

February 20, 2019

**NOTE**

During 2016 SNG ROMGAZ SA was audited by the Romanian Court of Accounts – Chamber of Accounts Sibiu. As a result of this audit a Decision of the Court of Accounts was issued which made Romgaz responsible for taking some measures related to the alleged irregularities found in the company's activity. Romgaz made use of all means of appealing against the Court of Accounts decision.

At first instance the company's request was partly accepted and by means of consequence partial annulment of the decisions of the Court of Accounts was ordered, including the alleged irregularity related to the gas sales activity. Afterwards, however, by means of appeal, even though Romgaz maintained its position in complying with all legal obligations, the court decided to partially cancel the decision of the court of first instance, reiterating the company's obligation to comply with the Court of Accounts decision regarding the recovery of the alleged prejudice arisen from the supposedly faulty gas sales activity.

Therefore Romgaz will act accordingly in good faith and it will comply with the Order of the Court of Appeal Alba Iulia, as well as with the obligations arisen from the Court of Accounts Decision, even though the company's opinion is that the thorough and legal decision is the one ordered in the first court of instance. The company considers thorough the resolution of the first court of instance as this was ordered taking into consideration the company's legal arguments, as it was based on the a legal technical expertise applied in this case, expertise which confirmed the fact that there is no prejudice arisen from the gas sales activity.

**History of the litigation with the Court of Accounts, file name 2375/85/2016, was finally settled on February 19, 2019 pursuant to decision no. 169/19.02.2019 given by Alba Iulia Court of Appeal.**

Following the audit carried out at SNGN Romgaz SA by the external public auditors of the Romanian Court of Accounts –Chamber of Accounts Sibiu (CCS), between March 14, 2016 and May 6, 2016 the Audit Report no. 12443/06.05.2016 was issued providing the following alleged deficiencies:

- a) „SNGN Romgaz did not allocate to the result the equivalent value of certain cancellations representing costs with the abandonment of some investment works for some production wells which did not test for extractable reserves and which were incurred from the development quota; (point 2.1 from the Audit Report)
- b) „During 2013-2015 Romgaz delivered on the regulated market by 8,087,054.924 MWH more natural gas from the internal production than it had to deliver and at a lower price than on the free market, to cover the consumption of CPET” (item 2.2 of the Audit Report)
- c) „In 2015 SNGN Romgaz SA has unduly reimbursed the equivalent value of airplane tickets included in the total cost of holiday/medical treatment holidays” (item 2.3 of the Audit Report)

- d) „Further to the checks it was found that during 2013-2015 although SNGN Romgaz SA had in its organizational structure a Legal Department consisting of nine legal advisers, it illegally contracted and paid legal assistance services with external service providers, against the provisions of GEO no. 26/2012 (item 2.4 of the Audit Report)
- e) „SNGN Romgaz accepted to pay statements of works for investment contracts with S.C. Foraj Sonde S.A. Craiova that included incorrectly shares of direct expenses applicable to the employer representing contributions to social insurances, health insurances, unemployment, wage guarantee fund, risk and accidents fund, disabled persons fund and contributions to the holidays and allowance fund, amounts accepted to the items of the cost estimate “equipment” and “transportation” (item 2.5 of the Audit report).
- f) „The management positions within Romgaz were given regular overtime pay, without any legal document/timesheet proving overtime work”. (point. 2.6. of the Audit Report).

SNGN Romgaz SA raised Objections against the Audit Report in accordance with Art. 35 of Law 94/1992 on the organization and operation of the Court of Accounts (“Law No. 94/1992”) and Art. 120 of the Rules of Court of Accounts specific organization and performance of activities, as well as the use of documents resulting of such activities, dated 29.05.2014 (“CA Rules”) approved under Government Decision No. 155/2014 for approval of the Rules of Court of Accounts specific organization and performance of activities, as well as the use of documents resulting of such activities (G.D. No. 155/2014), requiring cancellation of the Audit Report, indicating that CCS retainings and findings are unsubstantiated and illegal.

The objections raised by the Company have been excluded, the audit body confirming the alleged irregularities provided in the Audit Report.

CCS issued the Decision no. 26/01.06.2016 deciding upon the following measures:

- (i) Related to the alleged breach established under point a), CCS ordered the Company to allocate to the result the equivalent value of certain cancellations representing costs with the abandonment of some investment works for some production wells which did not test for extractable reserves and which were incurred from the development quota, and their allocation under the financial report of 2016, deadline 27.01.2017 (measure I of the Decision).
- (ii) The measure ordered in relation to the alleged breach under point b) was the identification of alleged natural gas volumes delivered on the regulated market over the committed volume according to the data communicated by Direcția Operator Piață Gaze Naturale organized within Societății Naționale de Transport Gaze Naturale „Transgaz” S.A. Mediaș (“DOPGN”) (Natural Gas Market Operator Department) for every client, setting the value of the alleged damage resulting from the difference between the regulated market gas price and the open market price related to the additional gas volume delivered on the regulated market, and its recovery until 27.01.2017 (measure II of the Decision).
- (iii) The Chamber of Accounts Sibiu ordered regarding the prejudice from point c) that Romgaz shall establish the value of the alleged prejudice, considered unjustified, representing the counter value of reimbursed plane tickets for employees that benefited of vacation tickets and treatment tickets in resorts from outside the country and recovering the prejudice according to the legal provisions up until 27.01.2017 (measure II b form the Decision)

- (iv) For the alleged breach from point d) the Company is responsible for establishing the value of the alleged prejudice arisen as result of the alleged illegal payments related to the legal assistance contracts concluded without compliance with the legal provisions and recovering this prejudice up until 27.01.2017 (measure II c. from the Decision)
- (v) The order of the Chamber of Accounts Sibiu regarding the breach from point c) is: to identify all statements of payment related to the investments by which amounts consisting of direct expenses related to the employer representing social contributions, health insurances, unemployment, guarantee fund for payment of salary debts, risks and accidents guarantee fund, fund for persons with disabilities and fund for vacations and allowances were erroneously accepted under "equipment" and "transportation" items of the cost estimate, calculating and establishing the value of the prejudice and recovering it according to the legal provisions up until 27.07.2017 (measure II d from the Decision)
- (vi) Related to the situation from point f) the inspection body ordered identifying the alleged unjustified payments representing the overtime regular pay, calculating, establishing the value of the prejudice and recovering it according to the legal provisions up until 27.01.2017 (measure II e. from the Decision).

Based on article 204 of the Court of Accounts Regulation, Romgaz drafted and filed appeal no. 16419/June 17, 2016 which was dismissed according to Resolution no. 94/August 17, 2016 issued by the Appeal Commission of the Court of Accounts.

S.N.G.N. Romgaz S.A. filed with Sibiu County Court of Law an action for annulment representing case file no. 2375/85/2016 whereby it requested the annulment of Resolution no. 94/2016, of Decision no. 26/2016 and of the Court of Accounts Audit Report.

Through the civil ruling no. 527/July 06, 2018, Sibiu County Court of Law partially allowed the case file of the plaintiff S.N.G.N. Romgaz S.A. against the defendants Romanian Court of Accounts and Sibiu Court of Accounts and consequently: it partially annulled Resolution no. 94 issued on August 17, 2016 by the defendant Sibiu Court of Accounts and the Audit Report no. 12443 drafted on May 06, 2016 with respect to the measures established at points I a, II a and partially the measure established at point II e respectively, in amount of RON 1.818.636, representing the amount included in the wage for the regular overtime pay during August 01, 2014-December 31, 2014.

Both S.N.G.N. Romgaz S.A. and the Court of Accounts filed a recourse against this decision issued by Sibiu County Court of Law which was finally settled on February 19, 2019 by Alba Iulia Court of Appeal. The settlement published on the Court's portal is the following: allows the recourse filed by the defendant Romanian Court of Accounts on its own behalf and on behalf of Sibiu Court of Accounts against the administrative ruling no. 527/2018 issued by Sibiu County Court of Law – II-nd Civil Section of Contentious Administrative and Fiscal in case file no. 2375/85/2016. Partially annuls the ruling under appeal and re-examined for annulment purposes: dismisses the action of the plaintiff SNGN Romgaz S.A. also with respect to the annulment of the measure established under point IIa of the challenged administrative documents. Maintains the other dispositions of the challenged ruling. The recourse filed by the plaintiff SNGN Romgaz S. A. is dismissed as unfounded.

**ROMGAZ Press Office**



**About ROMGAZ**

*Romgaz is the largest natural gas producer and the main supplier in Romania. The company is admitted for trading on the Bucharest Stock Exchange and on London Stock Exchange (LSE). The main shareholder is the Romanian State owing a 70% stake. The company has a vast experience in the field of gas exploration and production and a history that began in 1909, more than 100 years ago. Romgaz undertakes geological research in order to discover new gas reserves, produces methane by exploiting the reservoirs included in the company portfolio, stores natural gas in underground storages, interventions, workover and special operations on wells and technological transport. In 2013, Romgaz extended its scope of work by taking over Iernut thermoelectric power plant, and thus it became also electric power supplier. More information about Romgaz: [www.romgaz.ro](http://www.romgaz.ro)*