



Societatea Nationala de Gaze
Naturale “**ROMGAZ**” SA

Consolidated Board of Directors’ Report

2019



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I. 2019 ROMGAZ GROUP OVERVIEW

1.1. Romgaz Group in figures

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

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

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

The consolidated net profit per share was RON 2.83.

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

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

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

In 2019, Romania's natural gas consumption recorded a decrease of approximately 4%, from 12.3 bcm to 11.5 bcm according to ANRE and to the company's consumption estimations².

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

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

Operational Results

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

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

Natural gas quantities produced, delivered, injected into and withdrawn from gas storages are shown in the table below (million m³):

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

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

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

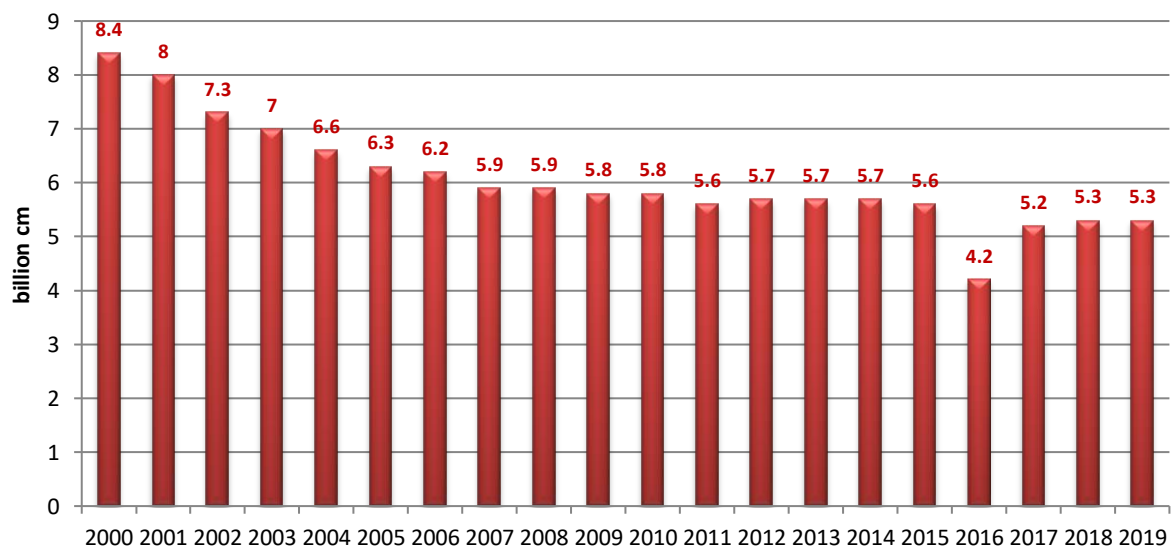
Note: the information is not consolidated; these include the transactions between Romgaz and Depogaz.

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

Natural gas production lies in the parameters forecasted in the 2019 program, achieving 98.6% of the planned production (5,277 million m³ – achieved vs 5,350 million m³ – planned).

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

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

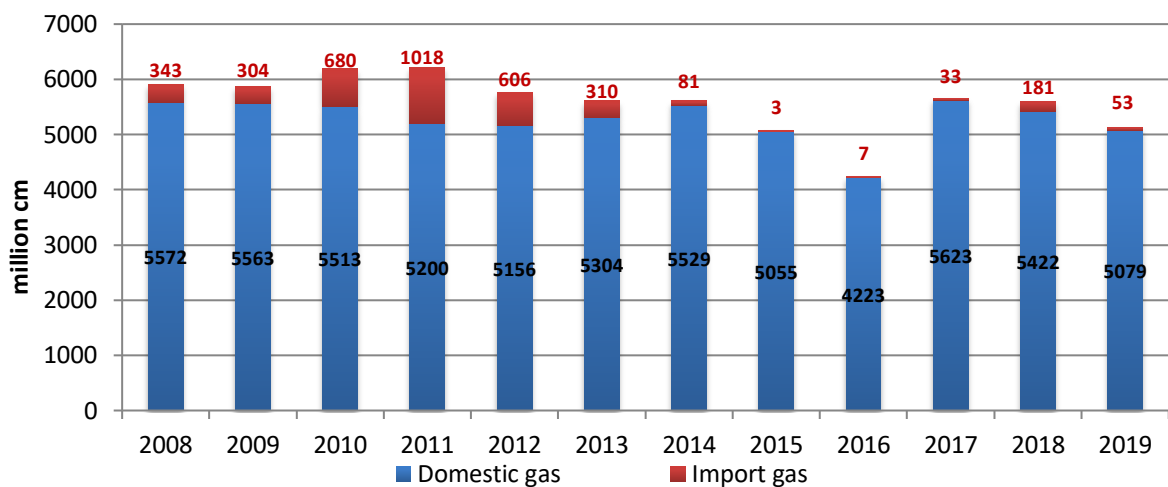


Decrease of Romgaz electricity production by 49.35% as compared to the similar period of 2018, as noticed in the data shown below, is due to the unavailability of the units because of the works performed at the new power plant.

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

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

Romgaz is one of the largest gas suppliers in Romania. The evolution of gas supplies³ during 2008-2019 is shown below:



Relevant Consolidated Financial Results

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

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

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

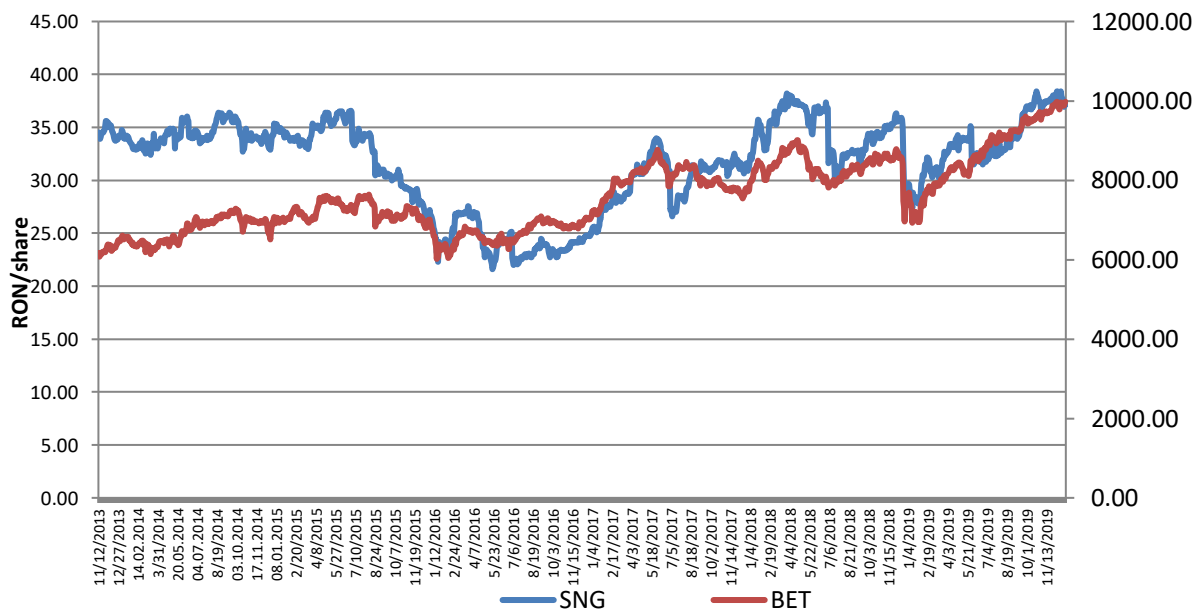
Figures in the above table are rounded; therefore, small differences may result upon reconciliation.

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

Romgaz on the stock exchange

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

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



1.2. Important events

March 29, 2019

Romanian Government issues GEO No.19/2019⁴ favourably amending GEO no. 114/2018⁵ in that capping of natural gas sale price at RON 68/MWh during May 1, 2019 – February 28, 2022 is limited to gas deliveries to “suppliers of residential customers and thermal energy producers, only for natural gas quantity used in producing thermal energy in cogeneration plants and thermal power plants for population consumption”.

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

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

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

April 1, 2019

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

May 7, 2019

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

June 26, 2019

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

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

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

October 24, 2019

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

October 28, 2019

By Resolution No.8, Romgaz shareholders approve the extension of the interim mandates for a period of 2 month as of their end date, pursuant to the provisions of article 64¹, paragraph (5) of GEO No. 109/2011.

December 23, 2019

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

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

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

- ✎ Jude Aristotel Marius

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

II. PARENT COMPANY AT A GLANCE

2.1. Identification Data

Name: Societatea Nationala de Gaze Naturale "ROMGAZ" SA

Main scope of activity: natural gas production

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

Trade Registry registration number: J32/392/2001

Fiscal registration number: RO14056826

LEI Code: 2549009R7KJ38D9RW354

Legal form of establishment: joint-stock company

Subscribed and paid in share capital: RON 385,422,400

Number of shares: 385,422,400 each having a nominal value of RON 1

Regulated market where the company's shares are traded: Bucharest Stock Exchange (shares) and London Stock Exchange (GDRs)

Phone: 0040 374 401020

Fax: 0040 269 846901

Web: www.romgaz.ro

E-mail: secretariat@romgaz.ro

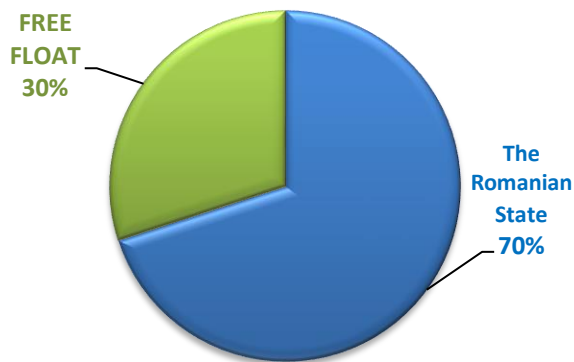
Bank accounts opened at: Banca Comerciala Romana, BRD-Groupe Société Générale, Citibank Europe, Patria Bank, Raiffeisen Bank, Banca Transilvania, ING Bank, Eximbank, CEC Bank.

Shareholder Structure

As of December 31, 2019 the shareholder structure is:

	Number of shares	%
The Romanian State⁶	269,823,080	70.0071
Free float – total, including:	115,599,320	29.9929
*legal persons	98,317,285	25.5090
*natural persons	17,282,035	4.4839
Total	385,422,400	100.0000

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



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

2.2. Company organization

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

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

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

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

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

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

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

- ↳ Sucursala Medias (Medias Branch) having its office in Medias, 5 Garii Street, postal code 551025, Sibiu County, territorially organized in 8 sections;
- ↳ Sucursala Targu Mures (Targu Mures Branch) having its office in 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, postal code 100492, Prahova County, territorially organized in 2 sections and 2 workshops;
- ✎ Sucursala de Interventii, Reparatii Capitale si Operatii Speciale la Sonde Medias (SIRCOSS – Branch for Well Workover, Recompletions and Special Well Operations) having its office in Medias, 5 Soseaua Sibiului Street, postal code 551009, Sibiu County, territorially organized in 3 sections and 5 workshops;
- ✎ Sucursala de Transport Tehnologic si Mentenanta Targu Mures (STTM – Technological Transport and Maintenance Branch) having its office in Targu Mures, 6 Barajului Street, postal code 540101, Mures County, territorially organized in 3 sections and 3 workshops;
- ✎ Sucursala de Productie Energie Electrica Iernut (SPEE – Iernut Power Generation Branch) having its office in Iernut, 1 Energeticii Street, postal code 545100, Mures County;
- ✎ Sucursala Bratislava (Bratislava Branch) having its office in Bratislava, City Business Centre V.-Karadžičova 16, code 82108, Slovakia.

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

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

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

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

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

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

2.3. Mission, Vision and Values

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

Vision

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

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

Values promoted by Romgaz are mainly the following:



2.4. Strategic Objectives

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

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

III. REVIEW OF ROMGAZ GROUP BUSINESS

3.1. Business Segments

Romgaz Group undertakes business in the following segments:

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

Exploration - Production

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

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

Exploration

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

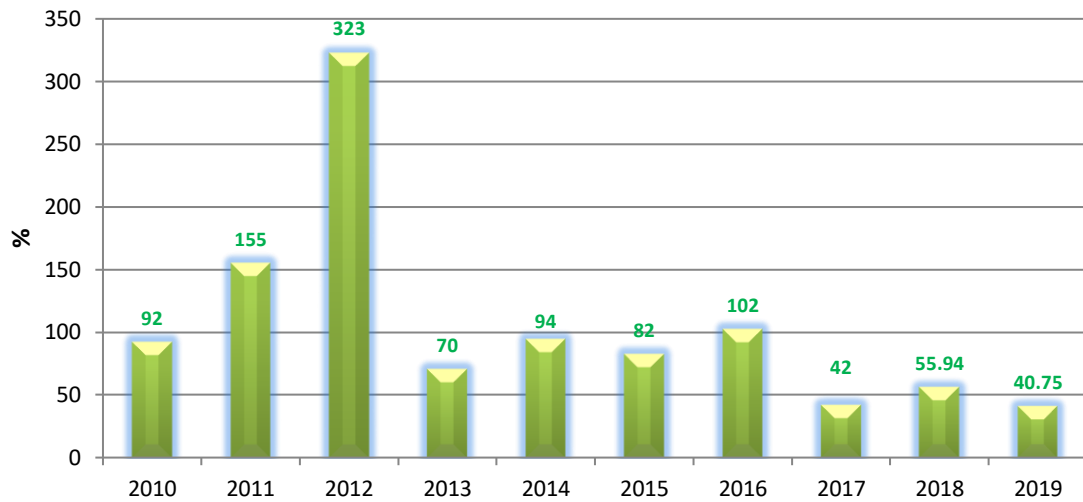
In 2019, six exploration wells out of ten were tested with gas and temporarily abandoned until the necessary infrastructure is constructed to turn these into experimental or final production. The success rate of 60% lies within the average margin of 35%-65% recorded in the international hydrocarbon production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

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

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

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

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



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

Production



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

The company's gas production in 2019 recorded a minimal decline, being 1.05% (5,277 million m³ vs 5,333 million m³) lower than the one recorded in 2018. According to estimates, this production ensured Romgaz a 56% market share of internal production gas deliveries for consumption and a 44% share of deliveries in Romania's total consumption.

The 5,277 million m³ of production recorded in 2019 was influenced by:

1. investments made for extension/upgrading of surface facilities; commissioning of new wells on Caragele structure led to a production which represented 6.9% of Romgaz total production while condensate production equalled 10,677 tones, representing 61.5% of Romgaz total condensate production;
2. continuous production rehabilitation of the main mature fields: Filitelnic, Delenii, Laslău, Sădinca, Copsa Mica, Nadeş-Prod-Seleuş, Roman, Corunca Sud, Târgu Mureş, Grebeniş, Piscu Stejari-Hurezani;
3. performance of capitalisable repair and well recompletion works in 169 wells resulting in a production of 195.95 million m³, namely 3.7% of the total production

Underground Gas Storage (UGS)



Beginning with 2019 there are 6 operational UGSs in depleted gas reservoirs in Romania. Romgaz owns and operates 5 UGSs having a total capacity of 3.965 billion m³ and a working gas volume of 2.770 billion m³.

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

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

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

Natural Gas Supply



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

The natural gas market in Romania consists of the *competition segment*, which includes gas trading activities between suppliers and between suppliers and eligible consumers, and the *regulated segment*, which includes monopoly-like activities performed in accordance with framework contracts (transmission, underground storage, distribution and supply at a regulated price).

In terms of supply, Romgaz held, during 2012-2019, a national market share ranging between 37 and 46%:

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

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

Well Workover, Recompletions and Special Operations

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

The branch performs two main types of activities:

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

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

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

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

Transportation and Maintenance

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

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

Electricity Generation and Supply

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

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

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

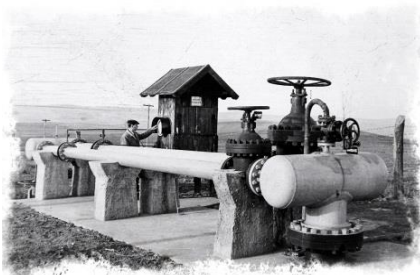
Cojocna Project is an outcome of the pressing need of finding ways to experimentally produce from a series of wells resulted from exploratory drilling, in order to determine, as detailed as possible, the production potential of such area. The wells were located far from each other and from the National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

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

Natural Gas Distribution

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

3.2. Brief History



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

The most important historic benchmarks are:

- 1909 • Natural gas discovery in Sarmasel (Transylvanian Basin)
- 1913 • First gas production recorded in Romania (113,000 m³)
- 1925 • Setting up the National Gas Company "SONAMETAN"
- 1958 • First UGS in Romania at Ilimbav, Sibiu County
- 1972 • Use of compressors in the course of production
- 1976 • Maximum gas production obtained by Romgaz (29,834 million m³)
- 1979 • Started to import natural gas from the Russian Federation
- 1991 • Centrala Gazului Metan was reorganized, by Government decision, to Regia Autonomia "ROMGAZ" RA
- 1998 • "ROMGAZ" RA becomes Societatea Națională de Gaze Naturale "ROMGAZ" SA
- 2000 • SNGN "ROMGAZ" SA was reorganized in five independent companies (SC "Exprogaz" SA Mediaș, SNGSN "Depogaz" SA Ploiești, SNTGN "Transgaz" SA Mediaș, SC "Distrigaz Sud" SA București și SC "Distrigaz Nord" SA Tîrgu-Mureș
- 2001 • **The current SNGN "ROMGAZ" SA Mediaș was established**
- 2013 • Company shares are traded on Bucharest Stock Exchange and London stock Exchange (GDR's)
- 2015 • Unbundling the underground gas storage activity by setting up Filiala de Înmagazinare Gaze Naturale Depogaz SRL Ploiești
- 2018 • As of April 1, 2018 Filiala de Înmagazinare Gaze Naturale Depogaz SRL Ploiești became operational

3.3. Mergers and Reorganizations, Acquisitions and Divestment of Assets

Unbundling of underground gas storage activity

In compliance with European and national applicable laws, Directive 2009/73/EC⁷ and Gas Law No 123/2012⁸ Romgaz has to legally unbundle the gas storage activity from gas production and supply activities.

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

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

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

The subsidiary became operational as of April 1, 2018.

Changes to the organizational structure

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

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

⁷ Directive 2009/73/EC of the European Parliament and Council of July 13, 2009 concerning common rules of the internal market in the natural gas sector and repealing Directive 2003/55/EC

⁸ Electricity and Gas Law no. 123 of July 10, 2012

- Authorizations Office, Record of Petroleum Concessions Office, Petroleum Licenses Office;
- SIRCOSS Medias – setting up 2 well workovers and recompletion formations;
 - Decision No. 33 dated September 4, 2019 of the Board of Directors modified the organisational structure of the headquarters, removing “Ploiesti Branch” from the company’s organisational structure and setting up “Strategy, International Relations and EU Funds Department”;
 - Decision No. 38 dated October 21, 2019 of the Board of Directors modified the organisational structure of STTM Targu Mures and SPEE Iernut. The main changes are as follows:

STTM Targu Mures

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

SPEE Iernut

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

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

3.4. Group Business Performance

3.4.1. Overall Performance

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

Financial Results

* RON thousand *

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

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

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

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

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

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

Structure of indicators split by activity-2019

* RON thousand *

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

Revenue

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

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

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

Financial Income

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

Expenses

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

Financial Expenses

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

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

Economic-Financial Results

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

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

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

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

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

Indicators	Calculation Formula	M.U.	2018	2019
1	2	3	4	5
Working capital (WC)	$C_{lt}-A_f = E+L_{nc}+Pr+S_i-A_f$	RON mil	1,894	1,863
Working capital requirements (WCR)	$(A_{st}-L+P_p) - (L_{ert}-C_{rst}+I_{df})$	RON mil	1,327	1,499
Net cash	$WC-WCR = L-C_{rst}$	RON mil	567	364
Economic Rate of Return (ERR)	$P_g/C_{lt} \times 100$	%	19.01	16.59
Return on Equity	$P_n/E \times 100$	%	17.82	15.19
Return on Sales	$P_g/R \times 100$	%	31.68	25.10
Return on Assets	$P_n/A \times 100$	%	14.96	13.20
EBIT	$P_g+Ex_i-I_r$	RON mil	1,532	1,237
EBITDA	$EBIT+Am$	RON mil	2,240	2,595
ROCE	$EBIT/C_{emp} \times 100$	%	18.37	16.10
Current liquidity	Ac/Lc	-	3.38	4.28
Asset Solvency	$E/L \times 100$	%	83.95	86.92

where:

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

3.4.2. Sales

Sales' evolution and perspective

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

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

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

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

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

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

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

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

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

- ✍ conclusion during 2019 of contracts with delivery in 2020 for approximately 50% of the sales estimates for this year;
- ✍ quantities were contracted both based on regulated contracts and on the competitive market. Through centralized markets, approximately 8 TWh were contracted with delivery in 2020;
- ✍ price capping for residential consumption and heat producers, as well as the other measures provided in GEO No. 114/2018⁹ will cease starting with GEO no.1/2020, starting with July 2020.
- ✍ Current debates regarding the regulation of bidding methods on centralized markets;
- ✍ Withdrawal from UGSs, against the background of a mild winter, is at a very low level and considering the large quantities stored in 2019, we estimate that a significant gas quantity will remain in UGSs at the end of the withdrawal cycle;
- ✍ Implementation of projects that will increase the capacities of exporting gas from Romania to other countries (especially to Hungary and Bulgaria), which would lead to a proper interconnection of gas transmission networks from Romania and would represent an alternative in terms of gas trade. This aspect must be viewed in connection with the regulation framework that will be prepared by applying GEO No. 114/2018.

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

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

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

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

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

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

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

The yearly evolution of electricity production and market share:

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

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

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

Market Dependence

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

3.4.3. Prices and Tariffs

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

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

Underground Gas Storage

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

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

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

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

The storage tariffs applied are described in the table below:

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

Natural Gas Supply

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

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

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

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

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

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

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

Natural Gas Distribution

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

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

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

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

3.4.4. Human Resources

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

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

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

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

a) by level of education

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

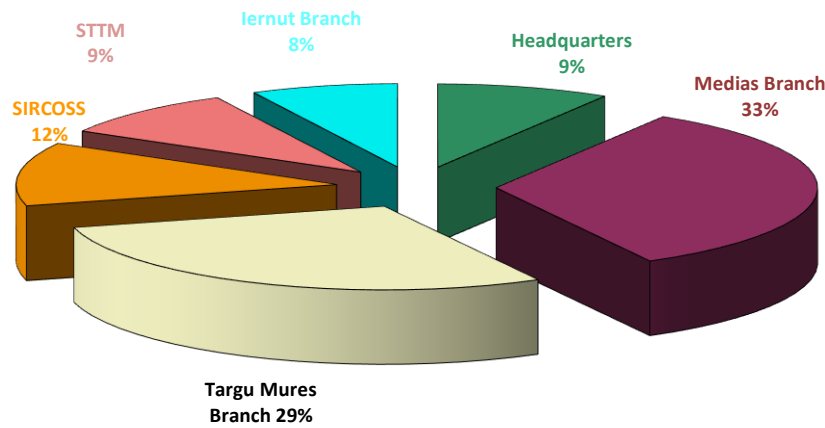
b) by age

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

c) by activities

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

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



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

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

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

Thus, the following were taken into account:

- training of administrative employees in various areas of activity, in cooperation with national and international training suppliers;
- authorization/re-authorization, according to specialization and position;
- skills improvement and vocational training of workers through internal training courses.

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

The annual training program was implemented as follows:

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

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

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

- “*Sindicatul Liber din cadrul S.N.G.N. Romgaz S.A.*”, consisting of 5,930 members;
- “*Sindicatul Extracție Gaze și Servicii*”, consisting of 5 members;
- “*Sindicatul Filiala Inmagazinare DEPOGAZ*”, consisting of 279 members.

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

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

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

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

3.4.5. Environmental Aspects

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

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

The environment protection activities during 2019 focused on:

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

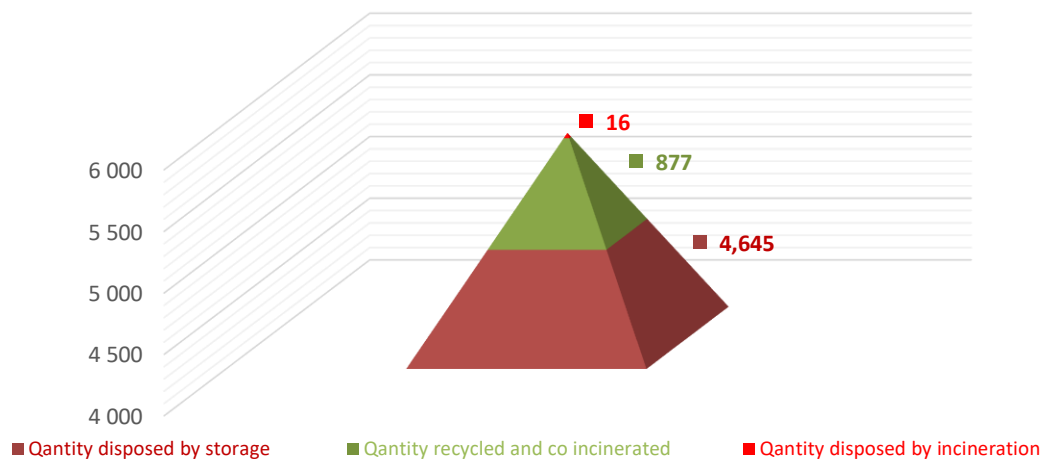
point of view for the necessity of obtaining authorization for waste water management was required;

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

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

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

AMOUNT OF WASTE MANAGED IN 2019 (6,250.518 tons)



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

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

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

- Discomfort generated by the gas cooling systems of Mures gas compression station, in Corunca. Two noise measurements were performed, one during day and the other one during night, as measures with certain term provided in the findings note drawn up by the commissioners of the Environmental Guard. Test reports did not identified exceedances of equivalent continuous weighted sound pressure level;
 - Discomfort generated by gas compression machines at gas compression station Cristuru Secuiesc. Measurements were carried out to determine the sound level on Septemeber 12, 2019, between 10⁰⁰-23⁰⁰ and on September 13, 2019, between 23⁰⁰-02⁰⁰. Measurements were performed in 8 perimeter points (the limit within the premises, SE outside the warehouse at 150 m, SE outside the warehouse at 350 m, 2 measurements at 250 m SW and at 450 m SW at the limit of houses and at 300 m W). The results show a sound level exceeding the levels allowed by SREN ISO1996/2-08, as results from the measurement bulletins, site plan, zone framing plans. In order to decrease the noise pollution at Cristuru Secuiesc work point the proposal was to install sound absorber panels in order to keep the noise level within the limits permitted by the legislation in force;
- In 2019, Romgaz continued to monitor the compliance with permanent or multiannual measures of implementation provided in the Remedial Report (maintenance of the perchlorethylene consumption under 1 tonne/year, for each location, so as to comply with the provisions of GD No. 699/2003 on establishing certain measures for decreasing emissions of volatile organic compounds resulting from the use of organic solvents in certain activities and installations, locating industrial units at safe distances from protected receivers, reducing fugitive emissions in the areas with calibration tanks, metallic tanks and concrete reservoirs for temporary storage of reservoir waters – by equipping the tanks with ecologic dispersion systems, periodic payment of the contribution towards the “Closing Fund”, until reaching the value of mandatory provision, for the Ogra specific waste facility, supervising the annual monitoring frequency for Dumbravioara drilling waste facility, closed in 2003, etc).
- Planning and organizing the internal environmental inspection activity in order to verify compliance with the legal requirements applicable to inspected activities. In 2019, 58 internal environmental inspections were planned and conducted by Romgaz headquarters environmental inspectors, at the authorized units of branches, following which 10 non-conformity reports were prepared, 8 of which being closed for a certain provided term, 2 opened (in a certain provided term). Thus, Romgaz activity complies with the applicable legal environmental requirements, the conformity degree identified following the implementation of a procedural assessment method for 2019 being 99%, representing a very good value indicating potential for reaching 100%.
- Assessing the conformity level regarding environmental protection requirements and contractual requirements of contractors and subcontractors of drilling works contracted by Romgaz, during 2019;
- Accomplishing the actions/measures programs for prevention and/or limitation of the impact on the environment for 2019, by modernizing the reservoir water storages, mounting waste water systems, transforming abandoned wells in reservoir water injection wells, etc.

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

CO₂ Certificates

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

By means of Annexes:

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

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

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

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

3.4.6. Occupational Safety and Health

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

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

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

3.4.7. Litigations

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

📄 964 litigations, out of which:

- ✂ 817 cases where Romgaz is plaintiff;
- ✂ 143 cases where Romgaz is defendant;
- ✂ 4 cases where Romgaz is civil party/injured party;

📄 The (approximate) total value of the files where Romgaz is plaintiff amounts RON 2,866,527,931;

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

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

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

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

Paragraph (3) letter b) provides as follows:

(3) the Board of Directors ... informs the shareholders, during the first general meeting of shareholders following conclusion of the legal act, on any transaction concluded by the public company with:

.....
b) another public company or with the public supervisory authority, if the transaction has, individually or in a series of transactions, a value of at least the RON equivalent of EUR 100,000”.

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

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

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

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

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

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

IV. GROUP'S TANGIBLE ASSETS

4.1. Main Production Facilities

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

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

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

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

Exploration - Production

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

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

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

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

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

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

1. Gas wells (currently producing wells, wells temporarily shut-in for reactivation or recompletion operations, wells for reservoir water injection);
2. Pipelines (gathering pipelines connecting the well clusters, waste water pipelines, industrial water pipelines);
3. Gas heaters (radiators);
4. Gas separators (underground and surface separators);
5. Flow metering panels (technological flow metering panels for almost every gas field, fiscal flow metering panel located at the interface with the NTS);
6. Gas dehydration (conditioning) stations;
7. Gas compression units:
 - low capacity portable compressors installed at the well head or at the cluster,
 - booster compressors for one or more fields, and

- gas compressor stations, usually consisting of two or more units, which can be intermediate or final compressor stations (outlet to the NTS);
8. Industrial or reservoir water pumping stations;
9. Other facilities (buildings, workshops, storehouses, electric lines, well access roads etc.).
- Production facilities are used at their maximum capacity (close to 100%).*

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

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

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

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

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

Underground Storage

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

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

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

1. Balaceanca Storage

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

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

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

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

2. Bilciuresti Storage

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

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

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

3. Ghercesti Storage

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

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

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

4. Sarmasael Storage

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

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

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

5. Urziceni Storage

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

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

- ↳ 32 wells of which 31 injection/withdrawal wells and 1 piezometric well;
- ↳ surface infrastructure includes:
 - Urziceni gas compressor station;
 - 19.5 km of gathering pipelines for 32 wells;
 - 3.3 km gathering pipelines;
 - 6 technological gas metering facilities;
 - 31 gas heaters;
 - 1 gas dehydration station;
 - optic fibre data acquisition system;
 - bi-directional fiscal metering system.

Cetatea de Balta Storage

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

Workover and Special Operations

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

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

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

Transportation and Maintenance

The car fleet of STTM consists of 626 motor vehicles as follows:

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

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

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

Electricity Generation

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

- 4 Czechoslovakian SKODA power units with an installed capacity of 100 MW: IMA1, IMA2, IMA3, IMA4;
- 2 Soviet power units with an installed capacity of 200 MW each (group no.5 and group no.6): IMA5.

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

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

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

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

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

4.2. Investments

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

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

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

Year	2015	2016	2017	2018	2019	Total
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Value (thousand RON)	937,916	497,716	781,768	1,150,349	866,218	4,233,967
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For 2019, Romgaz forecasted the achievement of an investment program with a total budget of *RON 1,245.00 million*, based mostly on objectives aiming to compensate the natural decline and electricity generation, such as:

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

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

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

The investments were financed as follows:

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

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

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

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

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

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

RON thousand

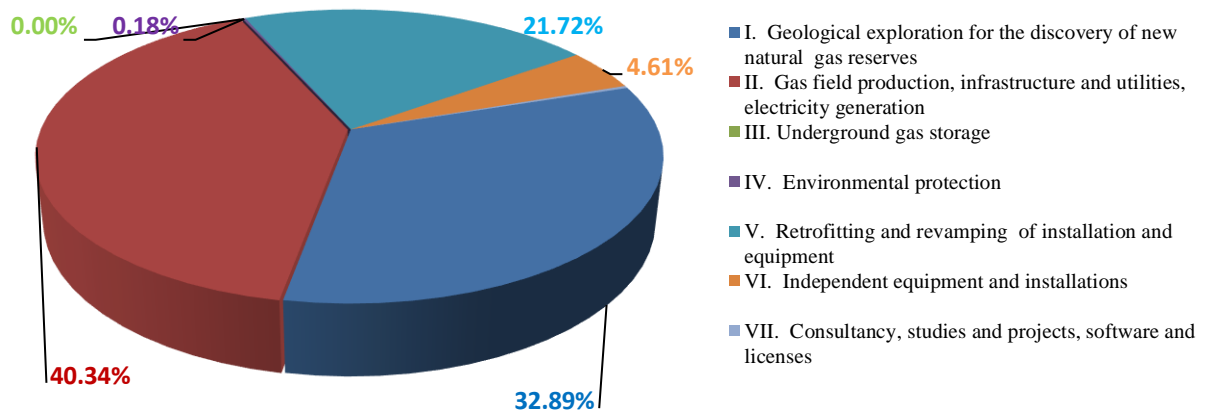
1.3	Environment protection works	386	1,480	1,187	307.51
2.	New investments – total, out of which:	166,990	256,563	88,797	53.18
2.1	Natural gas exploration, production works	162,606	251,366	88,444	54.39
2.2	Maintaining UGS capacity	2980	0	0	0.00
2.3	Environmental protection works	1,404	5,197	353	25.14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

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

RON thousand

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

The chart below shows the investments for 2019:



The summary of the achieved investment projects is shown below:

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

	<ul style="list-style-type: none"> - recompletion operations at 6 wells; - works and surface facilities for wells proposed to be drilled; - abandoning wells that received the permit in this respect; - design and permits 	<ul style="list-style-type: none"> -surface works and drilling of well Zatreňi 100; -drilling and putting into production well Balta Alba 121; -recompletion operations for 2 wells; -works related to abandonment of 2 wells; -permits and approvals for drilling well Balta Alba 122 and for installing compressors for wells Bibesti 213 and Bibesti 214.
	<p><u>Slovakia</u></p> <ul style="list-style-type: none"> - the budget was approved only for the first four months of the year 	<ul style="list-style-type: none"> -relinquished exploration in two blocks in 2018; - taking into account the strong opposition of institutions and population against drilling in the interest area, we analysed the possibility of withdrawing from the partnership.

Development of CTE Iernut

One of Romgaz main strategic directions, provided in “*The Development Strategy for 2015-2025*”, is consolidation of the company’s position on the energy supply markets. In this case, in the field of electricity generation, Romgaz proposed to have “*a more efficient activity by making investments to increase the efficiency of the Thermoelectric Plant (CTE) Iernut to a minimum of 55%, respecting the environmental requirements (NOx, CO₂) and increasing the exploitation safety*”.

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

In 2019 the following equipment was supplied:

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

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

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

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

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

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

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

The investments were financed entirely from own sources.

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

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

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

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

V. SECURITIES MARKET

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

Government Decision No. 831/2010¹² approved “the sale by secondary initial public offering of shares representing 15% of S.N.G.N. Romgaz S.A. share capital by the Ministry of Economy, Trade and Business Environment, through the Office Ownership and Privatization in Industry”.

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

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

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

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

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

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

¹² GD No. 831 of August 4, 2010 on the approval of the privatisation strategy by public offering of Societatea Națională de Gaze Naturale “Romgaz” – S.A. Mediaș and of the mandate of the public institution involved in the development of such process.

¹³ Calculated based on the closing price on the last trading day of the year, namely based on the exchange rate communicated by the National Bank of Romania and valid in the last trading day of the year.

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

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

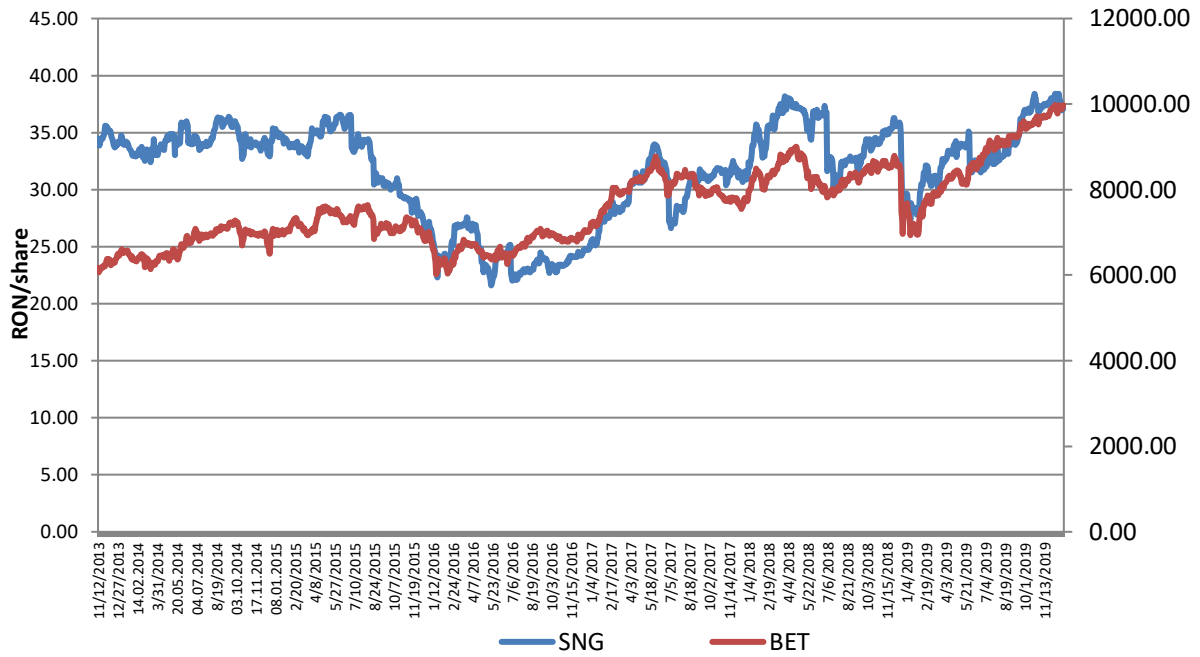
At the beginning of 2019 the share price continued the descending trend recorded at the end of 2018, as a consequence of GEO no.114/2018 *on establishing fiscal, budgetary and public investment measures, amending and supplementing some pieces of legislation and extending some deadlines*. The lowest price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

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

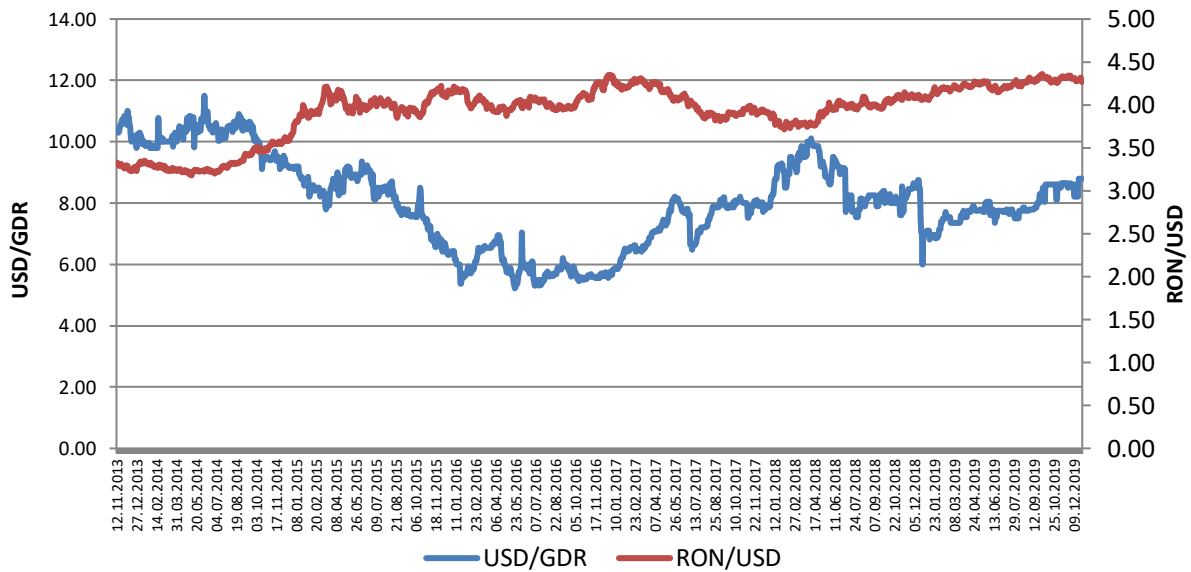
Since the listing day up to present, Romgaz has been considered an attractive company for investors and holds a significant position in the top of local issuers, being included in BVB indices by the end of 2019, as follows:

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

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



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



5.1. Dividend Policy

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

Therefore, **Government Ordinance No. 64/2001¹⁴** approved by *Law No. nr.769/2001* as amended, provides at Article 1, par. (1), let. f) that the profit after the deduction of profit tax is distributed *minimum* 50% as dividends.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VI. COMPANY MANAGEMENT

6.1. Board of Directors

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

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

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

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

^{**)} - chairman until May 13, 2019.

^{***)} - chairman as of May 14, 2019.

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

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

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

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

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

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

Company's shareholders approve by Resolution No. 8 of **October 28, 2019** to extend the mandates of interim board members by two months from the date of their mandate expiration, in compliance with article 64¹ para (5) of GEO No. 109/2011.

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

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

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

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

Consequently, the Board of Directors has the following members:

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

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

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

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

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

6.2. Upper Management

Volintiru Adrian Constantin - Chief Executive Officer (CEO)

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

Bobar Andrei – Chief Financial Officer (CFO)

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

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

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

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

Other persons discharging managerial responsibilities:

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

Bircea Angela	Technical Director
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SIRCOSS

Rotar Dumitru Gheorghe	Director
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Bordeu Viorica	Economic Director
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Gheorghiu Sorin	Technical Director
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Cătană Cristian Victor	Director
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Ilinca Cristian Alexandru	Economic Director
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Cioban Cristian Augustin	Operation-Development Director
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The members of the upper management, except the chief executive officer and the chief financial officer are employees of the company, having an individual labour contract for an indefinite period.

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

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

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

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

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

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

VII. CONSOLIDATED FINANCIAL-ACCOUNTING INFORMATION

7.1. Statement of Financial Position

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

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

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

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

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

*) restated

NON CURRENT ASSETS

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

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

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

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

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

Deferred tax asset

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

Taking into account the impairment recorded for the fields operated by the Group, for abandoned investment projects and for storage assets, the temporary difference between the

accounting and the tax value of the assets increased, which generated a rise in the deferred tax asset on December 31, 2019 as compared to December 31, 2018.

CURRENT ASSETS

Inventories

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

Trade and other receivables

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

Cash and cash equivalents. Other financial assets

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

Other assets

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

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

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

EQUITY

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

NON-CURRENT LIABILITIES

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

CURRENT LIABILITIES

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

Trade payables and other liabilities

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

Other liabilities

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

- decrease of the Group's petroleum royalty liability (decrease by RON of 71.69 million, as a result of a lower reference price communicated by the National Agency for Mineral Resources in Q4 2019 as compared to Q4 2018);
- decrease of the windfall tax liability by RON 10.78 million, due to the decrease of the average gas price delivered in December 2019 by approximately 11.54% as compared to December 2018 and due to the gas quantities delivered during this month compared to the same period of 2018, by approximately 16.64%;
- decrease of the VAT liability by RON 26.34 million due to lower sales during December 2019 as compared to December 2018;
- payment to Schlumberger of a liability taking into account that the association agreement expired in 2018 (RON 22.5 million).

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

Provisions

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

7.2. Statement of Consolidated Comprehensive Income

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

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

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

*)restated

Revenue

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

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

As for the quantities, the Group reports for 2019 as compared to 2018:

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

Cost of Commodities Sold

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

Investment Income

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

Other Gains and Losses

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

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

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

Impairment losses on trade receivables

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

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

Changes in Inventory

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

Depreciation, amortization and impairment expenses

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

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

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

Employee benefit expense

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

Exploration expenses

Exploration expenses recorded in 2019 in amount of RON 24.6 million decreased by 90.06% compared to the previous year.

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

Other expenses

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

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

Other income

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

7.3. Statement of Consolidated Cash Flows

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

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

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

*) restated

VIII. CORPORATE GOVERNANCE

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

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

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

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

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

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

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

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

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

Some of the already implemented measures include:

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

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

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

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

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

Aspects related to shareholders

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

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

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

General Meeting of Shareholders

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

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

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

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

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

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

Board of Directors

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

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

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

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

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

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

Advisory Committee

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

The Audit Committee has legal competencies provided in Article 65 of Law No. 162/2107¹⁶ consisting mainly in monitoring the financial reporting process, the internal control systems, the internal audit and risk management systems within the company, as well as in controlling the statutory audit activity related to annual financial statements and managing the relationship with the external auditor.

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

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

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

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

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

I) Nomination and Remuneration Committee:

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

II) Audit Committee

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

III) Strategy Committee

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

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

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

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

The attendance at the Board of Directors' meetings:

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

Marin Marius	1	1	100.0
Balazs Botond	1	1	100.0

where:

P = participate

PA = power of attorney

NP = did not participate

Board members' attendance at Advisory Committees' meetings:

Nomination and Remuneration Committee: 9 meetings

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

Audit committee: 8 meetings

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

Strategy Committee: 2 meetings

First name and last name	physical attendance
Ciobanu Romeo Cristian	2
Havrileț Nicolae	2
Cîmpeanu Nicolae	2
Jansen Petrus Antonius Maria	2
Parpală Caius Mihai	2

Chief Executive Officer

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

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

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

A. Duties related to internal management:

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

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

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

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

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

Internal Audit

Internal audit activity is organised and conducted in compliance with:

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

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

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

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

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

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

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

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

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

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

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

The charter sets at least:

- the position of the internal audit within the company;

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

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













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

The missions have been performed in the following fields:

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

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

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

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

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

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

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

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

Risk Management and Internal Control

Company's Policies and Objectives related to Risk Management

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

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

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

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

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

Consequently, in compliance with the risk management process, the company systematically analyses, at least once a year, the risks related to its objectives and activities and prepares

adequate remedy plans in order to mitigate the possible consequences of such risks, and appoints employees responsible for implementing those plans.

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

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

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

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

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

General scope of the risk management activity:

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

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

All risks are analysed from following perspectives:

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

Risk exposure

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

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

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

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

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

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

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

Currently, one of the main risk factors with direct consequences on the company's commercial outcome is the political and regulations risk. The Company uses all available instruments in order to minimize/remedy this risk by means of dialogue with the competent authorities, in the phase of drafting the regulating documents as well as afterwards in the phase of enforcement. The regulation framework suffered in the previous years major changes of the regulatory framework in order to adopt a European market model regarding the Network Code. However, the Group is exposed to unfavourable changes of the primary and/or secondary laws. For example, the successive modifications of Law 123/2012, of the Energy and Gas Law, especially the obligation to sell gas at a capped price (GEO No.114/2018 and GEO No. 19/2019), as well

as cancelling such provisions by GEO No.1/2020. Other amendments to Law 123/2012 regulate trading on the competitive market, especially provisions related to trading obligations. The amendments that were made or are going to be made to the primary laws, as well as secondary rules of ANRE may lead to major changes to the company's commercial activities and may influence the financial exposure caused by legislative volatility.

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

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

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

Internal control

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

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

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

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

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

2019 internal control management system development/enhancement actions:

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

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

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

Ethics and Integrity Code

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

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

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

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

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

Corporate Social Responsibility

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

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

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

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

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

Expenses/activities	Achieved (RON)
Total of sponsorship expenses, out of which	19,500,000
<ul style="list-style-type: none"> • Expenses with sponsorships in medical and health fields – Article XIV letter a) • Expenses with sponsorships in education and sport fields – Article XIV letter b) 	7,800,000
– total, out of which:	7,800,000

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

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

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

When supporting/performing projects, actions, social responsibility initiatives, Romgaz took into consideration the provisions of Sponsorship Policy and Sponsorship Guide applicable in 2019, published on the company's website at Social Responsibility.

(<https://www.romgaz.ro/en/content/social-responsibility-0>)

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

Legal Framework

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

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

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

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

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

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

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

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

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

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

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

The structure of the remuneration granted to managers

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

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

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

NON-FINANCIAL STATEMENT

Romgaz prepares a *separate report* for financial year 2019, that will be public on the company's website by the end of June 2020, according to the Finance Minister Order no. 2844/2016¹⁷ (chapter 7, item 42, para (1)).

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

IX. PERFORMANCE OF DIRECTORS' AGREEMENTS/CONTRACT OF MANDATE

Directors Agreements

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

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

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

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

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

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

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

Contract of Mandate

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

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

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

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

The contracts of mandate concluded between the Board of Directors and the Chief Executive Officer, and the Chief Financial Officer, respectively, do not provide for performance indicators



and criteria. These will be negotiated and included in the contracts of mandate, for mandate term, by an addendum after completion and approval of the Governing Plan.

SIGNATURES:

Chief Executive Officer,

VOLINTIRU ADRIAN CONSTANTIN

Chief Financial Officer,

VEZA LEONTE MARIUS

Table on compliance with BVB Code of Corporate Governance

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

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

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

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

BVB CGC Provisions		Compliance	Noncompliance / Partial compliance	Reason for noncompliance/ explanation on compliance
1		2	3	4
				<p>drafted and approved by the BoD on March 12 2019.</p> <p>Following approval, the policy was published on the company's website.</p> <p>The Annual Report on Remuneration is presented together with the Annual Board of Directors' Report. It presents details of the principles applied for the determination of the remuneration of the Board Members and directors.</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 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	<p>Main corporate regulations: the articles of incorporation, general meeting of shareholders procedure;</p>		x partially	<p>Items on the GMS organization are presented to shareholders at each meeting.</p> <p>A separate document on the <i>GMS Procedure and Rules</i> was prepared and it will be submitted for BoD approval in a meeting subsequent to this statement of conformity.</p>
D.1.2	<p>Professional CVs of the members of the company's governing bodies, other professional commitments of Board member's, including executive and non-executive Board positions in companies and non-profit organizations.</p>	x		
D.1.3	<p>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;</p>	x		
D.1.4	<p>Information related to GMS: the agenda and supporting materials; the procedure approved for the election of BoD members, the arguments for the proposal of candidates for the election to the Board together with their professional CVs; shareholders' questions related to the agenda and the company's answers, including the decisions taken by the GMS;</p>	x		

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

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

Legend:

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