487.44	The scope of the dispute is settlement of claims for the recovery of undue tax in amount of RON 487. 44. On the trial date of December 17, 2015 the application was dismissed. Appeal filed. Appeal dismissed.	
118	1532/1/2015 - ICCJ	Corrupt payment	Romgaz – plaintiff claiming damages	Rudel Obreja s.a. - defendant	410,000	In the case file, SNGN ROMGAZ SA is plaintiff claiming damages in amount of RON 410,000	March 13, 2017
117	1644/85/2015 – Sibiu County Court of Law	claims	Romgaz - SIRCOSS Medias - plaintiff	Inspectoratul de Stat in Constructii - defendant	487.44	The scope of the dispute is the settlement of claims for the recovery of undue tax in amount of RON 487. 44. On the trial date of December 17, 2015 the application was dismissed	
118	1532/1/2015 - ICCJ	Corrupt payment	Romgaz – plaintiff claiming damages	Rudel Obreja s.a. - defendant	410,000	In the case file, SNGN ROMGAZ SA is plaintiff claiming damages in amount of RON 410,000	March 13, 2017
119	1492/102/2015 – Mures County Court of Law	Challenge of disciplinary sanction decision	Timar Romul - plaintiff	Romgaz - SPEE Iernut - defendant		The challenge requested the annulment of Disciplinary Investigation Decision no 137/2015 and the compellment of the defendant to pay the amounts representing calculation differences with respect to base salary due for May 2015, amounts withheld as a result of disciplinary sanctions. The court allows the plaintiffs challenge. Appeal was filed. Appeal was dismissed.	

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
120	797/251/2015 – Ludus Court of Law	Payment injunction procedure	Romgaz - SPEE lernut - plaintiff	SC Romarcom SRL - defendant	40,002.40	In the summons, the court was requested to compel the defendant to pay RON 40,002.04 representing the equivalent value of unpaid rent and two public utilities invoices) for the buffet space rented to the defendant. On July 17, 2015, the plaintiff request was dismissed with entitlement to request annulment within 10 days. Request dismissed.	
121	2899/62/15 – Brasov County Court of Law	insolvency	Romgaz	SC Condmag SA	83,225,512.28	Recovery of undue payment found by the Court of Accounts	March 28, 2017
122	1208/1371/2014 Targu Mures Court of Law	claims	Romgaz	Rocada SRL	24,045.92	Decision was postponed to October 20, 2015. Tg. Mures County Court of law annuls the decision. Final decision.	finalised
123	28323/3/2014	declaratory action	Romgaz	Elcen B	240,000,000	Request allowed. Decision was not communicated, it is possible for ELCEN to file for appeal	March 6, 2017
124	4783/121/2011	insolvency	Romgaz	Elcen Galati	162,281,861.83	Challenge of the nominal table	Case postponed
125	1960/257/ 2015	complaint of violation	Romgaz	ANRE	75,000	Request dismissed, appeal was filed. Appeal was dismissed	
126	2411/257/2015	complaint of violation	Romgaz	ANRE	50,000	Decision pending. Appeal dismissed	
127	509/1371/2015	insolvency	Romgaz	Foraj Sonde Ernei	1,428.98	First trial date. Insolvency procedure is continued.	May 17, 2017
128	4488/317/2015	stay of execution	Romgaz	Bej Daianu Ghe.	13,891	First trial date. Romgaz request as allowed. Appeal was filed	finalised
129	2496/102/2015	claims	Romgaz	Kovacs Ladislau	318,881.96	Communication of Expert Opinion	March 23, 2017
130	847/1285/2014	insolvency	Romgaz	SC Marele Alb SRL turda	64,742	Total receivables listed in the preliminary receivables table RON 60,605.36. The calculation difference of RON 4,136.64 is current receivables	May 12, 2017
131	1208/1371/2014	claims	Rocada SRL	Romgaz	24,045.92	Dismisses the plaintiff's request. Recourse annulled. Final decisions	finalised
132	1560/251/2015	claims	Romgaz	Romarcom SRL	62,972.85	The civil actions for claiming damages filed by Romgaz-SPEE lernut against SC Romarcom SRL is partially allowed and consequently: <ul style="list-style-type: none"> <li>- the defendant is obliged to pay the plaintiff RON 16,605.35 as damages;</li> <li>- the defendant is obliged to pay the plaintiff RON 935 representing court fees.</li> <li>- SC Romarcom filed for appeal.</li> </ul>	Currently not established
133	28218/3/2009	litigation GEO 34/2006	Romgaz SA	Loreto	431, 677	Dismisses the parties' request on December 10, 2015	
134	3702/257/2015	Specific performance	Viromet SA	Romgaz		Court of first instance	Stay of proceedings
135	8029/2/2015	Challenge of	Romgaz	ANAF Brasov	22,424,030	Bucharest Court of Appeal partially allows Romgaz action, with a right	Currently

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
		administrative document				to file an appeal within 30 days.	not established
136	774/308/2016	Specific performance	Topliceanu N.: defendant	Romgaz - Sucursala Medias	Equivalent value of ordered expertize	The defendant requests the registration in the Land Register 2500 Nades of the housing Nades canton, which Romgaz has sold by means of Sale Contract no. 10723/December 9, 1997.	April 3, 2017
137	775/308/2016	Specific performance	Moldovan Vasile: defendant	Romgaz - Sucursala Medias	Equivalent value of ordered expertize	The defendant requests the registration in the Land Register 2500 Nades of the housing Nades canton, which Romgaz has sold by means of Sale Contract no. 10724/09.12.1997, associated to Case File no. 774/308/2016.	April 3, 2017
138	8237/107/2012	Insolvency	Romgaz - Sucursala Medias	SC AgroValea Lunga SRL: debtor	986.52	Equivalent value of unpaid invoice.	April 24, 2017
139	5991/303/2016	Restitution procedure	Romgaz - SIRCOSS	SC Loreto Exim SRL	180,857.38 – principal debt 60,080.82 – ancillary debt (legal interest)	Sector 6 Bucuresti Court of Law – action filed for restitution for the recovery from SC Loreto Exim SRL of undue payment generating for the defendant an unjust enrichment. The claim was partially allowed. Right to appeal in 30 days from the communication date.	Currently not established
140	447/85/2016	labour related litigation	Nicola Lucian	Romgaz - SIRCOSS	1,000.00	The plaintiff Nicola Lucian challenged the suspension decision. Appeal dismissed due to lack of grounds. Final.	
141	927/85/2016	labour related litigation	Podar Nicolae	Romgaz - SIRCOSS		The plaintiff Podar Nicolae challenged the dismissal decision.	Stay of proceedings
142	928/85/2016	labour related litigation	Dan Ioan	Romgaz - SIRCOSS		Dan Ioan filed with Sibiu County Court of Law a challenge against the dismissal decision.	Stay of proceedings
143	944/85/2016	labour related litigation	Lorincz Levente	Romgaz - SIRCOSS		Levente Lorincz filed with Sibiu County Court of Law a challenge against the dismissal decision.	Stay of proceedings
144	2206/85/2009	claims	SC GRANIT SRL	Romgaz - SIRCOSS		Release of contract performance guarantee in connection with the work contract that has been implemented.	Stay of proceedings
145	2307/257/2016	complaint	Romgaz - SIRCOSS	CNADNR	3,000.00	SIRCOSS challenged the traffic violation report and relating fine. Appeal was filed.	Currently not established
146	8057/320/2016 - Judecatoria Targu Mures	claims	SC Ambient SA: plaintiff	Romgaz - STTM Targu Mures: defendant	130,496.59	The plaintiff requests the payment of RON 130,496.59 representing outstanding payment obligations under the Debt Assumption Contract no. 121/September 21, 2012 concluded with Romgaz-STTM, to which the legal interest is added.	Currently not established
147	9261/320/2016 - Judecatoria Targu Mures	unjust enrichment	SC Rocada Serv SRL: plaintiff	Romgaz - STTM Targu Mures: defendant	24,045.92	The plaintiff requests to compel the defendant to the payment of RON 24,045.92 representing the equivalent value of transportation services supplied and not paid and relating late payment penalties applied against the principal debt until the actual date of payment.	March 3, 2017

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
148	4083/105/2016 - Tribunal Prahova	Annulment of tax and duties control document	Romgaz - STTM Targu Mures: plaintiff	SPFL Ploiesti: defendant	4,140.00	The plaintiff Rogan - STTM Targum Mores requested the annulment of the taxes and duties control documents contained in Decision no 116440/17.11.2015 issued by Service Public Finance Locale Ploiesti (Ploiesti Public Finance Local Office) in connection with the payment obligation of accessories in relation to the taxation of the fixed asset - Backhoe Komatsu, plate number PH-25-STM, the property of the plaintiff. Request dismissed. Right to file recourse within 15 days from the communication date of the decision.	Currently not established
149	1122/102/2016 - Tribunal Mures	Challenge of document, labour related litigation	Negrea Alexandru Stelian: plaintiff	Romgaz - STTM Targu Mures: defendant	452	The plaintiff requests the annulment of the Disciplinary Sanction Decision no. 86/April 24, 2016 issued against employee Negrea Alexandru Stelian employed as shipping-receiving clerk, establishing a disciplinary sanction of reducing the monthly wages by 5% for a period of 2 months. The Decision was issued by Romgaz - STTM Targu Mures. Action dismissed. Right to appeal within 10 from the communication date.	Currently not established
150	1123/102/2016 - Tribunal Mures	Challenge of document, labour related litigation	Cotoi Ioan Stefan: plaintiff	Romgaz - STTM Targu Mures: defendant	1,064	The plaintiff requests the annulment of the Disciplinary Sanction Decision no. 85/April 24, 2016 issued against employee Cotoi Ioan Stefan employed as shipping-receiving clerk, establishing a disciplinary sanction of reducing the monthly wages by 10% for a period of 2 months. The Decision was issued by Romgaz - STTM Targu Mures. Action dismissed. Right to appeal within 10 from the communication date.	Currently not established
151	1278/102/2016 - Tribunal Mures	claims, action against patrimonial liability	Romgaz - STTM Targu Mures: plaintiff	Cotoi Ioan Stefan: defendant	63,811.09	The plaintiff requests the triggering of patrimonial liability of its employee, employed as shipping-receiving clerk, by compelling him to pay to Romgaz - STTM Targu Mures RON 63,811.09, representing a prejudice due to inventory shortage caused by his negligence as results from the Annual Inventory Report for STTM Tg. Mures 2015, and the relating legal interest, until the actual date of payment.	March 2, 2017
152	389/102/2016 Tribunalul Mures	claims	Romgaz - SPEE Iernut: plaintiff	SC ECO RT SRL Medias: defendant	2,069.46	Decision was not communicated for filing the appeal.	
153	868/102/2016 - Tribunalul Mures	claims	Romgaz - SPEE Iernut : plaintiff	SC Metal Divers Instal SRL	4,809.58	Recovery of receivables.	Compulsory enforcement
154	3183/306/2016 - Judecatoria Sibiu	claims	Romgaz - SPEE Iernut : plaintiff	SC Laromet Metal Star-D SRL: defendant	4,000.03	Recovery of receivables. Request is allowed.	
155	847/1285/2014 - Tribunalul	Insolvency proceedings	Romgaz - SPEE Iernut: creditor	SC Marele Alb Prodimex SRL:	64,742.00	Recovery of receivables.	March 2, 2017

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
	specializat Cluj			debtor			
156	1560/251/2015 - Judecatoria Ludus	claims	Romgaz - SPEE lernut: plaintiff	SC Romarcom SRL: defendant	62,972.85	Recovery of receivables. Appeal filed by the defendant.	Currently not established
157	9261/320/2016 - Judecatoria Targu Mures	Unjust enrichment cauza	SC Rocada Serv SRL	Romgaz - SPEE lernut; Romgaz - STTM; Romgaz: defendant	24,045.92	Recovery of receivables.	March 3, 2017
158	1335/251/2016 - Judecatoria Ludus	claims	Romgaz - SPEE lernut: plaintiff	PFA Cormos Daniela: defendant	4,184.00	Recovery of receivables. Request allowed. Right to file an appeal within 30 days.	Currently not established
159	698/251/2016 - Judecatoria Ludus	Claims, separated from File Case no. 1855/251/2013	PFA Cormos Daniela: plaintiff	Romgaz - SPEE lernut: parat; SC Comindal Impex SRL: defendant	150,000	Recovery of receivables.	April 6, 2017
160	509/1371/2015 - Tribunalul Comercial Mures	Insolvency proceedings	Romgaz: creditor	SC Foraj Sonde SA Ernei: debtor	1,428.98	Request to initiate insolvency proceedings.	May 17, 2017
161	2899/62/2015 - Tribunalul Braşov	Insolvency proceedings	Romgaz: creditor	SC Condmag SA: debtor	3,291.41	Request to initiate insolvency proceedings.	March 26, 2017
162	6602/320/2015 - Judecătoria Targu Mureş	claims	Turcu Victoria: plaintiff	Romgaz - Sucursala Targu Mures: defendant	30,288 plus legal interest	Claims – outstanding rents for the land relating to access roads and the well site for well no. 138 Şăuşa amounting RON 30,288 and legal interest during 2012-2014. According to Decision no. 4551/September 30, 2016 the court takes note of the transaction between the parties in amount of RON 27,172.	finalised
163	5451/320/2016 - Judecatoria Targu Mures	Complaint of violation	Romgaz - Sucursala Targu Mures: appellant	Politia Municipiului Targu Mures: respondent	2,000	Complaint of violation against the offence report. The complaint is partially allowed. Right to file an appeal within 30 days from the communication.	Currently not established
164	5452/320/2016 - Judecatoria Targu Mures	Complaint of violation	Romgaz - Sucursala Targu Mures: appellant	Politia Municipiului Targu Mures: respondent	2,000	Complaint of violation against the offence report. The complaint is dismissed. Right to file an appeal within 30 days from the communication.	Currently not established
165	5453/320/2016 - Judecatoria Targu Mures	Complaint of violation	Romgaz - Sucursala Targu Mures: appellant	Politia Municipiului Targu Mures: respondent	2,000	Complaint of violation against the offence report. The complaint is partially allowed. Right to file an appeal within 30 days from the communication.	Currently not established
166	318/1371/2016 - Tribunalul	claims	BSG Security SRL Targu Mures:	Romgaz - Sucursala Targu Mures:	470,671.04	Claims arising in connection with the abusive termination of Security Services Contract. The court takes note of the plaintiff's waiver of court	

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
	Comercial Mures		plaintiff	defendant		action. Decision no. 73/2016. Right to file recourse within 30 days from the communication date.	
167	319/1371/2016 - Tribunalul Comercial Mures	claims	LEX Guard Security SRL Reghin: plaintiff	Romgaz - Sucursala Targu Mures: defendant	126,483.91	Claims arising in connection with the abusive termination of Security Services Contract. Action dismissed. Court issues no. 94/2016. Appeal may be filed within 30 days from the date of communication.	Currently not established
168	627/102/2016 - Tribunalul Mures	corruption	Romgaz: injured party and plaintiff claiming damages	Avram Pantelimon, Olaru Ioan Tiberiu, Mincan Emil Valentin, Ștefan Ioan: defendants	146,637.06	Criminal action against corruption. The court dismisses the challenge filed by Parchetul de pe langa ICCJ – DNA – Serviciul Teritorial Targu Mures against the Criminal Case Resolution dated December 13, 2016 issued by Tg. Mures Court of Law due to lack of grounds. The Reslution no. 72/2016 is final.	
169	1828/251/2016 - Judecatoria Ludus	Validation of garnishment	Raiffeisen Bank S.A.: creditor	Romgaz - Sucursala Targu Mures – tert poprit, Chertes Grigore Danut : debtor	94,882.86	The garnished third party did not take the required measures specified in the notice of garnishment.	March 23, 2017
170	9562/3/2016 - Tribunalul Bucuresti	Insolvency	Romgaz	SC Termoelectrica SA	42,665,005.29	Insolvency.	April 4, 2017
171	1801/85/2016 - Tribunalul Sibiu	Challenging of procedure to fill a position	Toderici Simona	Romgaz		Labor related litigation. Challenging of procedure to fill a position. Request dismissed. Appeal is filed.	
172	461/1371/2016 - Tribunalul Comercial Mures	Insolvency	Romgaz: creditor	SC InstaService SRL: debtor	274,900.60	Debtor's request is allowed. Preliminary table.	March 15, 2017
173	681/57/2015	Action for annulment	Romgaz: plaintiff	Consiliul National pentru Combaterea Discriminarii si Sindicatul "Extractie Gaze si Servicii"		The scope of the action is to partially allow Decision no. 371/September 2, 2015 issued by Colegiul Director al CNCD, the use of the wording "signing syndicate" in Romgaz Collective Labor Contract 2015-2016 does not constitute a discrimination based on syndicate membership and on access to its facilities; consequently the deletion from Romgaz Collective Labor Contract of the above-indicated wording is not required, the issuance of a fine to Romgaz is not grounded and the publishing of the resolution in a nation-wide paper is not required. Alba Court of Appeal allowed the action. CNCD filed recourse. ICCJ did not set a trial date.	Currently not established
174	652/102/2016	Labour related litigation	Stefan Ioan: plaintiff	Romgaz: defendant		Scope of action: annulment of Decision 74/2016 regarding the Individual Work Contract extension of suspension. Mures County Court of Law dismissed the action. No appeal was filed.	final

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
175	1877/85/2016	Annulment of General Shareholders Meeting	SIF Oltenia: plaintiff	Romgaz: defendant		On October 4, 2016 Sibiu County Court of Law dismissed the action. The Decision is to be communicated. Appeal was filed by SIF Oltenia. Appeal is to be judged by Alba Iulia Court of Appeal. Currently, no term was established.	
176	3267/117/2016	Specific performance	Todoran Lucian: plaintiff	Romgaz: defendant		Cluj County Court of law dismisses the action.	
177	2157/215/2016/10 807/63/2016*	Public procurement Related litigation	Sirius - Es Ro: plaintiff	Romgaz si SC Foraj Craiova SA: defendants	2,098,669.66	Craiova Court of Law. Declined by Dolj County Court of Law. New case file: 10807/63/2016*.	Stay of proceedings
178	1284/102/2016	Labour related litigation	Sturza loan: plaintiff	Romgaz	158,272	Discrimination.	Stay of proceedings
179	249/57/2011	Labour related litigation	Romgaz: plaintiff	CNCD and Sturza loan: defendants		Alba-Iulia Court of Appeal: annulment of Decision no. 603/December 09, 2015. Recourse will be filed with the Higher Court of Cassation and Justice.	
180	1300/102/2016	Labour related litigation	Tegla Nicodim Ciprian: plaintiff	Romgaz: defendant	130,000	Mures County Court of Law: scope of case file is to compel Romgaz to: - review wage-related rights starting with 2013 until now and onwards; - pay wage-related monetary difference starting with June 2013 until the full payment thereof amounting RON 130,000 at the record date of the action, for 36 months; - pay legal interest on wage-related monetary differences starting with June 2013 until the full payment thereof.	
181	698/251/2016	claims	PFA Cormos Daniela: plaintiff	Romgaz and SC Comindal Impex SRL: defendants	150,000	Ludus Court of Law: separated from file no. 1855/251/2013.	April 16, 2017
182	1311/257/2016 – Medias Court of Law	claims	Romgaz	Asociatia "Creation Transylvania"	7,000	Summons, reimbursement of amount.	March 14, 2017
183	4887/306/2016 – Sibiu County Court of Law	claims	Romgaz	Asociatia "Sf. Patrick"	1,750	Summons, reimbursement of amount.	March 7, 2017
184	9261/320/2016 - Targu Mures Court of Law	claims	Rocada Serv SRL	STTM Targu Mures, SPEE Iernut, Romgaz	24,045.92	Unjust enrichment: payment of equivalent value for transportation services.	March 3, 2017
185	3595/279/2016 - Piatra Neamt Court of Law	claims	SC Accent Service SRL	Romgaz	14,257.22	Payment of equivalent value of car repair services for cars in Romgaz property.	March 8, 2017

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
186	801/85/2016 - Sibiu County Court of Law	granting monetary rights	Sindicatul Liber Medias	Romgaz		Employees' participation to profit to the extent of 10% of the company's net profit. Appeal dismissed. Decision no. 1610/2016.	
187	5158/2/2016 - Alba Iulia Court of Appeal	Public procurement	European Funds Invest SRL	Romgaz		Complaint in relation to CNSC Decision no. 1137/June 28, 2016. Complaint dismissed. Decision 1729/2016. Final.	
188	5243/257/2016 - Medias Court of Law	Complaint of violation	Romgaz	ANRE		Complaint of violation in relation to Offence Report no. 87670/December 14, 2016.	Currently not established
189	5243/257/2016 Medias Court of Law	Complaint of violation	Romgaz	ANRE		Complaint of violation in relation to Offence Report no. 87660/December 14, 2016.	Currently not established
190	5217/257/2016 Medias Court of Law	Complaint of violation	Romgaz	ANRE		Complaint of violation in relation to Offence Report no. 87105/December 12, 2016.	Currently not established
191	35304/3/2016 - Bucuresti Court of Law	Insolvency	Romgaz: creditor	SC Electrocentrale Bucuresti SA: debtor	569,945,968.48	Insolvency – table of receivables was filed. Challenge was filed.	March 2, 2017
192	341/257/2017 - Medias Court of Law	Complaint of violation	Romgaz	ANRE	50,000	Complaint of violation	Currently not established
193	5243/257/2016 Medias Court of Law	Complaint of violation	Romgaz	ANRE	50,000	Complaint of violation	March 24, 2017
194	1640/85/2016 - Sibiu County Court of Law	Payment injunction	Romgaz	SC Electrocentrale Bucuresti SA	187,249,423.79	Request for annulment (EGO no.119/2007). Action allowed. Final decision no. 1328/December 09, 2016.	
195	11986/3/2016	Distrain upon property	Romgaz	SC Electrocentrale Bucuresti SA		Alba Iulia Court of Appeal allowed the request. Civil Decision no. 1163/June 22, 2016.	
196	2093/102/2016 - Mures County Court of Law	Annulment of document	Sindicatul Liber Romgaz	Romgaz		On January 10, 2017 declined its competency in favour of Sibiu County Court of Law.	Currently not established
197	2372/102/2016 - Mures County Court of Law	Monetary rights	Employees of SPEE Iernut	Romgaz		Reviewing wage-related monetary rights starting with May 1, 2016 until now.	March 7, 2017
198	2389/102/2016 - Mures County	annulment of document	Sindicatul Liber Romgaz	Romgaz		Annulment of document.	March 9, 2017

No.	File No./ Court of Law	Case	Plaintiff	Defendant	Amount (RON)	Description	Next procedural deadline
	Court of Law						

**ANNUAL REPORT**  
**on social responsibility sponsorship/patronage action for 2016**

*Projects, actions, social responsibility initiatives in the following fields: medical, health, medical treatment and interventions*

Romgaz offers support for health specific projects, identified as a priority, especially in communities where the company operates.

*Medias Municipal Hospital: Financial support for continuing the Projects for modernization and increase of energy efficiency by using solar energy for hot water and by using heat pumps and geotechnical drilling at Internal Medicine Pavilion from Medias Municipal Hospital*

In 2015 Medias Hospital, the only medical facility serving the north of Sibiu county, at the company's initiative, according to the 2014 validated CSR action plan and being entirely financially supported by Romgaz, conducted the pilot project for energy efficiency of a building, called Green Hospital. The action consisted in modernizing the Infectious Diseases Pavilion and increasing energy efficiency by the use of energy from renewable sources using geothermal drilling with heat pumps and solar panels. This investment has reduced production costs of the heat by 50% for this pavilion, at the same time being a sustainable method. The pilot project proved to be an effective one, which is why Medias Hospital has taken steps to extend the heat production system from renewable sources at other pavilions. Currently, the project for increasing energy performance by using renewable energy sources is in the process of preparing documentation for approval of intervention works (D.A.L.I.) the total project value being EUR 235,000. For the Green Hospital pilot project Romgaz contributed with EUR 50,000 euro. Stage 2 will be conducted in 2017.

Benefits for the community: Reduction of energy costs reflected in hospital's budget without reducing the comfort of the patients. Environmental protection through the use of renewable energy sources.

*Târnăveni Municipal Hospital „Dr. Gheorghe Marinescu: Financial support for the purchase of a CT scanner to equip the Laboratory of Radiology and Medical Imaging*

Târnăveni Hospital serves a community of about 22,000 people, the vast majority coming from rural areas of the Transylvanian Basin, where the company operates for over 100 years. In the investigation and treatment process, the hospital requires specialized equipment which is why Romgaz has met their request for funding to purchase a CT scanner to equip the Laboratory of Radiology and Medical Imaging. The acquisition will be achieved during 2017.

Benefits for community: Cost reduction for local community to perform imaging investigations by providing proximity.

*Ploiești Emergency Hospital: Financial support for equipping Anaesthesia and Intensive Care units, Medical Analysis Central Laboratory, Neurosurgery and Orthopaedics in Ploiești Hospital with necessary medical equipment*

Ploiesti Storage branch employees are members of the community served by Ploiești Emergency Hospital, which is the only hospital that provides medical emergency services within a radius of 60 km for approx. 250,000 urban residents and rural surrounding areas. The acquisition will be achieved during 2017.

Benefits for community: Quality services for Ploiesti inhabitants and inhabitants from rural surrounding areas in the emergency department of Ploiesti Hospital.

*Blaj Municipal Hospital: Financial support for the purchase of specialized equipment for Hospital Laboratory, a Biochemistry Laboratory equipment and a Doppler ultrasonograph*

The hospital serves a community of about 52,000 urban and rural residents, and some of them are members of the communities where Medias Production Branch has production fields. Romgaz has met the hospital need giving financial support to purchase Biochemistry Laboratory equipment and a Doppler ultrasonograph. The requested amount is additional to own financial resources for renewing the equipment. The acquisition will be achieved during 2017.

Benefits for community: Cost reduction for local community to perform laboratory or imaging investigations by providing proximity.

*“Petru Poni” Institute of Macromolecular Chemistry, Iasi: Financial support for patenting (WO Patent) the Project „Thermoreversible Injectable Hydrogels for Cardiac Tissue Repair after Myocardial Infarction”*

Financial support offered to “Petru Poni” Institute of Macromolecular Chemistry, Iasi for the project "Thermoreversible Injectable Hydrogels for Cardiac Tissue Repair after Myocardial Infarction" is an aid to encourage health research. The invention of „Petru Poni” Institute researchers has positive results in the laboratory, but there is also required to have an internationally patent protection. Romgaz has offered a part of the amount required to cover these costs so that the right conditions can be provided for producing and merchandising the gel. Hydrogel is due to come into production during 2017.

Benefits for community: Thermoreversible hydrogel is a product intended to heal myocardial infarction by non-invasive surgery. Injecting an ml of gel in the cardiac tissue it will result in a healthy tissue within 4 weeks. The product was tested in the laboratory having remarkable results.

The product has a major social and economic impact, heavily reducing costs compared to conventional surgery for heart attack and the recovery time of the patient.

In a 2011 Eurostat statistic, Romania ranks 7 out of 33 analysed countries with deceased from cardiovascular diseases, with a total of 700 people per 100,000 residents, compared to the EU average of 278 people per 100,000 inhabitants.

*The Association Education for Europe: Financial support for running the project "Romgaz supports Health in Mures rural units".*

The project is to be conducted in 2017 in 10 villages in Mures County, Romgaz covering a part of the total project value of RON 69,000. The project addresses to communities or disadvantaged social groups, providing a complete set of analysis within the perimeter of the village as well as general check-up done by partner doctors.

Benefits for community: Access to basic medical tests for people with reduced mobility or under-privileged people from the rural area in question.

***Social responsibility projects, actions, initiatives in the fields: education, social and sport***

Education and other social and/or sportive actions dedicated to the community are part of priority directions and with high expectations of their members. Romgaz has been constantly involved in supporting the sports community of Medias and its surroundings as sport is a means of optimizing the health of the population and an activity that facilitates socialization in today's society where is an increasingly trend of individuals dispersal and human isolation.

*Petroleum - Gas University of Ploiești: Financial support for running the internally and internationally promoting project to attract students*

The strategy of Romania's energy sector aims to cover the energy needs for all economic sectors, ensuring a decent standard of living and respecting sustainable development. The development of this sector with secular tradition requires specialized human resources with good knowledge in the technical and scientific field. The financial support granted by Romgaz for running programs to promote research in this area aims to attract graduates to support energy sector development.

Petroleum - Gas University is a non-profit and non-political educational institution with a unique profile in the country, specialized in education and scientific research of their own and/or in collaboration with other institutions in the country and abroad.

Benefits for community: Institutional and scientific research development in the oil and gas field for the benefit of the community, supporting the development of specialists in this field, increasing the energy sector potential by providing qualified human resources.

*Gaz Metan Medias Sport Club: Financial support for performing the activities within the football sport club in 2016*

The senior football team promoted in 2016 in the first league of the internal football championship, placing third after 15 rounds. The children and junior centre consists of approximately 150 players split in six groups (9-12 years) and approximately 100 children (6-12 years) that play in local and national competitions organised by the Romanian Football Federation, the County's Football Association or in independent competitions such as: Gheorghe Hagi Cup, Gheorghe Ene Cup, etc.

Benefits for the community: Gaz Metan Medias is a well-established local sports club since 1945. The club is present in the first league through the first team, whereas the B-team, the children and junior centre perform a prolific activity. Romgaz has constantly been involved in supporting Gaz Metan Medias sport club activities.

*“Elisabeta Polihroniade” Association Bucharest: Main sponsor of the event Romgaz Kings Tournament (Bucharest – Medias 28.11 – 01.12.2016).*

The Kings Tournament, an event of success, where Romgaz is involved together with the *Elisabeta Polihroniade* Sports Club Association is among the most appreciated international chess competitions, being acknowledged by the Romanian Chess Federation and the World Chess Federation (FIDE). It has been included in 2010 in the Grand Slam due to the excellent conditions offered by the organisers. The international competition has three components: the games between chess grand masters, Chassebase online games, between Romanian children and foreign children, and Romgaz Open, with the free participation of all professional and unprofessional players.

Benefits for the community: making chess popular throughout the country and introducing the optional lesson “Education through chess” in the pre-university level. The high performance sportsman became a symbol for the society. He/she captures the attention and the interest of masses not only through his/her results but they becomes also a role model of success. These values may be transmitted to those that aim at being a performant sportsman and concurrently they act as incentives for those who practice sports for pleasure.

*Electromures Sport Club, Mures County: Financial support for performing the activities of the sports club in year 2016*

Romgaz granted in 2016 financial support for the nine-pin bowling team of “Electomures-Romgaz”. The women’s nine-pins bowling champion team qualified for the autumn edition of the continental Champions League further to ranking fifth at the XXVIII-edition of the World Cup.

Benefits for the community: Electromures Sports Club has been established in 1971, Romgaz supported the club where some of its employees play.

*“Romgaz Table Tennis Sport Club” Medias: Financial support for performing the activities of the sports club in year 2016*

Romgaz has granted financial support for performing the club’s activities since 1999, the establishment year. Initially it has been the sole sponsor, but today the club receives sponsorships also from other community members.

Results: first place – children team, second place – the mini cadet team and third place – the junior team. Cristina Dumitrescu and Diana Muntean are national double champions, cadets.

BEATRICE Hila ranked first at the national championship, children 8-10 years, and participated at the European Championship Mini-Cadets.

Andreea Dragoman is member of the national women junior team, champion in Romania, won at the ITTF World Junior Circuit in India the gold medal at senior mixt and also the

bronze medal, at the European table Tennis Championships Andreea won the gold medal for cadets and juniors, in Zagreb 2016. Her best result of 2016 was at the World Championship Juniors in Cape Town, South Africa, first place double with Adina Diaconu.

Benefits for the community: Their results capture the attention and the interest of masses not only through the achievements but also through the exponential model of the success. These values may be transmitted to those that aim at being a performant sportsman and concurrently they act as incentives for those who practice sports for pleasure. Andreea Dragoman, member of the club and national champion, is frequently mentioned in the local community as a model of a performant sportsman.

*“Pro As” Sports Club, Sibiu: Financial support for organising the international tennis tournament “Futures FRT-14 Circuit”*

Romgaz granted financial support to the association in order to organise the XIII<sup>th</sup> edition of the international tennis tournament “Futures FRT-14 Circuit” at Medias in 12-19 August, 2016.

Benefits for the community: promoting tennis and enabling tennis players from Medias to take part in an international tournament. Playing sports improves population’s health and facilitates socialisation in current societies that tend to become more and more isolated. The high performance sportsman became a symbol for the society. He/she captures the attention and the interest of masses not only through his/her results but he becomes also a role model of success. These values may be transmitted to those that aim at being a performant sportsman and concurrently they act as incentives for those who practice sports for pleasure.

*Macondo Cultural Association, Bucharest: Financial support for implementing the educational project CinEd – European Education for Youth*

Romgaz has granted financial support for the implementation of the educational cinematographic project for pupils and teachers CinEd – European Education for Youth; the extended project for cinematographic education for European students (Bucharest, Alexandria, Buzau, Galați, Craiova, Mediaș, Târgu Mureș, Timișoara, Ploiești and Roman, 18 April – 14 May 2016).

Benefits for the community: the teachers have received free accounts on the platform to access the educational resources and the movie list and therefore a large number of Romanian pupils could develop a new perspective on how to watch and understand art movies, by becoming active spectators with critical inputs.

*The Association for Promoting the Romanian Film: Financial support for the project TIFF Film Caravan (July – September 2016)*

A project with tradition, initiated to make up for the lack of theatre halls, the Caravan carries on successfully for the 8<sup>th</sup> year. From July to September, on an open-air giant inflatable screen, the viewers had the opportunity to enjoy stories granted awards at festivals, and box-

office hits from Romania, Hungary, France, Germany, Norway, Spain, Great Britain, USA, Canada or Brazil.

Towns included: Carei, Baia Mare, Satu Mare, Arad, Timișoara, Alexandria, Oradea, Sfântu Gheorghe, Făgăraș, Iași, Galați, Constanța, Târgoviște, Brașov, Piatra Neamț, Fălticeni, Medias and Suceava.

Benefits for the community: access of community members to cultural events

***Social responsibility projects, actions, initiatives in other fields: cultural, arts***

Romgaz involvement in projects or programs for the community's interest is driven by the desire to meet the expectations of the society and to support multilateral initiatives that can contribute to the sustainable development in the benefit of the present and future generations. Moreover, Romgaz supports also cultural projects.

*National Romanian Committee of the World Energy Council, Bucharest: Financial support for organising the "Regional Energy Forum for Central and Eastern Europe - FOREN 2016".*

Organized every two years by the Romanian National Committee under the auspices of the Government of Romania, under the leadership of the World Energy Council (WEC) and with the support of WEC Member Committees in Central and Eastern Europe, FOREN is already being recognized as the most important multi-energy event in Central and Eastern Europe, gathering more than 1000 participants. Besides WEC/ RNC members, the Forum attracts top officials from ministers, governments, academia, energy leaders from European international companies, experts in energy and environment issues, and representatives of mass-media.

Benefits for the community: possibility to address main challenges for the energy industry in order to contribute to its sustainable development; access to events that represent the meeting ground of energy professionals.

*Romanian Youth National Art Centre (Centrul National de Arta Tinerimea Romana)  
Main partner of the Magic Winter Concert (10 December Romanian Athenaeum-Bucharest)*

Romanian Youth Orchestra conducted by Cristian Mandeal delighted the audience who participated in the Magic Winter concert, an event organized by Lato Communication in partnership with the Romanian Youth National Art Centre and Romgaz.

Benefits for the community: Access of the community members to cultural events.

*Astra Film Foundation, Sibiu: Main sponsor of Astra Film Festival event (Sibiu 17-23 October 2016)*

In 2014, Romgaz became the official partner of Astra Film Festival, who developed during the over twenty years of existence a cultural brand acknowledged in the country and abroad by the good quality of the films, the multitude of programs presented and the variety of

professional workshops. The Festival is considered the most important forum for the documentary film in Romania.

Benefits for the community: Access of the community members to cultural events, developing country brand.

*Sibiu Jazz Festival Foundation: Main partner of Sibiu Jazz Festival Project (Sibiu 23-29 May 2016)*

The most known jazz festival in Romania, Sibiu Jazz Festival is unique in Romania considering the longevity, consistency and impressive number of celebrities of the genre, which attended the event. It is the oldest festival of its kind in the country and one of the oldest jazz festivals in the world, which is why Sibiu was declared since the 80s, “Jazz Capital” in Romania. Worldwide, there are rare similar festivals which can boast a history of over four decades, when the very existence of this music hardly exceeds a century. The declared scope of Sibiu Jazz Festival is to constantly and continuously contribute to the revitalization of jazz movement in Romania, in the spirit of jazz tradition from Sibiu, by connecting to the European and international tendencies of jazz music and promoting the Romanian values abroad, thus becoming a cultural vector for Sibiu citadel and for the Romanian jazz world as well.

Benefits for the community: Access of the community members to cultural events, developing country brand

*Euro Fest Association, Bucharest: Main partner of Medias Central European Film Festival (September 1 – 3, 2016 Medias)*

Romgaz directly supported Medias Central European Film Festival (MECEFF [meceff.ro](http://meceff.ro)), a cultural event that re-joined the famous names of the European cinema, being equally a cultural and multi-ethnic project.

The project MECEFF- MEDIAS CENTRAL EUROPEAN FILM FESTIVAL “7+1” (MECEFF “7+1”) is a - known festival for the neighbouring countries’ cinemas through which cinemas make themselves known and the Romanian new film is introduced in a special context, both thematically and geographical proximity, that of great tradition cinemas giving film producers of an indisputable prestige such as Milos Forman, Jiri Menzel, Jaromil Jires, Andrzej Wajda, Jerzy Kawalerowicz, Andrei Munk, Istvan Szabo etc.

Benefits for the community: Access of the community members to cultural events, developing country brand

*Medias Townhall: Financial support for modernization/rehabilitation works at educational units (SNG Technological High School, St. L Roth Theoretical High School) and medical units (Medias Polyclinic and Medias Municipality Hospital)*

Romgaz supported some projects initiated by Medias town hall in order to perform modernization and rehabilitation works at some educational units in town, such as the Technological High school SNG and Theoretical High school St L. Roth, but also at medical units, such as Medias Polyclinic and Medias Municipality Hospital. Both educational units and

medical units serve the city of Medias where the company has its headquarter. The activities shall be performed during 2017.

Benefits for the community: Through these activities, Romgaz continued to support the development of local community both by improving the educational conditions in both high schools where the children from the town and surroundings study and ensuring the proximity to benefit by quality medical services.

*Municipality Direction for Culture, Sport, Tourism and Young People, Medias: Financial support for organizing various cultural events in Medias*

Romgaz supported some projects initiated by the Municipality Direction for Culture, Sport, Tourism and Young People, Medias such as: organizing the traditional Christmas carols show, organizing events celebrating 750 years of documentary certification of Medias Municipality, performing some fit up works at Sports Hall where a serious of cultural and sportive events shall take place in the future.

**Benefits for the community:** communication platform and local civic involvement and developing the identity of the local community and respect for the cultural legacy.

**S.N.G.N. ROMGAZ S.A.**

**INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016**

**PREPARED IN ACCORDANCE WITH**

**INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AS ADOPTED BY THE EUROPEAN UNION  
AND  
MINISTRY OF FINANCE ORDER 2844/2016**

<b>CONTENTS:</b>	<b>PAGE:</b>
Independent auditor's report	
Statement of individual comprehensive income for the year ended December 31, 2016	1
Statement of individual financial position as of December 31, 2016	2-3
Statement of individual changes in equity for the year ended December 31, 2016	4
Statement of individual cash flow for the year ended December 31, 2016	5-6
Notes to the individual financial statements for the year ended December 31, 2016	7-50
1. Background and general business	7
2. Significant accounting policies	7-20
3. Revenue and other income	21
4. Investment income	21
5. Cost of commodities sold, raw materials and consumables	21
6. Other gains and losses	22
7. Depreciation, amortization and impairment expenses	22
8. Employee benefit expense	22
9. Finance costs	23
10. Other expenses	23
11. Income tax expense	24
12. Property, plant and equipment	25-26
13. Exploration and appraisal for natural gas resources	27
14. Other intangible assets	28-29
15. Inventories	30
16. Accounts receivable	30-32
17. Share capital	32
18. Reserves	32
19. Provisions	33
20. Trade and other current liabilities	34
21. Financial instruments	34-36
22. Related party transactions and balances	37
23. Information regarding the members of the administrative, management and supervisory bodies	38
24. Investment in subsidiaries and associates	38-39
25. Other financial investments	40-41
26. Segment information	41-43
27. Cash and cash equivalents	44
28. Other financial assets	44
29. Commitments undertaken	44
30. Commitments received	45
31. Contingencies	45-48
32. Joint arrangements	49-50
33. Events after the balance sheet date	50
34. Auditor's fees	50
35. Approval of individual financial statements	50

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of S.N.G.N. ROMGAZ S.A.

### Report on the Audit of the Individual financial statements

#### Opinion

1. We have audited the individual financial statements of S.N.G.N. ROMGAZ S.A. (the Company), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the individual financial statements, including a summary of significant accounting policies.
2. In our opinion, the accompanying individual financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by European Union.

#### Basis for Opinion

3. We conducted our audit in accordance with the Auditing Standards adopted by the Chamber of Auditors of Romania, which are International Standards on Auditing (ISAs). Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Individual financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with 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

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

KEY AUDIT MATTER	How our audit addressed the key audit matter
<p data-bbox="137 331 600 394"><b>Property Plant and Equipment and Intangibles Assets valuation</b></p> <p data-bbox="137 427 743 1037">As presented in Note 12 and Note 14 to the individual financial statements, S.N.G.N. ROMGAZ S.A. ("The Entity") has tangible assets amounting RON 5,789,262 thousand as at 31st December 2016 and intangible assets amounting to RON 397.864 thousand. Following a thorough review of the business, the outlook of the industry and future operating plans, management has assessed the carrying values of the Property Plant and Equipment and of the Intangibles Assets as t year-end. As a result of the assessment, the closing balance of Impairment of Property Plant and Equipment and Impairment of Other Intangible assets as at December 31, 2016 is of RON 556,643 thousand and RON 204,101 thousand, respectively. These conclusions are dependent upon significant management judgement, in respect of:</p> <ul data-bbox="188 1070 738 1585" style="list-style-type: none"> <li>- Technical and physical assessment of the status of the assets as at year end;</li> <li>- Analysis of future reserves and production plans for the assets;</li> <li>- Assessment based on history of success for exploration assets;</li> <li>- Status of regulators decisions for wells in conservation as at year end; and</li> <li>- Decommissioning calculations for assets in use.</li> </ul> <p data-bbox="137 1619 734 1843">Because of the significance of management estimates and judgements involved in assessing this area and also considering the significant amount of these assets, we consider that the Property Plant and Equipment and Intangibles Assets valuation is a key audit matter.</p>	<p data-bbox="775 331 1393 454">Our procedures in relation to management's impairment assessment of Property Plant and Equipment and Intangibles Assets valuation included:</p> <ul data-bbox="823 488 1393 1877" style="list-style-type: none"> <li>- Evaluating of the appropriateness of the Entity's judgments regarding identification of assets which may be impaired;</li> <li>- Critically reviewing management's assumptions for each decision taken in the valuation exercise;</li> <li>- Discussions held with representatives from technical departments to understand and confirm managements assumptions regarding technical aspects included in the valuation exercise;</li> <li>- Performed parallel assessment of ageing analysis for old assets with no movement and no production on the period and held discussions with management and technical department on a sample basis;</li> <li>- Reviewed and analyzed reports approved by the regulators for assets that are kept in conservation;</li> <li>- Reviewed decommissioning calculation and assessed the reasonability of the variables included in the calculation (WACC and inflation rates used, average cost of decommissioning per type of well, period before decommissioning liability starts etc).</li> <li>- Evaluation of the adequacy of disclosures in respect of the assets in discussion.</li> <li>- Analyzed the success rates for exploration projects used in the valuation of intangible assets exercise;</li> </ul>

## **Reporting requirements concerning the administrators' report**

5. The administrators are responsible for the preparation and presentation of the standalone administrators' report in accordance with the requirements of the Ministry of Public Finance Order 2844/2016 for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20, which does not contain material misstatements and for such internal control as management determines is necessary to enable the preparation of administrator's report that is free from material misstatement, whether due to fraud or error.

The administrators' report is not part of the individual financial statements.

Our opinion on the individual financial statements does not cover the administrators' report.

In connection with our audit of the individual financial statements, we have read the administrators' report accompanying the individual financial and we report as follows:

- a) In the administrators' report, we have not identified information which is not consistent, in all material respects, with the information presented in the individual financial statements attached;
- b) the administrators' report identified above contains, in all material respects, the required information according to the provisions of Ministry of Public Finance Order no. 2844/2016 for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20 (accounting regulations regarding annual standalone individual financial statements and annual consolidated individual financial statements);
- c) based on our knowledge and understanding concerning the Company and its environment gained during the audit on the individual financial statements prepared as at December 31, 2016, we have not identified information included in the administrators' report that contains a material misstatement of fact.

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

6. Management is responsible for the preparation and fair presentation of the individual financial statements in accordance with IFRSs as adopted by EU and for such internal control as management determines is necessary to enable the preparation of individual financial statements that are free from material misstatement, whether due to fraud or error.
7. In preparing the individual 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.
8. Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the individual financial statements**

9. Our objectives are to obtain reasonable assurance about whether the individual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these individual financial statements.
10. 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 individual 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 auditor's report to the related disclosures in the individual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
  - Evaluate the overall presentation, structure and content of the individual financial statements, including the disclosures, and whether the individual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
11. 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.
12. 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.

13. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the individual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ahmed Hassan.

Ahmed Hassan, Audit Partner

*For signature, please refer to the original Romanian version.*

Registered with the Romanian Chamber of Financial Auditors  
under no. 1529/25.11.2003

*On behalf of:*

**DELOITTE AUDIT S.R.L.**

Registered with the Romanian Chamber of Financial auditors  
under no. 25/25/06/01

Bucharest, Romania  
March 23, 2017

## STATEMENT OF INDIVIDUAL COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	Year ended December 31, 2016	Year ended December 31, 2015
		'000 RON	'000 RON
Revenue	3	3,411,868	4,052,684
Cost of commodities sold	5	(49,878)	(40,228)
Investment income	4	22,117	44,185
Other gains and losses	6	(468,218)	(318,903)
Changes in inventory of finished goods and work in progress		20,963	138,181
Raw materials and consumables used	5	(54,632)	(78,262)
Depreciation, amortization and impairment expenses	7	(311,012)	(793,598)
Employee benefit expense	8	(498,114)	(511,647)
Finance cost	9	(18,275)	(20,302)
Exploration expense		(253,348)	(42,395)
Other expenses	10	(881,923)	(1,040,670)
Other income	3	361,147	79,793
<b>Profit before tax</b>		<b>1,280,695</b>	<b>1,468,838</b>
Income tax expense	11	(256,116)	(274,553)
<b>Profit for the year</b>		<b>1,024,579</b>	<b>1,194,285</b>
Basic and diluted earnings per share		0.0027	0.0031
<b>Total comprehensive income for the year</b>		<b>1,024,579</b>	<b>1,194,285</b>

These individual financial statements were authorized for issue by the Board of Directors on March 23, 2017.

Virgil Metea  
Chief Executive Officer



Andrei Bobar  
Chief Financial Officer

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

## STATEMENT OF INDIVIDUAL FINANCIAL POSITION AS OF DECEMBER 31, 2016

	Note	December 31, 2016	December 31, 2015
		'000 RON	'000 RON
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	5,789,262	5,996,460
Other intangible assets	14	397,864	399,859
Investments in subsidiaries	24 a)	1,200	1,200
Investments in associates	24 b)	120	163
Other financial assets	28	-	29,300
Other financial investments	25	69,657	70,080
<b>Total non-current assets</b>		<b>6,258,103</b>	<b>6,497,062</b>
<b>Current assets</b>			
Inventories	15	575,983	559,784
Trade and other receivables	16 a)	828,610	601,065
Other financial assets	28	2,892,751	2,146,827
Other assets	16 b)	141,525	139,612
Cash and cash equivalents	27	280,526	740,352
<b>Total current assets</b>		<b>4,719,395</b>	<b>4,187,640</b>
<b>Total assets</b>		<b>10,977,498</b>	<b>10,684,702</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	17	385,422	385,422
Reserves	18	3,020,152	2,581,853
Retained earnings		6,270,587	6,724,947
<b>Total equity</b>		<b>9,676,161</b>	<b>9,692,222</b>
<b>Non-current liabilities</b>			
Retirement benefit obligation	19	119,986	102,959
Deferred tax liabilities	11	40,123	62,589
Provisions	19	194,048	200,855
<b>Total non-current liabilities</b>		<b>354,157</b>	<b>366,403</b>

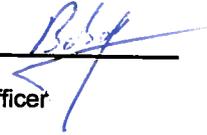
The accompanying notes form an integral part of these individual financial statements.  
This is a free translation from the original Romanian version.

## STATEMENT OF INDIVIDUAL FINANCIAL POSITION AS OF DECEMBER 31, 2016

	<u>Note</u>	<u>December 31, 2016</u> '000 RON	<u>December 31, 2015</u> '000 RON
<b>Current liabilities</b>			
Trade and other payables	20	569,941	186,937
Current tax liabilities		60,295	90,838
Deferred revenue		4,924	-
Provisions	19	50,437	28,779
Other liabilities	20	261,583	319,523
<b>Total current liabilities</b>		<b>947,180</b>	<b>626,077</b>
<b>Total liabilities</b>		<b>1,301,337</b>	<b>992,480</b>
<b>Total equity and liabilities</b>		<b>10,977,498</b>	<b>10,684,702</b>

These individual financial statements were authorized for issue by the Board of Directors on March 23, 2017.

  
Virgil Metea  
Chief Executive Officer

  
Andrei Bobar  
Chief Financial Officer

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

## STATEMENT OF INDIVIDUAL CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016

	Share capital	Legal reserve	Other reserves	Retained Earnings **)	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Balance as of January 1, 2016	385,422	77,084	2,504,769	6,724,947	9,692,222
Allocation to dividends *)	-	-	-	(1,040,640)	(1,040,640)
Transfer to other reserves	-	-	355,042	(355,042)	-
Reinvested profit	-	-	83,257	(83,257)	-
Total comprehensive income for the year	-	-	-	1,024,579	1,024,579
Balance as of December 31, 2016	385,422	77,084	2,943,068	6,270,587	9,676,161
Balance as of January 1, 2015	385,422	77,084	2,065,263	7,184,249	9,712,018
Allocation to dividends *)	-	-	-	(1,214,081)	(1,214,081)
Transfer to other reserves	-	-	407,658	(407,658)	-
Reinvested profit	-	-	31,848	(31,848)	-
Total comprehensive income for the year	-	-	-	1,194,285	1,194,285
Balance as of December 31, 2015	385,422	77,084	2,504,769	6,724,947	9,692,222

\*) In 2016, shareholders of the Company approved the allocation of RON 1,040,640 thousand to dividends for the year 2015 (2015: 1,214,081 thousand RON), the dividend per share being RON 2.70 (2015: 3.15 RON /share).

\*\*) 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. The reserve is allocated to shareholders based on the depreciation, respectively write-off of the assets financed using this source. As of December 31, 2016 the geological quota reserve, before profit allocation, is of RON 2,217,232 thousand (December 31, 2015: RON 2,431,376 thousand).

Retained earnings include the effect of restatements recorded on the transition of the Company to International Financial Reporting Standards (RON 3,112,032 thousand; December 31, 2015: RON 3,131,134 thousand); these amounts are not distributable. In 2016, the amount of RON 19,102 thousand was transferred in Other reserves.

These individual financial statements were authorized for issue by the Board of Directors on March 23, 2017.

Virgil Măteia  
Chief Executive Officer

Andrei Bobar  
Chief Financial Officer

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

## STATEMENT OF INDIVIDUAL CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2016

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
<b>Cash flows from operating activities</b>		
<b>Net profit</b>	<b>1,024,579</b>	<b>1,194,285</b>
<b>Adjustments for:</b>		
Income tax expense (note 11)	256,116	274,553
Interest expense (note 9)	15	34
Unwinding of decommissioning provision (note 9, note 19)	18,260	20,268
Interest revenue (note 4)	(22,117)	(44,185)
Net loss on disposal of non-current assets (note 6)	108,057	23,084
Change in decommissioning provision recognized in profit or loss, other than unwinding (note 19)	(5,941)	(19,724)
Change in other provisions	18,919	21,852
Net impairment of exploration assets (note 12, note 14)	(173,701)	228,309
Exploration expense (note 12, note 14)	253,348	42,395
Net impairment of property, plant and equipment (note 12, note 14)	(43,228)	5,219
Depreciation and amortization (note 7)	527,941	560,070
Net impairment of investment in financial investments (note 6, note 24 b)	43	1,328
Net impairment of other financial investments (note 6, note 25)	(1,554)	6,809
Loss from disposal of other financial investments (note 6)	1,577	-
Net receivable write-offs and movement in allowances for trade receivables and other assets (note 6)	354,321	292,146
Revenues from dismantling of assets	(1,287)	(2,232)
Net movement in write-down allowances for inventory (note 6)	5,714	(4,576)
	<b>2,321,062</b>	<b>2,599,635</b>
<b>Movements in working capital:</b>		
(Increase)/Decrease in inventory	(21,646)	(162,187)
(Increase)/Decrease in trade and other receivables	(583,600)	54,550
Increase/(Decrease) in trade and other liabilities	337,707	(15,202)
<b>Cash generated from operations</b>	<b>2,053,523</b>	<b>2,476,796</b>
Interest paid	(15)	(34)
Income taxes paid	(309,125)	(346,021)
<b>Net cash generated by operating activities</b>	<b>1,744,383</b>	<b>2,130,741</b>

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

## STATEMENT OF INDIVIDUAL CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2016

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
<b>Cash flows from investing activities</b>		
Acquisition of investments in associates	-	(753)
Investments in subsidiaries	-	(1,200)
(Increase)/Decrease in other financial assets	(720,480)	158,050
Interest received	25,178	53,872
Proceeds from sale of non-current assets	144	42
Loans granted to associates	-	(726)
Reimbursements of loans granted to associates	-	65
Dividends received	-	1,634
Sale of other financial investments (note 25)	400	-
Acquisition of non-current assets	(296,511)	(357,281)
Acquisition of exploration assets	(172,178)	(555,423)
<b>Net cash used in investing activities</b>	<b>(1,163,447)</b>	<b>(701,720)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(1,040,762)	(1,214,925)
<b>Net cash used in financing activities</b>	<b>(1,040,762)</b>	<b>(1,214,925)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(459,826)</b>	<b>214,096</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>740,352</b>	<b>526,256</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>280,526</b>	<b>740,352</b>

These individual financial statements were authorized for issue by the Board of Directors on March 23, 2017.

Virgil Metea  
Chief Executive Officer



Andrei Bobar  
Chief Financial Officer

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

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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 Energy, is 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. underground storage of natural gas;
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 individual 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 2844/2016 to approve accounting regulations in accordance with IFRS (MOF 2844/2016). For the purposes of the preparation of these individual 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 individual financial statements for the years presented.

The same accounting policies and methods of computation are used in these individual financial statements as compared with the most recent annual individual financial statements issued by the Company.

*Basis of preparation*

The individual 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 individual financial statements are denominated in Romanian lei. Unless otherwise stated, the amounts are presented in thousand lei (thousand RON).

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Basis of preparation (continued)***

The Company prepared individual financial statements, as its subsidiary S.N.G.N. ROMGAZ S.A. – Filiala de Înmagazinare Gaze Naturale Depogaz Ploiești S.R.L., registered at the Trade Register on August 21, 2015 had no activity until December 31, 2016.

These individual 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 individual 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 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 individual 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.

***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 venturers.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)*****Joint arrangements (continued)****Joint operations*

The Company recognises 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 individual financial statements, the Company recognizes its interest in a joint venture as investment, at cost, if it has joint control.

***Standards and interpretations effective in the current year***

The following standards, amendments or improvements to the existing standards issued by the IASB and adopted by the EU are effective for the current year:

- amendments to IFRS 10, IFRS 12, IAS 28: Investment Entities – applying the consolidation exception, adopted by the EU on September 22, 2016 (effective for annual periods beginning on or after January 1, 2016);
- amendments to IAS 27: Equity method in separate financial statements, adopted by EU on December 18, 2015 (effective for annual periods beginning on or after January 1, 2016);
- amendments to IAS 1: Disclosure initiative, adopted by EU on December 18, 2015 (effective for annual periods beginning on or after January 1, 2016);
- annual improvements to IFRS – cycle 2012-2014, adopted by EU on December 15, 2015 (effective for annual periods beginning on or after January 1, 2016);
- amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortization, adopted by EU on December 2, 2015, (effective for annual periods beginning on or after January 1, 2016);
- amendments to IFRS 11: Accounting for acquisitions of interests in joint operations, adopted by EU on November 24, 2015 (effective for annual periods beginning on or after January 1, 2016);

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Standards and interpretations effective in the current period (continued)***

- amendments to IAS 16 and IAS 41: Bearer plants adopted by EU on November 23, 2015 (effective for annual periods beginning on or after January 1, 2016);
- annual improvements to IFRSs 2010 – 2012 Cycle, adopted by EU on December 17, 2014 (effective for annual periods beginning on or after February 1, 2015);
- amendments to IAS 19: Defined Benefit Plans: Employee Contributions, adopted by EU on December 17, 2014 (effective for annual periods beginning on or after February 1, 2015).

The adoption of these amendments, interpretations or improvements to the existing standards has not led to any changes in the Company's accounting policies.

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

At the date of issue of the individual financial statements, the following standards were issued, but not yet effective:

- IFRS 9 "Financial Instruments", adopted by EU on November 22, 2016 (effective for annual periods beginning on or after January 1, 2018);
- IFRS 15 "Revenue from Contracts with Customers" including amendments to IFRS 15: Effective date of IFRS 15, issued by IASB and adopted by the EU on September 22, 2016 (effective for annual periods beginning on or after January 1, 2018).

***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 individual financial statements:

- IFRS 14 "Regulatory deferral accounts" (effective for annual periods beginning on or after January 1, 2016);
- IFRS 16 "Leases" (effective for annual periods beginning on or after January 1, 2019);
- amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture (the effective date of the amendments has been deferred indefinitely);
- amendments to IAS 12: Recognition of deferred tax assets for unrealised losses (effective for annual periods beginning on or after January 1, 2017);
- amendments to IAS 7: Disclosure initiative (effective for annual periods beginning on or after January 1, 2017);
- clarifications to IFRS 15: Revenue from Contracts with Customers (effective for annual periods beginning on or after January 1, 2018);
- amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2018);
- amendments to IFRS 4: Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after January 1, 2018);
- annual improvements to IFRS Standards 2014 – 2016 Cycle (effective for annual periods beginning on or after January 1, 2018);

This is a free translation from the original Romanian version.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Standards and interpretations issued by IASB but not yet adopted by the EU (continued)*

- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after January 1, 2018);
- amendments to IAS 40: "Transfers of Investment Property" (effective for annual periods beginning on or after January 1, 2018).

The Company anticipates that the adoption of these standards, amendments or improvements to the existing standards and interpretations will have no material impact on the individual financial statements of the Company in the period of initial application.

**Revenue recognition**

Revenues refer to goods sold (gas) and services supplied.

Revenue from the sale of goods is recognized when all of the following conditions are met:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from rendering of services is based on the stage of completion as a percentage from total revenues from the service contract, the percentage being determined by the fraction between the performed services until the end of the reporting date and the total services to be performed.

Rental revenue 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.

**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 individual 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 retranslated.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**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 actuarial 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).

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 annual individual 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.

*Provisions for decommissioning of wells and restoration of lands damaged by the activity of exploiting natural gas resources*

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 and restoring lands used in the activity of exploiting natural resources and returning them to the economic circuit.

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 a discount factor based on the weighted average cost of capital. The weighted average cost of capital 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.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Provisions for decommissioning of wells and restoration of lands damaged by the activity of exploiting natural gas resources (continued)*

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 shall account 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 individual 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 statement of financial position date.

*Deferred tax*

Deferred tax is recognized on the differences between the carrying amounts of assets and liabilities in the individual 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.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Taxation (continued)***Deferred tax (continued)*

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 balance sheet date. 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 set off 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 individual comprehensive income. Deferred tax for the period is recognized as an expense or income in the statement of individual 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 acquiree'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) 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.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

## Property, plant and equipment (continued)

## (iii) 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/(assets) which is/(are) replaced and is/(are) 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

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

<u>Asset</u>	<u>Years</u>
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.

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 individual 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.

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, an impairment adjustment is recorded for the carrying value at the time of retirement.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Exploration and appraisal assets**

(1) Cost

Natural gas exploration, 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 individual 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 individual financial statements of 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. Operation licenses issued by the Regulatory Authority for Energy (Autoritatea Nationala de Reglementare in domeniul Energiei – ANRE) are recognized at cost from the moment they are obtained by the Company.

Intangible assets are not revalued.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****Other intangible assets (continued)****(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. Operation licenses are amortized over the period for which they were issued.

**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 evaluated 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. 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.

Financial assets are classified into the following categories: "held-to-maturity investments" and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables, including trade and other receivables, bank balances and cash and other receivables, are initially recognized at fair value, net of transaction costs. Subsequently these are recorded at amortized cost using the effective interest method, less any impairment. Any difference between the initial recognition and repayable amount is recognized in profit and loss over the period of the loan, using the effective interest rate method.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the issue of financial liabilities, other than financial liabilities at fair value through profit or loss, are deducted from the fair value of financial liabilities on initial recognition.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets and liabilities (continued)**

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

The classification of investment depends on the nature and purpose and is determined at the time of initial recognition.

*Available for sale (AFS) financial assets*

Financial assets available for sale are non-derivatives financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or other financial assets measured at fair value through profit or loss.

Shares held in unquoted equity instrument are classified as being AFS and are stated at fair value, where it can be measured. Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

*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.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset, including trade receivables, is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, after the Board of Directors' approval, it is written off, together with the reversal of the allowance against income. Subsequent recoveries of amounts previously written off are credited as income in the period when the cash is collected. Changes in the carrying amount of the allowance account are recognized in profit or loss.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets and liabilities (continued)***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:

- legal reserves, which are used annually to transfer to reserves up to 5% of the statutory profit, but not more than 20% of the Company's statutory share capital;
- 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 tax incentives, set up based on Emergency Ordinance no. 19/April 23, 2014 and Fiscal Code. The amount of profit that benefited from tax exemption under the above Ordinance 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 distributed with retained earnings, 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.

**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 individual financial statements.

*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 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 gas reserve certified at the beginning of the period. The gas reserves are updated annually based on internal assessment approved by ANRM.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Estimates related to the decommissioning provision*

Liabilities for decommissioning costs are recognized for the Company's an 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 weighted average capital cost.

*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 multiplier 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.

*Estimates regarding the environment provision*

The Company records a provision for the restoration of land and for the redemption of the land to the agricultural circuit, based on management's estimate of the necessary costs to be incurred in order to restore the land to its original state. The estimate is based on previous experience.

*Fair value measurements and valuation processes*

Some of the Company's assets and liabilities are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available. Where Level 3 inputs are not available, the Company engages third party qualified valuers to perform the valuation. The Company works closely with qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation findings to the board of directors of the Company on a regular basis to explain the cause of fluctuations in the fair value of the assets and liabilities.

*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.

**Comparative information**

For each item of the statement of individual financial position, the statement of individual comprehensive income and, where is the case, for the statement of individual changes in equity and for the statement of individual 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 individual 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 individual financial statements, which has a material impact on the Company.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 3. REVENUE AND OTHER INCOME

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
Revenue from gas sold - domestic production	2,558,848	3,159,884
Revenue from gas sold - joint venture	108,543	131,373
Revenue from gas acquired for resale – import gas	10,885	4,169
Revenue from gas acquired for resale – domestic gas	9,332	14,545
Revenue from storage services-capacity reservation	278,909	266,025
Revenue from storage services-extraction	28,217	32,079
Revenue from storage services-injection	38,233	34,422
Revenue from electricity	336,349	356,778
Revenue from services	27,767	32,636
Revenue from sale of goods	7,661	13,876
Other revenues	7,124	6,897
<b>Total revenue</b>	<b>3,411,868</b>	<b>4,052,684</b>
Other operating revenues *)	361,147	79,793
<b>Total revenue and other income</b>	<b>3,773,015</b>	<b>4,132,477</b>

\*) In 2016, other operating income amounted to RON 361,147 thousand included income from penalties charged to customers for late payment in the amount of RON 291,561 thousand (2015: RON 48,638 thousand).

## 4. INVESTMENT INCOME

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
Interest income	22,117	44,185
<b>Total</b>	<b>22,117</b>	<b>44,185</b>

## 5. COST OF COMMODITIES SOLD, RAW MATERIALS AND CONSUMABLES

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
Consumables used	51,087	73,988
Cost of gas acquired for resale, sold – import	10,173	4,027
Cost of gas acquired for resale, sold – domestic	8,124	12,639
Cost of electricity imbalance	30,158	22,673
Cost of other goods sold	1,423	888
Other consumables	3,545	4,275
<b>Total</b>	<b>104,510</b>	<b>118,490</b>

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 6. OTHER GAINS AND LOSSES

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
Forex gain	131	131
Forex loss	(191)	(243)
Net loss on disposal of non-current assets (note 7)	(108,057)	(23,084)
Net loss on disposal of other financial investments	(1,577)	-
Net receivable allowances (note 16 c)	(354,316)	(292,039)
Net impairment of financial investments (note 24 b, note 25)	1,511	(8,137)
Net write down allowances for inventory (note 15)	(5,714)	4,576
Losses from trade receivables	(5)	(107)
<b>Total</b>	<b>(468,218)</b>	<b>(318,903)</b>

## 7. DEPRECIATION, AMORTIZATION AND IMPAIRMENT EXPENSES

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
Depreciation	527,941	560,070
out of which:		
- depreciation of property, plant and equipment	516,208	541,874
- amortization of intangible assets	11,733	18,196
Net impairment of non-current assets *)	(216,929)	233,528
<b>Total depreciation, amortization and impairment</b>	<b>311,012</b>	<b>793,598</b>

\*) Net impairment of non-current assets include income from decrease of impairments of RON 396,731 thousand from which RON 346,153 thousand relate to net loss on disposal of non-current assets (RON 108,057 thousand – note 6) and exploration expenses (RON 253,348 thousand), the effect being a net loss of RON 15,252 thousand. The difference between RON 396,731 thousand and RON 346,153 thousand relate to reactivated projects.

## 8. EMPLOYEE BENEFIT EXPENSE

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
Wages and salaries *)	441,840	454,732
Social security charges	109,797	108,828
Meal tickets	12,242	12,191
Other benefits according to collective labor contract	20,033	20,990
Private pension payments	10,739	10,775
<b>Total employee benefit costs</b>	<b>594,651</b>	<b>607,516</b>
Less, capitalised employee benefit costs	(96,537)	(95,869)
<b>Total employee benefit expense</b>	<b>498,114</b>	<b>511,647</b>

\*) In 2015, in the amount of RON 454,732 thousand representing wages and salaries, is included the amount of RON 16,774 thousand related to the employee participation to profit. In 2016, this expense in the amount of RON 23,061 thousand is shown in net losses from provisions movement (note 10) and under other provisions (note 19). The year 2015 was not represented to reflect this change, due to immaterial amounts.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 9. FINANCE COSTS

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
Interest expense	15	34
Unwinding of the decommissioning provision (note 19)	18,260	20,268
<b>Total</b>	<b>18,275</b>	<b>20,302</b>

## 10. OTHER EXPENSES

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
Energy and water expenses	16,964	18,472
Expenses for capacity booking and gas transmission services	37,449	40,574
Expenses with other taxes and duties	604,243	787,182
(Net gain)/Net loss from provisions movement	12,978	2,128
Other operating expenses	210,289	192,314
<b>Total</b>	<b>881,923</b>	<b>1,040,670</b>

In the year ended December 31, 2016, the major taxes and duties included in the amount of RON 604,243 thousand (year ended December 31, 2015: RON 787,182 thousand) for taxes and duties are:

- RON 285,619 thousand, including amounts related to joint ventures, 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, 2015: RON 367,165 thousand);
- RON 70,916 thousand, including amounts related to joint ventures, represent tax on special construction according to Law 227/2015 regarding the Fiscal Code (year ended December 31, 2015: RON 64,988 thousand);
- RON 218,745 thousand, including amounts related to joint ventures, represent royalty on gas production and storage activity (year ended December 31, 2015: RON 304,671 thousand).

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 11. INCOME TAX EXPENSE

Income tax	Year ended	Year ended
	December 31, 2016	December 31, 2015
	'000 RON	'000 RON
Current tax expense	278,582	343,269
Deferred income tax (income)/expense	(22,466)	(68,716)
<b>Income tax expense</b>	<b>256,116</b>	<b>274,553</b>

The tax rate used for the reconciliations below for the year ended December 31, 2016, respectively year ended December 31, 2015 is 16% payable by corporate entities in Romania on taxable profits.

The total charge for the year can be reconciled to the accounting profit as follows:

	Year ended	Year ended
	December 31, 2016	December 31, 2015
	'000 RON	'000 RON
<b>Accounting profit before tax</b>	<b>1,280,695</b>	<b>1,468,838</b>
Income tax expense calculated at 16%	204,911	235,014
Effect of income exempt of taxation	(71,067)	(48,705)
Effect of expenses that are not deductible in determining taxable profit	158,059	173,833
Tax incentives	(13,321)	(16,873)
Effect of temporary differences	(22,466)	(68,716)
<b>Income tax expense</b>	<b>256,116</b>	<b>274,553</b>

Components of deferred tax liability:

	December 31, 2016		December 31, 2015	
	Cumulative temporary differences	Deferred tax (asset)/ liability	Cumulative temporary differences	Deferred tax (asset)/ liability
	'000 RON	'000 RON	'000 RON	'000 RON
Provisions	(355,508)	(56,881)	(302,388)	(48,382)
Property, plant and equipment	766,715	122,674	844,937	135,190
Receivables and other assets	(160,438)	(25,670)	(151,367)	(24,219)
<b>Total</b>	<b>250,769</b>	<b>40,123</b>	<b>391,182</b>	<b>62,589</b>
<b>Charged to income</b>		<b>(22,466)</b>		<b>(68,716)</b>

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 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
<b>Cost</b>									
As of January 1, 2016	106,399	831,437	5,633,432	704,856	87,955	1,601,802	657,862	800,625	10,424,368
Additions	460	-	14,653	-	2	-	165,951	320,680	501,746
Transfers	160	50,765	248,834	202,693	8,882	80,231	(161,780)	(429,785)	-
Disposals	(28)	(636)	(124,095)	(13,605)	(2,435)	(5,105)	(245,159)	(31,593)	(422,656)
<b>As of December 31, 2016</b>	<b>106,991</b>	<b>881,566</b>	<b>5,772,824</b>	<b>893,944</b>	<b>94,404</b>	<b>1,676,928</b>	<b>416,874</b>	<b>659,927</b>	<b>10,503,458</b>
<b>Accumulated depreciation</b>									
As of January 1, 2016	-	201,906	2,530,752	431,088	59,106	436,982	-	-	3,659,834
Charge *)	-	32,239	370,748	56,304	6,552	84,015	-	-	549,858
Disposals	-	(198)	(33,308)	(11,488)	(2,350)	(4,797)	-	-	(52,139)
<b>As of December 31, 2016</b>	<b>-</b>	<b>233,949</b>	<b>2,868,192</b>	<b>475,904</b>	<b>63,308</b>	<b>516,200</b>	<b>-</b>	<b>-</b>	<b>4,157,553</b>
<b>Impairment</b>									
As of January 1, 2016	3,180	15,535	185,440	23,903	420	3,889	444,885	90,822	768,074
Transfers	-	-	7,888	-	-	-	(65,899)	58,011	-
Charge	-	993	55,979	1,321	137	4,113	85,449	29,124	177,116
Release	-	(595)	(96,445)	(1,750)	(115)	(4,581)	(253,652)	(31,409)	(388,547)
<b>As of December 31, 2016</b>	<b>3,180</b>	<b>15,933</b>	<b>152,862</b>	<b>23,474</b>	<b>442</b>	<b>3,421</b>	<b>210,783</b>	<b>146,548</b>	<b>556,643</b>
<b>Carrying value</b>									
As of January 1, 2016	103,219	613,996	2,917,240	249,865	28,429	1,160,931	212,977	709,803	5,996,460
<b>As of December 31, 2016</b>	<b>103,811</b>	<b>631,684</b>	<b>2,751,770</b>	<b>394,566</b>	<b>30,654</b>	<b>1,157,307</b>	<b>206,091</b>	<b>513,379</b>	<b>5,789,262</b>

\*) The amounts include depreciation of tangible assets used in the production of other fixed assets, capitalized in their cost, amounting to RON 26,598 thousand.

This is a free translation from the original Romanian version.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 12. PROPERTY, PLANT AND EQUIPMENT (continued)

	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
<b>Cost</b>									
As of January 1, 2015	104,058	457,028	4,872,197	1,096,588	157,645	1,604,301	852,508	548,085	9,692,410
Additions	1,762	695	15,724	111	49	-	464,325	361,249	843,915
Transfers	597	18,878	536,242	48,238	7,059	111,363	(616,576)	(105,801)	-
Disposals	(18)	(747)	(47,562)	(5,754)	(518)	(12,055)	(42,395)	(2,908)	(111,957)
Reclassification	-	355,583	256,831	(434,327)	(76,280)	(101,807)	-	-	-
As of December 31, 2015	106,399	831,437	5,633,432	704,856	87,955	1,601,802	657,862	800,625	10,424,368
<b>Accumulated depreciation</b>									
As of January 1, 2015	-	84,071	2,030,012	505,872	113,502	370,324	-	-	3,103,781
Charge *)	-	31,922	397,204	56,778	6,770	81,042	-	-	573,716
Disposals	-	(142)	(2,858)	(4,634)	(504)	(9,525)	-	-	(17,663)
Reclassification	-	86,055	106,394	(126,928)	(60,662)	(4,859)	-	-	-
As of December 31, 2015	-	201,906	2,530,752	431,088	59,106	436,982	-	-	3,659,834
<b>Impairment</b>									
As of January 1, 2015	3,180	15,176	174,085	24,881	298	6,253	339,084	62,953	625,910
Charge	-	337	59,778	4,777	131	2	216,017	27,361	308,403
Release	-	(788)	(51,547)	(5,351)	(67)	(4,290)	(81,259)	(22,937)	(166,239)
Transfers	-	-	3,110	-	-	2,402	(28,957)	23,445	-
Reclassification	-	810	14	(404)	58	(478)	-	-	-
As of December 31, 2015	3,180	15,535	185,440	23,903	420	3,889	444,885	90,822	768,074
<b>Carrying value</b>									
As of January 1, 2015	100,878	357,781	2,668,100	565,835	43,845	1,227,724	513,424	485,132	5,962,719
As of December 31, 2015	103,219	613,996	2,917,240	249,865	28,429	1,160,931	212,977	709,803	5,996,460

\*) The amounts include depreciation of tangible assets used in the production of other fixed assets, capitalized in their cost, amounting to RON 28,264 thousand.

This is a free translation from the original Romanian version.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 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. All such activity is recorded within the Upstream segment.

	<u>Year ended December 31, 2016</u>	<u>Year ended December 31, 2015</u>
	'000 RON	'000 RON
Exploration expenditure written off (note 12, note 14)	253,348	42,395
Net movement in exploration assets' impairment (note 12, note 14)	(173,701)	228,309
Net cash used in exploration investing activities	(172,178)	(555,423)
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Exploration assets (note 12, note 14)	589,364	592,715
Liabilities	(23,332)	(67,076)
<b>Net assets</b>	<b>566,032</b>	<b>525,639</b>

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 14. OTHER INTANGIBLE ASSETS

	<u>Other intangible assets</u>	<u>Licenses</u>	<u>Intangible exploration assets - WIP</u>	<u>Intangible work in progress - other</u>	<u>Total</u>
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
<b>Cost</b>					
As of January 1, 2016	15,079	178,241	589,337	165	782,822
Additions	-	939	6,337	5,264	12,540
Transfers	-	5,395	-	(5,395)	-
Disposals	-	(13,654)	(8,300) *)	-	(21,954)
As of December 31, 2016	15,079	170,921	587,374	34	773,408
<b>Accumulated amortization</b>					
As of January 1, 2016	7,260	166,104	-	-	173,364
Charge	2,217	9,516	-	-	11,733
Disposals	-	(13,654)	-	-	(13,654)
As of December 31, 2016	9,477	161,966	-	-	171,443
<b>Impairment</b>					
As of January 1, 2016	-	-	209,599	-	209,599
Charge	-	-	2,686	-	2,686
Release	-	-	(8,184)	-	(8,184)
As of December 31, 2016	-	-	204,101	-	204,101
<b>Carrying value</b>					
As of January 1, 2016	7,819	12,137	379,738	165	399,859
As of December 31, 2016	5,602	8,955	383,273	34	397,864

\*) In the amount of RON 8,300 thousand representing disposals of exploration assets during the year, the amount of RON 8,189 thousand relates to exploration projects written off (exploration expense).

This is a free translation from the original Romanian version.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 14. OTHER INTANGIBLE ASSETS (continued)

	Other intangible assets	Licenses	Intangible exploration assets - WIP	Intangible work in progress - other	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
<b>Cost</b>					
As of January 1, 2015	14,584	168,266	497,329	2,606	682,785
Additions	371	1,610	92,008	10,382	104,371
Transfers	2,311	10,390	-	(12,701)	-
Disposals	(2,187)	(2,025)	-	(122)	(4,334)
As of December 31, 2015	15,079	178,241	589,337	165	782,822
<b>Accumulated amortization</b>					
As of January 1, 2015	5,056	152,045	-	-	157,101
Charge	2,204	15,992	-	-	18,196
Disposals	-	(1,933)	-	-	(1,933)
As of December 31, 2015	7,260	166,104	-	-	173,364
<b>Impairment</b>					
As of January 1, 2015	-	-	116,048	2,187	118,235
Charge	-	-	167,733	-	167,733
Disposals	(2,187)	-	(74,182)	-	(76,369)
Transfers	2,187	-	-	(2,187)	-
As of December 31, 2015	-	-	209,599	-	209,599
<b>Carrying value</b>					
As of January 1, 2015	9,528	16,221	381,281	419	407,449
As of December 31, 2015	7,819	12,137	379,738	165	399,859

This is a free translation from the original Romanian version.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 15. INVENTORIES

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Spare parts and materials	157,879	158,034
Work in progress	335	594
Finished goods (gas)	353,731	351,773
Residual products	123	86
Inventories at third parties	95,758	65,248
Goods for resale (gas)	171	10,344
Other inventories	90	95
Write-down allowance for spare parts and materials	(29,183)	(25,789)
Write-down allowance for residual products	(44)	(22)
Write-down allowance for inventories at third parties	(2,877)	(579)
<b>Total</b>	<b>575,983</b>	<b>559,784</b>

## 16. ACCOUNTS RECEIVABLE

## a) Trade and other receivables

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Trade receivables	1,322,274	1,438,204
Bad debt allowances (note 16 c)	(1,192,029)	(856,676)
Accrued receivables	698,365	19,537
<b>Total</b>	<b>828,610</b>	<b>601,065</b>

## b) Other assets

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Advances paid to suppliers	2,061	13,933
Joint venture receivables	4,838	5,113
Loans to associates (note 22 ii) *)	-	17,887
Interest on loan to associates (note 22 ii) *)	-	1,041
Bad debt allowance on loans to associates (note 16 c, note 22 ii) *)	-	(18,928)
Other receivables **)	27,225	5,499
Bad debt allowance for other receivables (note 16 c) **)	(19,192)	(549)
Other debtors *)	65,097	45,148
Bad debt allowances for other debtors (note 16 c) *)	(62,009)	(42,692)
Prepayments	101,550	84,481
VAT not yet due	21,955	28,679
<b>Total</b>	<b>141,525</b>	<b>139,612</b>

\*) In February 2016, Romgaz notified its partners about its withdrawal as partner in the agreements with Energia Cybinka and Energia Torzym and its withdrawal as shareholder of the two entities effective March 31, 2016. Therefore, the Company's receivable from the two companies is presented in the individual financial statements as of December 31, 2016 in "Other debtors".

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 16. ACCOUNTS RECEIVABLE (continued)

## b) Other assets (continued)

\*\*) 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.

In the financial statements at December 31, 2015, for the unpaid amounts in dispute on that date, the Company recorded a provision amounting RON 15,872 thousand (note 19). In 2016, the Company paid the amounts resulted from those controls. However, for the disputed amounts, in the financial statements at December 31, 2016, the Company recorded a receivable in amount of RON 18,852 thousand presented as other receivables, for which it recorded an equivalent allowance; the provision of RON 15,872 thousand was reversed by recording an income (the amount is contained in RON 12,978 thousand representing net loss from provisions movement - note 10). The allowance for the receivable of RON 18,852 thousand is included in net receivable allowance of RON 354,316 thousand – (note 6).

## c) Changes in the allowance for trade and other receivables and other assets

	<u>2016</u>	<u>2015</u>
	'000 RON	'000 RON
<b>At January 1</b>	<b>918,845</b>	<b>626,625</b>
Charge (note 6)	366,705	321,998
Forex on revaluation of foreign currency balances	69	181
Release (note 6)	(12,389)	(29,959)
<b>At December 31</b>	<b>1,273,230</b>	<b>918,845</b>

As of December 31, 2016, the Company recorded allowances for doubtful debts, of which Interagro RON 275,961 thousand (December 31, 2015: RON 273,229 thousand), GHCL Upsom of RON 60,371 thousand (December 31, 2015: RON 60,371 thousand), CET Iasi of RON 46,271 thousand (December 31, 2015: RON 46,271 thousand), Electrocentrale Galati with RON 211,370 thousand (December 31, 2015: RON 209,907 thousand), Electrocentrale Bucuresti with RON 570,274 thousand (December 31, 2015: RON 238,094 thousand) and G-ON EUROGAZ of RON 14,848 thousand (December 31, 2015: RON 14,848 thousand), due to existing financial conditions of these clients as well as ongoing litigating cases related to these receivables or exceeding payment terms.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 16. ACCOUNTS RECEIVABLE (continued)

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Current receivables but not impaired	113,050	559,927
<b>Overdue receivables but not impaired</b>		
less than 30 days overdue *)	17,070	7,186
30 to 90 days overdue	65	14,396
90 to 360 days overdue	60	19
<b>Total overdue receivables but not impaired</b>	<u>17,195</u>	<u>21,601</u>
<b>Total trade receivables</b>	<u>130,245</u>	<u>581,528</u>

\*) The amount of RON 17,070 thousand representing overdue receivables at December 31, 2016 for which no impairment adjustments were recorded, was collected in 2017.

## 17. SHARE CAPITAL

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
385,422,400 fully paid ordinary shares	385,422	385,422
<b>Total</b>	<u>385,422</u>	<u>385,422</u>

The shareholding structure as at December 31, 2016 is as follows:

	<u>No. of shares</u>	<u>Value</u>	<u>Percentage (%)</u>
		'000 RON	
The Romanian State through the Ministry of Energy	269,823,080	269,823	70.01
Legal persons	95,451,082	95,451	24.76
Physical persons	20,148,238	20,148	5.22
<b>Total</b>	<u>385,422,400</u>	<u>385,422</u>	<u>100</u>

All shares are ordinary and were subscribed and fully paid as at December 31, 2016. All shares carry equal voting rights and have a nominal value of RON 1/share (December 31, 2015: RON 1/share).

## 18. RESERVES

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Legal reserves	77,084	77,084
Other reserves, of which:	2,943,068	2,504,769
- Company's development fund	2,291,182	1,955,242
- Tax incentives	145,773	62,516
- Geological quota set up until 2004	486,388	486,388
- Other reserves	19,725	623
<b>Total</b>	<u>3,020,152</u>	<u>2,581,853</u>

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 19. PROVISIONS

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Decommissioning provision	194,048	184,983
Retirement benefit obligation	119,986	102,959
Litigation provision (note 16 b)	-	15,872
<b>Total long term provisions</b>	<b>314,034</b>	<b>303,814</b>
Decommissioning provision	16,523	12,629
Provisions for land restoration	8,963	14,253
Litigation provision	-	79
Other provisions (note 8, note 23)	24,951	1,818
<b>Total short term provisions</b>	<b>50,437</b>	<b>28,779</b>
<b>Total provisions</b>	<b>364,471</b>	<b>332,593</b>
<b>Decommissioning provision</b>		
<i>Decommissioning provision movement</i>		
	<u>2016</u>	<u>2015</u>
	'000 RON	'000 RON
<b>At January 1</b>	<b>197,612</b>	<b>222,243</b>
Additional provision recorded against non-current assets	14,444	3,883
Unwinding effect (note 9)	18,260	20,268
Recorded in profit or loss	(5,941)	(19,724)
Release against non-current assets	(13,804)	(29,058)
<b>At December 31</b>	<b>210,571</b>	<b>197,612</b>

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 weighted average cost of capital as of December 31, 2016 of 8.9% (December 31, 2015: 9.3%). 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.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 20. TRADE AND OTHER CURRENT LIABILITIES

	December 31, 2016	December 31, 2015
	'000 RON	'000 RON
Accruals	29,067	65,283
Trade payables	43,906	23,976
Payables to fixed assets suppliers	32,916	40,967
Advances from customers	464,052	56,711
<b>Total trade payables</b>	<b>569,941</b>	<b>186,937</b>
Payables related to employees	46,296	49,141
Royalties	62,430	81,711
Social security taxes	14,438	16,160
Other current liabilities	35,931	40,785
Joint venture payables	3,904	977
VAT	61,788	81,348
Dividends payable	1,384	1,506
Windfall tax	34,068	43,596
Other taxes	1,344	4,299
<b>Total other current liabilities</b>	<b>261,583</b>	<b>319,523</b>
<b>Total trade and other current liabilities</b>	<b>831,524</b>	<b>506,460</b>

## 21. 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 programme 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 not exposed to currency risk as a result of reduced exposure to various currencies. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

As at December 31, 2016, the official exchange rates were RON 4.3033 to USD 1 and RON 4.5411 to EUR 1 and (December 31, 2015: RON 4.1477 to USD 1 and RON 4.5245 to EUR 1).

## (ii) Inflation risk

The official inflation rate in Romania, during the year ended December 31, 2016 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 not exposed to interest rate risk.

Bank deposits and treasury bills bear a fixed interest rate.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

21. FINANCIAL INSTRUMENTS (continued)

(b) Credit risk

Financial assets, which potentially subject the Company to credit risk, consist principally of trade receivables and loans. 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, and loans, represent 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 70% of trade receivable balance at December 31, 2016 (94% as of December 31, 2015). 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.

The shares held in available for sale financial investments are not listed in an active market and their fair value cannot be reliably measured, therefore they are measured at cost. At each period end, the Company makes an assessment to determine whether there is any indication of impairment. As of December 31, 2016 the Company did not identify any indication of impairment of other financial investments, except for the impairment already recorded.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 21. FINANCIAL INSTRUMENTS (continued)

## e) Maturity analysis for non-derivative financial assets and financial liabilities

December 31, 2016	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	129,264	935	46	-	-	130,245
Bank deposits	399,200	761,500	749,680	-	-	1,910,380
Treasury bonds	100,530	105,220	774,070	-	-	979,820
<b>Total</b>	<b>628,994</b>	<b>867,655</b>	<b>1,523,796</b>	<b>-</b>	<b>-</b>	<b>3,020,445</b>
Trade payables	(61,862)	(14,894)	(66)	-	-	(76,822)
<b>Total</b>	<b>(61,862)</b>	<b>(14,894)</b>	<b>(66)</b>	<b>-</b>	<b>-</b>	<b>(76,822)</b>
<b>Net</b>	<b>567,132</b>	<b>852,761</b>	<b>1,523,730</b>	<b>-</b>	<b>-</b>	<b>2,943,623</b>

December 31, 2015	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	329,707	251,770	51	-	-	581,528
Bank deposits	23,750	395,100	913,710	29,300	-	1,361,860
Treasury bonds	-	400,430	410,440	-	-	810,870
<b>Total</b>	<b>353,457</b>	<b>1,047,300</b>	<b>1,324,201</b>	<b>29,300</b>	<b>-</b>	<b>2,754,258</b>
Trade payables	(52,787)	(12,155)	(1)	-	-	(64,943)
<b>Total</b>	<b>(52,787)</b>	<b>(12,155)</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>(64,943)</b>
<b>Net</b>	<b>300,670</b>	<b>1,035,145</b>	<b>1,324,200</b>	<b>29,300</b>	<b>-</b>	<b>2,689,315</b>

## 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.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 22. RELATED PARTY TRANSACTIONS AND BALANCES

## (i) Sales of goods and services

	<u>Year ended December 31, 2016</u>	<u>Year ended December 31, 2015</u>
	'000 RON	
Romgaz's associates	19,284	23,736
<b>Total</b>	<b>19,284</b>	<b>23,736</b>

Most of the Company's clients are companies in which the Romanian State has control or continues to have a significant influence after their privatization, given the strategic importance of the industry in which both the Company and its clients operate. In the year ended December 31, 2016 respectively December 31, 2015, the Company conducted transactions with these companies only in the normal course of business. These transactions are done on the basis of standard contractual relationships.

## (ii) Loans granted to associates

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Romgaz's associates (note 16 b)	-	18,928
Bad debt allowance (note 16 b)	-	(18,928)
<b>Total</b>	<b>-</b>	<b>-</b>

In January 2016, the shareholders approved the withdrawal from the partnership concluded with Aurelian Oil & Gas Poland and Sceptre Oil & Gas, for the performance of petroleum operations in Cybinka and Torzym blocks and the Company's exit as limited partner in the two limited liability partnerships, Energia Torzym and Energia Cybinka, the partners being notified during February, 2016.

Due to the nature of the obligations that derive from the joint operation agreements until the effective exit date, in February 2016 amendments to the original loan contracts were signed with Energia Torzym and Energia Cybinka, which state the initial maturity for the repayment of the loans was extended from December 31, 2015 to December 31, 2016.

As a result of the Company's withdrawal from the shareholding of the two entities, on December 2016, they are no longer considered related parties.

## iii) Trade receivables

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Romgaz's associates	827	-
<b>Total</b>	<b>827</b>	<b>-</b>

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 23. 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 year ended December 31, 2016 and December 31, 2015, 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.

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Salaries paid to directors	11,453	11,407
Salaries paid to administrators	1,137	1,213
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Salaries payable to directors	353	486
Salaries payable to administrators	36	126

Beside the amounts mentioned above, for the remuneration related to directors on mandate contract and members of the Board of Directors, the Company set up a provision as of December 31, 2016 of RON 1,891 thousand (December 31, 2015: RON 1,818 thousand).

## 24. INVESTMENT IN SUBSIDIARIES AND ASSOCIATES

## a) Investment in subsidiaries

Given the Company's legal obligation to separate the natural gas storage activity from the production and supply of natural gas activity, under Directive 2009/73/EC of the European Parliament and of the Council of July 13, 2009 and the provisions of art. 141, paragraph (1) of Law 123/2012, the shareholders decided at the end of 2014 to establish a subsidiary for the natural gas underground storage activity.

In August 2015 the subsidiary S.N.G.N. Romgaz S.A. – Filiala de Înmagazinare Gaze Naturale Depogaz Ploiești S.R.L., 100% owned by the Company, was registered at the Trade Register. The share capital of the subsidiary is RON 1,200 thousand, divided into 120,000 shares with a nominal value of RON 10/share.

As of the date of the individual financial statements for the year ended December 31, 2016 were authorized for issue, the storage activity is being further carried by the Company. The Regulatory Authority for Energy (Autoritatea Nationala de Reglementare in Domeniul Energiei – ANRE), by Presidential decision no. 2588/December 30, 2015, had changed license no. 1942 regarding the operations of the underground gas storage facilities granted to Romgaz by ANRE presidential decision no. 151/January 22, 2014 in the sense of changing the licence holder with S.N.G.N Romgaz S.A. – Filiala de Inmagazinare Gaze Naturale Depogaz Ploiesti S.R.L. The modified license was granted starting April 1, 2016 to September 13, 2016. Subsequently, ANRE decision no. 446 issued on March 23, 2016 has changed ANRE decision nr. 2588/2015, the effective date of the licence being, April 1, 2017.

The Company did not prepare consolidated financial statements as of December 31, 2016 given the fact that the subsidiary did not carry out any activity since incorporation.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 24. INVESTMENT IN SUBSIDIARIES AND ASSOCIATES (continued)

## b) Investment in associates

Name of associate	Main activity	Place of incorporation and operation	Proportion of ownership interest and voting power held (%)	
			December 31, 2016	December 31, 2015
SC Amgaz SA Medias	Gas production	Romania	35	35
SC Depomures SA Tg.Mures	Storage of natural gas	Romania	40	40
Energia Torzym	Gas production	Poland	-	30
Energia Cybinka	Gas production	Poland	-	30
SC Agri LNG Project Company SRL	Feasibility projects	Romania	25	25

Name of associate	Value as of	Impairment as of	Carrying value as of	Value as of	Impairment as of	Carrying value as of
	December 31, 2016	December 31, 2016	December 31, 2016	December 31, 2015	December 31, 2015	December 31, 2015
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
SC Amgaz SA Medias	9,214	(9,214)	-	9,214	(9,214)	-
SC Depomures SA Tg.Mures	120	-	120	120	-	120
Energia Torzym *)	1,750	(1,750)	-	1,750	(1,750)	-
Energia Cybinka *)	1,642	(1,642)	-	1,642	(1,642)	-
SC Agri LNG Project Company SRL	833	(833)	-	833	(790)	43
<b>Total</b>	<b>13,559</b>	<b>(13,439)</b>	<b>120</b>	<b>13,559</b>	<b>(13,396)</b>	<b>163</b>

\*) In February 2016, Romgaz notified its partners about its withdrawal as partner in the two agreements and its withdrawal as shareholder of the two entities effective March 31, 2016. Given the fact that until December 31, 2016, changes in the shareholding structure of the two companies have not been made in the official documents, the Company has not eliminated the investment in share capital of these companies in the individual financial statements for the year ended December 31, 2016. However, the Company no longer has rights regarding Energia Torzym and Energia Cybinka.

This is a free translation from the original Romanian version.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 25. OTHER FINANCIAL INVESTMENTS

Company	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held (%)	
			December 31, 2016	December 31, 2015
Electrocentrale București S.A.	Electricity and thermal power producer	Romania	2.49	2.49
Electrocentrale Titan S.A.*)	Electricity and thermal power producer	Romania	-	0.74
Patria Bank S.A.**)	Other activities – financial intermediations	Romania	0.03	0.04
Mi Petrogas Services S.A.	Services related to oil and natural gas extraction, excluding prospections	Romania	10	10
GHCL Upsom Pan Atlantic and Lukoil association (note 32)	Manufacture of other chemical, anorganic base products	Romania	4.21	4.21
	Petroleum exploration operations	Romania	10	10

Company	Value as of December 31, 2016	Impairment as of December 31, 2016	Carrying value as of December 31, 2016	Value as of December 31, 2015	Impairment as of December 31, 2015	Carrying value as of December 31, 2015
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Electrocentrale București S.A.	64,310	-	64,310	64,310	-	64,310
Electrocentrale Titan S.A. *)	-	-	-	1,977	(1,577)	400
Patria Bank S.A.**)	840	(780)	60	840	(757)	83
Mi Petrogas Services S.A.	60	-	60	60	-	60
GHCL Upsom Pan Atlantic and Lukoil association	17,100	(17,100)	-	17,100	(17,100)	-
	10,454	(5,227)	5,227	10,454	(5,227)	5,227
<b>Total</b>	<b>92,764</b>	<b>(23,107)</b>	<b>69,657</b>	<b>94,741</b>	<b>(24,661)</b>	<b>70,080</b>

\*) In November 2015, Electrocentrale Titan S.A.'s shareholders approved its merger by absorption by S.C. Electrocentrale Grup S.A.. In the shareholders' meeting, the Company voted against the merger. As a result of the vote, Romgaz exercised its right to withdraw as a shareholder, by selling its shares in S.C. Electrocentrale Titan S.A., according to legal provisions. Following the disposal of its holding in the share capital of S.C. Electrocentrale Titan S.A., the Company received the amount of RON 400 thousand.

\*\*) MKB Romexterra changed its name to Patria Bank SA. Also, following the shareholders' meeting of Patria Bank S.A., the share capital was increased without Romgaz's participation, which conducted to a lower proportion of ownership interest in the bank's share capital. Also, in 2016, the Company decided to withdraw as a shareholder, as a result of the merger process involving Patria Bank.

This is a free translation from the original Romanian version.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

**25. OTHER FINANCIAL INVESTMENTS (continued)**

The shares held in the share capital of the companies above are not quoted in an active market and their fair value cannot be reliably measured, therefore they are measured at cost. At each period end, the Company makes an assessment to determine whether there are any indications of impairment. As of December 31, 2016 the Company did not identify any indication of impairment of other financial investments, other than adjustments already recorded.

**26. SEGMENT INFORMATION****a) Products and services from which reportable segments derive their revenues**

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, storage services, electricity production and distribution and others, 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 for resale; these activities are performed by Medias, Mures and Bratislava branches;
- storage activities, performed by the Ploiesti branch;
- electricity production and distribution activities, performed by the Iernut branch;
- other activities, such as technological transport, well operations and corporate activities.

Except for Bratislava branch, all operations are in Romania. As of December 31, 2016, in Bratislava branch are recorded exploration assets in amount of RON 19,962 thousand (December 31, 2015: RON 18,122 thousand).

**b) Segment assets and liabilities**

December 31, 2016	<u>Upstream</u>	<u>Storage</u>	<u>Electricity</u>	<u>Other</u>	<u>Total</u>
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Property, plant and equipment	3,859,686	1,549,707	62,172	317,697	5,789,262
Other intangible assets	393,218	721	37	3,888	397,864
Investments in subsidiaries	-	-	-	1,200	1,200
Investments in associates	-	-	-	120	120
Other financial investments	-	-	-	69,657	69,657
Other financial assets	67,070	461,618	2,206	2,361,857	2,892,751
Inventories	442,937	109,189	4,158	19,699	575,983
Trade and other receivables	695,155	59,284	73,214	957	828,610
Other assets	16,294	480	1,857	122,894	141,525
Cash and cash equivalents	69,241	44,262	329	166,694	280,526
<b>Total assets</b>	<b>5,543,601</b>	<b>2,225,261</b>	<b>143,973</b>	<b>3,064,663</b>	<b>10,977,498</b>

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 26. SEGMENT INFORMATION (continued)

## b) Segment assets and liabilities (continued)

December 31, 2016	<u>Upstream</u>	<u>Storage</u>	<u>Electricity</u>	<u>Other</u>	<u>Total</u>
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Retirement benefit obligation	-	-	-	119,986	119,986
Deferred tax liabilities	-	-	-	40,123	40,123
Provisions	211,569	22,003	1,346	9,567	244,485
Trade and other payables	542,675	1,912	14,846	10,508	569,941
Current tax liabilities	-	-	-	60,295	60,295
Deferred revenue	1,155	-	-	3,769	4,924
Other liabilities	154,132	3,699	3,013	100,739	261,583
<b>Total liabilities</b>	<b>909,531</b>	<b>27,614</b>	<b>19,205</b>	<b>344,987</b>	<b>1,301,337</b>
December 31, 2016	<u>Upstream</u>	<u>Storage</u>	<u>Electricity</u>	<u>Other</u>	<u>Total</u>
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Property, plant and equipment	4,040,574	1,565,895	57,607	332,384	5,996,460
Other intangible assets	392,675	731	261	6,192	399,859
Investments in subsidiaries	-	-	-	1,200	1,200
Investments in associates	-	-	-	163	163
Other financial investments	-	-	-	70,080	70,080
Other financial assets	42	410,548	-	1,765,537	2,176,127
Inventories	435,822	98,206	4,808	20,948	559,784
Trade and other receivables	549,138	26,356	8,214	17,357	601,065
Other assets	12,812	13,080	8,006	105,714	139,612
Cash and cash equivalents	80,089	4,275	262	655,726	740,352
<b>Total assets</b>	<b>5,511,162</b>	<b>2,119,091</b>	<b>79,168</b>	<b>2,975,301</b>	<b>10,684,702</b>
Retirement benefit obligation	-	-	-	102,959	102,959
Deferred tax liabilities	-	-	-	62,589	62,589
Provisions	194,651	17,294	-	17,689	229,634
Trade and other payables	148,627	2,294	2,044	33,972	186,937
Current tax liabilities	-	-	-	90,838	90,838
Other liabilities	184,499	3,593	2,694	128,737	319,523
<b>Total liabilities</b>	<b>527,777</b>	<b>23,181</b>	<b>4,738</b>	<b>436,784</b>	<b>992,480</b>

This is a free translation from the original Romanian version.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 26. SEGMENT INFORMATION (continued)

## c) Segment revenues, results and other segment information

Year ended December 31, 2016	Upstream	Storage	Electricity	Other	Adjustment and eliminations	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Revenue	2,857,683	358,568	399,042	239,230	(442,655)	3,411,868
Less: revenue between segments	(136,481)	(12,426)	(62,612)	(231,136)	442,655	-
Third party revenue	2,721,202	346,142	336,430	8,094	-	3,411,868
Interest income	844	3,949	40	17,284	-	22,117
Interest expense	(15)	-	-	-	-	(15)
Depreciation, amortization and impairment	(185,959)	(95,784)	(6,940)	(22,329)	-	(311,012)
<b>Segment result before tax profit/(loss)</b>	<b>1,031,812</b>	<b>133,168</b>	<b>74,222</b>	<b>41,493</b>	<b>-</b>	<b>1,280,696</b>

Year ended December 31, 2015	Upstream	Storage	Electricity	Other	Adjustment and eliminations	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Revenue	3,511,385	332,639	443,164	254,867	(489,171)	4,052,884
Less: revenue between segments	(157,064)	-	(86,544)	(245,563)	489,171	-
Third party revenue	3,354,321	332,639	356,620	9,104	-	4,052,884
Interest income	1,681	5,593	1	36,910	-	44,185
Interest expense	(34)	-	-	-	-	(34)
Depreciation, amortization and impairment	(673,420)	(88,262)	(4,790)	(27,126)	-	(793,598)
<b>Segment result before tax profit/(loss)</b>	<b>1,195,534</b>	<b>116,884</b>	<b>105,051</b>	<b>51,569</b>	<b>-</b>	<b>1,468,838</b>

In the year ended December 31, 2016, the Company's three largest clients each individually represents more than 10% of revenue, sales to these clients being of RON 935,113 thousand, RON 735,945 thousand, respectively RON 468,150 thousand (in the year ended December 31, 2015 the Company's three largest customers represented individually, over 10% of revenue, sales to these clients being of RON 1,182,742 thousand, RON 1,116,151 thousand, respectively RON 750,645 thousand), together totaling 63% of total revenue (year ended 31 December 2015: 75%). Of the total revenue generated by those three clients, 5.94% are shown in the "Storage" segment and 93.19% in the "Upstream" segment (in the year ended December 31, 2015: 4.6% in the "Storage" segment, 95.3% in the "Upstream" segment).

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 27. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and in banks, short term deposits with maturity under 3 months from the acquisition date.

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Current bank accounts in RON *)	180,573	86,532
Current bank accounts in foreign currency	41	92
Petty cash	20	30
Term deposits	99,880	653,686
Amounts under settlement	12	12
<b>Total</b>	<b>280,526</b>	<b>740,352</b>

\*) Current bank accounts include overnight deposits.

## 28. OTHER FINANCIAL ASSETS

Other financial assets represent mainly treasury bonds and deposits with a maturity of over 3 months, from acquisition date.

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Bank deposits	-	29,300
<b>Total other long-term financial assets</b>	<b>-</b>	<b>29,300</b>
Treasury bonds	974,262	802,302
Bank deposits	1,910,380	1,332,560
Accrued interest receivable	2,551	3,397
Accrued interest on bonds	5,558	8,568
<b>Total other short-term financial assets</b>	<b>2,892,751</b>	<b>2,146,827</b>
<b>Total other financial assets</b>	<b>2,892,751</b>	<b>2,176,127</b>

## 29. COMMITMENTS UNDERTAKEN

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Endorsements and collaterals granted	62,982	41,044
<b>Total</b>	<b>62,982</b>	<b>41,044</b>

In 2015 a facility agreement was signed with CitiBank Europe plc, Dublin – Romanian Branch for bank loans for issuing and/or confirmation of letters of credit and letters of guarantee for a maximum amount of USD 14,000 thousand, valid up to March 23, 2016, validity extended during March, 2016, until March 22, 2017. On December 31, 2016 are still available for use USD 7,664 thousand (December 31, 2015: USD 4,700 thousand).

In 2016, a credit agreement has been signed with BRD-Groupe Societe Generale, representing a facility for issuing letters of guarantee, and opening letters of credit for a maximum amount of USD 20,000 thousand, valid for one year. On December 31, 2016 are still available for use USD 12,198 thousand.

As of December 31, 2016, the Company's contractual commitments for the acquisition of non-current assets are of RON 298,424 thousand (December 31, 2015: RON 308,325 thousand).

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 30. COMMITMENTS RECEIVED

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Endorsements and collaterals received	1,041,197	1,135,697
<b>Total</b>	<b>1,041,197</b>	<b>1,135,697</b>

Endorsements and collateral received represent letters of guarantee and other performance guarantees received from the Company's clients.

## 31. 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 individual 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.

(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 individual financial statements are fairly stated.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 31. CONTINGENCIES (continued)

(b) *Taxation (continued)*

(i) In 2016, The Company was subject to a fiscal inspection related to gas royalties for the period January 2011 - December 2015. In January 2017, the Company was notified of the suspension of inspection, in order to clarify certain legal provisions on how royalties owed by holders of petroleum agreements for gas extraction activities in Romania, were calculated and established. Until the authorization of the individual financial statements for the year ended 2016, resumption date of the inspection has not been notified, and no communication has been received regarding the result of the inspection. The Company considers it complied with the legal requirements adopted by the relevant regulatory authorities, therefore it is not probable that an outflow of resources embodying economic benefits will be required. Given the above, the Company has not recorded any provisions at December 31, 2016, regarding this matter.

(ii) Since 2007, Romgaz calculated, declared and paid excise duties for technological consumption of natural gas. According to legal regulations, such excise duties were not chargeable, interpretation confirmed by the tax authorities in the documents exchanged with the Company; therefore, since no amounts were owed, the Company requested the repayment of these amounts. In this regard, the Company requested a fiscal inspection in order to clarify fiscal obligations regarding excise duties related to technological consumption of natural gas. Currently there is an ongoing fiscal inspection for the period January 2010 – March 2013, inspection initiated in 2013, but not completed. Completion of this inspection will result in providing a solution to the Company's request to clarify the fiscal treatment regarding excise duties for technological consumption of natural gas.

(c) *Environmental contingencies*

Environmental regulations are developing in Romania and the Company has not recorded any liability at December 31, 2016 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 210,571 thousand (December 31, 2015: RON 197,612 thousand), representing the decommissioning liability, and a provision for land restoration of RON 8,963 thousand (December 31, 2015: RON 14,253 thousand).

**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", ending in 2016 (according to Government Decision no. 151/2015 amending and supplementing GD no. 1096/2013, including the National Investment Plan).

According to Annex no. 1 of the same decision, S.N.G.N. Romgaz S.A. was allocated for CTE Iernut 549,763 greenhouse gas certificates (EUA) for 2016.

As of December 31, 2016, Romgaz holds in the Greenhouse Gas Emissions Unique Registry 762,416 CO2 certificates, as follows:

- a total of 984,053 certificates were used for emission compliance for the year 2015;
- a number of 687,204 certificates acquired in 2015;
- a total of 824,645 certificates related to 2014, used for partial compliance with the 2014 emissions, namely 828,793 CO2 tons;
- of the 962,085 certificates acquired for 2013, 507,620 certificates were submitted for the 2013 emissions. Thereby, Romgaz holds in its account 454,465 certificates, of which 4,148 certificates were used for 2014 compliance. In the account remained 450,317 certificates;

This is a free translation from the original Romanian version.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 31. CONTINGENCIES (continued)

(c) *Environmental contingencies (continued)*

- 7,587 certificates submitted to the Registry by Electrocentrale Bucuresti, related to the January 2013 emissions. Romgaz started to monitor the compliance when CET Iernut was taken over in February 2013;
- 549,763 certificates related to 2016.

In 2016, Romgaz SPEE Iernut posted a deficit of 133,397 CO<sub>2</sub> certificates necessary to comply with CO<sub>2</sub> emissions. These certificates will be acquired in 2017. The individual financial statements for the year ended December 31, 2016 include a liability in this respect of RON 3,296 thousand, presented in Trade and other payables.

According to EU Regulation No. 1123/2013 of November 8, 2013 regarding the establishment of the rights to international credits, pursuant to Directive 2003/87/EC of the European Parliament and of the Council, the Protocol to the Framework-Convention of the United Nations on Climate Change (Kyoto Protocol) sets up two mechanisms for the creation of international credits that Companies can use to reduce emissions. Joint Implementation provides for the creation of emission reduction units (ERU), while the Clean Development Mechanism (CDM) provides for the creation of certified emission reductions (CER). Industries that fall under the European Trading System of atmosphere emissions (EU ETS) can use these credits to offset their obligations on emissions of greenhouse gas. In this respect, S.N.G.N. Romgaz S.A. holds as linking availability (correlation availability EUA – ERU certificates) a number of 51,598 ERU certificates available to be used for compliance in the 2013-2020 period.

According to Government Decision no 1096/December 17, 2013, Romgaz was allocated CO<sub>2</sub> certificates as follows:

Operator	Installation	Annual Allocation (tCO <sub>2</sub> /year)							
		2013	2014	2015	2016	2017	2018	2019	2020
SNGN Romgaz - S.A.	SNGN Romgaz - S.A. - CTE Iernut	982,085	824,645	687,204	549,763	412,322	274,882	137,441	-

(d) *CET Iernut*

In the Romanian Government's view, the energy sector must play a key role in the economic and social development of Romania. Promoting investments, supporting strategic projects of national interest in order to secure the energy security of the country, are two of the Government's objectives related to the energy security.

Considering that there is a steadily growing portfolio with an uncontrolled production of electricity, in particular through wind power plants, it is necessary to commission balancing capacities which will be active in the balancing market, ancillary services market, spot markets, CET Iernut having the ability to be a provider of ancillary services in an area deficient in electricity power generation.

Within the National Power System (NPS), CET Iernut performs the following functions:

- coverage of NPS electricity consumption through groups' participation in the wholesale electricity market and balancing market;
- providing ancillary services needed for the functioning of NPS;
- eliminate the network congestion which may occur in the north-west of Transylvania.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 31. CONTINGENCIES (continued)

(d) *CET Iernut (continued)*

According to current environmental protection legislation, CTE Iernut energy groups are allowed to function until June 30, 2020. By implementing measures to reduce NOx emissions to levels lower than 100 mg/m<sup>3</sup>, the operation of the plant would still be possible after this date, but the investments required to meet these emission levels would require a high volume of resources. These investments will not add any improvement to efficiency, nor will they increase the reliability of these groups.

One of the main strategic directions of Romgaz, detailed in the 2015-2025 Development strategy, is to consolidate its position on the energy market. Related to energy production, Romgaz planned to increase efficiency by investing to increase the yield of the Iernut power plant to a minimum of 55%, to comply with environmental requirements (NOx, CO2 emissions) and to increase safety in operation. Thus, the Board of Directors approved the refurbishment of CTE Iernut by constructing a new power plant based on gas turbine combined cycle system for an installed power of maximum 430 MW and gross electrical efficiency at a rated load of minimum 56%. In this respect, in 2016, an agreement for the development of CTE Iernut has been signed by the Company, in amount of EUR 268.8 million. This agreement will become effective after the approval of application for funds for the investments financed from the National Investment Plan.

(e) *Controls by The Romanian Court of Accounts and the European Commission*

In year ended 2016, the Company came under scrutiny from the Romanian Court of Accounts, the European Commission and the Romanian Competition Council.

- (i) One of the Romanian Court of Accounts' findings is 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. 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.
- (ii) According to European Commission decision, Romgaz is suspected of entering into anti-competitive deals with other Romanian companies active in the gas market, deals by which Romgaz supposedly committed not to export natural gas, or blocked or delayed the measures necessary for the creation of the legal and technical framework by which gas exports could be achieved. During September 2016, a meeting between Romgaz and the European Commission was held at the EC's headquarters, regarding the control, in which the Company's opinion was presented. From that date, Romgaz has not received any request concerning the control.

The Company's management does not agree with the conclusions of the control done by the Romanian Court of Accounts. The final conclusions of the controls of the European Commission are not known and cannot be anticipated. Therefore the individual financial statements as of December 31, 2016 do not include adjustments about these matters.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

**32. JOINT ARRANGEMENTS**

On December 31, 2016, the Company is part of the following joint arrangements:

- a) In January 2002, Romgaz signed a petroleum agreement with Amromco for rehabilitation operations in order to achieve additional production in 11 blocks, namely: Bibești, Strâmba, Finta, Fierbinți-Târg, Frasin-Brazi, Zătreni, Boldu, Roșioru, Gura-Șuții, 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.
- b) In February 2003, Romgaz signed a joint operation agreement for exploration, development and operation in the Brodina block, with Aurelian Petroleum SRL and Raffles Energy SRL. In November 2007, the partners agreed to split the Brodina block in two areas: area of Gas Constructions Bilca (Production Area Bilca) and the area other than the Gas Construction Bilca Area (Brodina Exploration Area).

Currently, the participation of Romgaz in the Production Area Bilca is 37.5% and the participation of the operator, Raffles Energy SRL, is 62.5%. The wells have clearances issued by ANRM. As the fields are in an advanced stage of depletion, only two wells produced gas this year. Beside the revenue obtained from this structure, revenue is also obtained from processing natural gas from Suceava block.

Romgaz's share in the Brodina Exploration Area is 50% and the share of Aurelian Petroleum SRL, operator, is 50%. In the scope of evaluating the Voitinel discovery, drilling operations began at Voitinel 2 well but due to negative results obtained by the drilling operations, the gas well was abandoned. A new production program for this structure will be decided by the joint operation's management only after positive production test results from Voitinel 1 well.

- c) Romgaz has a joint operation agreement for exploration, development and operation in the North Bacau area, with Raffles Energy SRL, the operator of the joint operation. Romgaz holds 40% of the joint operation and Raffles Energy SRL - 60%. Proceeds from this perimeter stem from natural gas produced by Lilieci 1 well that is then transformed into electric energy via a generator. The concession agreement is in development-exploitation phase.
- d) In September 2003, Romgaz has concluded an operation agreement with Schlumberger for the rehabilitation of the Laslău Mare block, in order to obtain additional production by using advanced techniques and technologies for the exploitation of the reserves and of the know-how owned by Schlumberger. The mandatory work program is in line with the study approved by ANRM. Therefore, the annual working program, which includes the workings from the study, is approved annually, before the start of each year, by the Operation Committee of the joint operation. The participation share of Romgaz is 50% and that of Schlumberger is also 50%. Romgaz is the operator of the petroleum operations performed under the agreement.
- e) In June 2008, Romgaz signed a joint operation agreement for exploration, appraisal, development, exploitation in three blocks in Slovakia, namely: Svidnik, Snina and Medzilaborce. The owners of the exploration licenses are Aurelian Oil & Gas Slovakia, currently Alpine Oil & Gas (50% - operator), JKX (25%) and Romgaz through Bratislava branch (25%). In 2016 the operator obtained part of drilling clearances for three wells.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

32. JOINT ARRANGEMENTS (continued)

- f) In July 2012, Romgaz signed the amendments to the joint operations agreements with Lukoil Overseas Atash BV and Panatlantic (originally Vanco International Ltd), the three companies being holders of petroleum agreements. The agreement is for exploration, development and operation of offshore blocks EX-29 Est Rapsodia and EX-30 Trident of the Black Sea continental shelf. The participation shares are: Lukoil 72%, Panatlantic 18% and Romgaz 10%. Regarding Rapsodia block, in 2016, a decision to terminate the petroleum agreement has been issued by ANRM, the decision being published in the Official Gazette. During 2015, two wells were drilled in the Trident block, one of which was abandoned, while the other generated positive results, leading to gas discoveries. In October 2016, ANRM approved the extension of the second phase of exploration with another year and a half for the execution of additional works.

33. EVENTS AFTER THE BALANCE SHEET DATE

*CET Iernut*

In 2017, the Ministry of Energy approved the application for funds financed from the National Investment Plan for the investment "Combined cycle CCGT power plant". The agreement was not signed until the authorization of the individual financial statements for the year ended 2016.

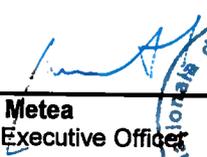
34. AUDITOR'S FEES

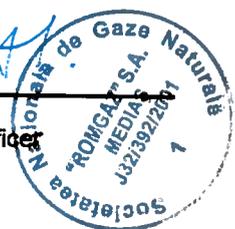
The fee charged by the Company's statutory auditor, S.C. Deloitte Audit S.R.L. for the audit of 2016 financial statements is RON 129 thousand.

The fees charged by the Company's statutory auditor for assurance services, other than audit services, provided in 2016 or related to 2016 are RON 467 thousand.

35. APPROVAL OF INDIVIDUAL FINANCIAL STATEMENTS

These individual financial statements were authorized for issue by the Board of Directors on March 23, 2017.

  
Virgil Metea  
Chief Executive Officer



  
Andrei Bobar  
Chief Financial Officer

**ROMGAZ**



Societatea Națională de Gaze Naturale Romgaz S.A. - Mediaș - România

**STATEMENT**

in accordance with the provisions of art. 63 (2) c) of Law No. 24/2017  
regarding issuers of financial instruments and market operations

---

Entity: Societatea Națională de Gaze Naturale ROMGAZ S.A.  
County: 32--SIBIU  
Address: MEDIAȘ, 4 C.I. Motaș Square, tel. +40269201020  
Registration Number in the Trade Register: J32/392/2001  
Form of Property: 14--State owned companies and enterprises  
Main activity (CAEN code and denomination): 0620--Natural Gas Production  
Tax Identification Number: 14056826

---

The undersigned, **DUMITRU CHISĂLIȚĂ** as Chairman of The Board of Directors,  
**VIRGIL MARIUS METEA** as CEO and  
**ANDREI BOBAR** as CFO,

hereby confirm that according to our knowledge, the annual financial statements for the year ended December 31, 2016, 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.

Chairman of the Board of Directors,  
**DUMITRU CHISĂLIȚĂ**

CEO,  
**VIRGIL MARIUS METEA**

CFO,  
**ANDREI BOBAR**

Capital social: 385.422.400 lei  
CIF: RO 14056826  
Nr. Ord.reg.com.an : J32/392/2001  
RO08 RHCB 0231 0195 2533 0001 - BCR Mediaș  
RO12 BRDE 3305 V024 6190 3300 - BRD Mediaș

S.N.G.N. Romgaz S.A.  
551130, Piața C.I. Motaș, nr.4  
Mediaș, Jud. Sibiu - România  
Telefon 004-0269-201020  
Fax 004-0269-846901  
E-mail: secretariat@romgaz.ro  
www.romgaz.ro