

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

INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

PREPARED IN ACCORDANCE WITH

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

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STATEMENT OF INDIVIDUAL FINANCIAL POSITION AS OF DECEMBER 31, 2018

	Note	Year ended December 31, 2018 '000 RON	Year ended December 31, 2017 (restated)* '000 RON
Continuing operations			
Revenue	3	4,851,124	4,079,374
Cost of commodities sold	5	(245,162)	(61,088)
Investment income	4	52,838	20,862
Other gains and losses	6	(103,168)	(120,340)
Impairment losses on trade receivables	18	(19,941)	-
Changes in inventory of finished goods and work in progress		(10,572)	(114,626)
Raw materials and consumables used	5	(63,538)	(54,633)
Depreciation, amortization and impairment expenses	7	(708,076)	(552,446)
Employee benefit expense	8	(563,756)	(508,062)
Finance cost	9	(29,724)	(18,791)
Exploration expense	13	(247,123)	(183,121)
Other expenses	10	(1,414,767)	(1,028,996)
Other income	3	14,719	363,971
Profit before tax from continuing operations		1,512,854	1,822,104
Income tax expense	11	(207,418)	(259,672)
Profit for the year from continuing operations		1,305,436	1,562,432
Profit for the year from discontinued operations	29	55,111	239,842
Total profit for the year		1,360,547	1,802,274
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) on post- employment benefits	19 c)	(18,994)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	11	3,039	-
Total items that will not be reclassified subsequently to profit or loss		(15,955)	-
Other comprehensive income for the year net of income tax		(15,955)	-
Total comprehensive income for the year		1,344,592	1,802,274

*) see note 32

These financial statements were endorsed by the Board of Directors on March 25, 2019.

Adrian Constantin Volintiru
Chief Executive OfficerAndrei Bobar
Chief Financial Officer

STATEMENT OF INDIVIDUAL FINANCIAL POSITION AS OF DECEMBER 31, 2018

	Note	December 31, 2018 '000 RON	December 31, 2017 (restated) *) '000 RON	January 1, 2017 (restated) *) '000 RON
ASSETS				
Non-current assets				
Property, plant and equipment	12	6,241,906	6,221,699	6,139,435
Other intangible assets	14	4,735	8,629	14,591
Investments in subsidiaries	25 a)	66,056	1,200	1,200
Investments in associates	25 b)	120	120	120
Deferred tax asset	11	126,075	69,965	18,053
Other financial investments	26	9,812	69,678	69,657
Total non-current assets		6,448,704	6,371,291	6,243,056
Current assets				
Inventories	15	229,912	389,515	575,983
Trade and other receivables	16 a)	808,799	816,086	828,610
Contract costs		583	-	-
Other financial assets	28	881,225	2,786,166	2,892,751
Other assets	16 b)	167,902	305,908	141,525
Cash and cash equivalents	27	549,768	227,165	280,526
Total current assets		2,638,189	4,524,840	4,719,395
Total assets		9,086,893	10,896,131	10,962,451
EQUITY AND LIABILITIES				
Equity				
Share capital	17	385,422	385,422	385,422
Reserves	18	1,823,687	2,312,532	3,020,152
Retained earnings		5,429,843	6,255,028	5,965,167
Total equity		7,638,952	8,952,982	9,370,741
Non-current liabilities				
Retirement benefit obligation	19	131,120	119,482	119,986
Deferred revenue	20	21,128	-	-
Provisions	19	510,114	682,041	524,239
Total non-current liabilities		662,362	801,523	644,225

STATEMENT OF INDIVIDUAL FINANCIAL POSITION AS OF DECEMBER 31, 2018

	Note	December 31, 2018 '000 RON	December 31, 2017 (restated) *) '000 RON	January 1, 2017 (restated) *) '000 RON
Current liabilities				
Trade payables	21	189,355	606,109	569,941
Contract liabilities	21	46,381	-	-
Current tax liabilities		65,803	128,520	60,295
Deferred revenue	20	8,442	970	4,924
Provisions	19	92,684	76,923	50,742
Other liabilities	21	382,914	329,104	261,583
Total current liabilities		785,579	1,141,626	947,485
Total liabilities		1,447,941	1,943,149	1,591,710
Total equity and liabilities		9,086,893	10,896,131	10,962,451

*) see note 32

These financial statements were approved by the Board of Directors on March 25, 2019.



Adrian Constantin Volintiru
Chief Executive Officer



Andrei Bobar
Chief Financial Officer

STATEMENT OF INDIVIDUAL CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2018

	Share capital '000 RON	Legal reserve '000 RON	Other reserves (note 18) '000 RON	Retained earnings ^{*)} '000 RON	Total '000 RON
Balance as of January 1, 2018 (before restatement) (note 32)	385,422	77,084	2,235,448	6,612,922	9,310,876
Effect of voluntary change in accounting policy (note 32)	-	-	-	(415,096)	(415,096)
Effect of correction of accounting errors (note 32)	-	-	-	57,202	57,202
Balance as of January 1, 2018 (restated)	385,422	77,084	2,235,448	6,255,028	8,952,982
Total comprehensive income for the year	-	-	-	1,360,547	1,360,547
Allocation to dividends *)	-	-	(716,886)	(1,923,258)	(2,640,144)
Allocation to other reserves	-	-	185,563	(185,563)	-
Effect of change in accounting policies due to new IFRSs (note 2)	-	-	-	(18,478)	(18,478)
Increase in reinvested profit reserves	-	-	42,478	(42,478)	-
Other comprehensive income for the year	-	-	-	(15,955)	(15,955)
Balance as of December 31, 2018	385,422	77,084	1,746,603	5,429,843	7,638,952
Balance as of January 1, 2017 (before restatement) (note 32)	385,422	77,084	2,943,068	6,270,587	9,676,161
Effect of voluntary change in accounting policy (note 32)	-	-	-	(355,024)	(355,024)
Effect of correction of accounting errors (note 32)	-	-	-	49,604	49,604
Balance as of January 1, 2017 (restated)	385,422	77,084	2,943,068	5,965,167	9,370,741
Total comprehensive income for the year (not restated)(note 32)	-	-	-	1,848,510	1,848,510
Allocation to other reserves	-	-	(747,719)	(1,472,314)	(2,220,033)
Allocation to dividends *)	-	-	16,309	(16,309)	-
Comprehensive income for the year (Effect of change in accounting policy) (note 32)	-	-	-	(53,834)	(53,834)
Comprehensive income for the year (Effect of correction of accounting errors) (note 32)	-	-	-	7,598	7,598
Increase in reinvested profit reserves	-	-	23,790	(23,790)	-
Balance as of December 31, 2017 (restated)	385,422	77,084	2,235,448	6,255,028	8,952,982

*) In 2018 the Company's shareholders approved the allocation of dividends of RON 2,640,144 thousand (2017: RON 2,220,033 thousand), dividend per share being RON 6.85 (2017: 5.76 RON /share).

**) Retained earnings include the geological quota reserve set up in accordance with the provisions of Government Decision no. 168/1998 on the establishment of the expense quota for the development and modernization of oil and natural gas production, refining, transportation and oil distribution. Following the Company's transition to IFRS, the reserve was no longer set up, the reserve existing as of December 31, 2012 being included in retained earnings. These result is allocated based on the depreciation, respectively write-off of the assets financed using this source, based on decision of General Meeting of Shareholders. As of December 31, 2018 the geological quota reserve is of RON 1,503,982 thousand (December 31, 2017: RON 1,781,845 thousand).

These financial statements were endorsed by the Board of Directors on March 25, 2019.



Adrian Constantin Volistitu
Chief Executive Officer

Andrei Bobar
Chief Financial Officer

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

STATEMENT OF INDIVIDUAL CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2018

	Year ended December 31, 2018	Year ended December 31, 2017 (restated)*
	'000 RON	'000 RON
Cash flows from operating activities		
Net profit	1,360,547	1,802,274
Adjustments for:		
Income tax expense (note 11)	218,262	316,118
Interest expense (note 9)	-	3
Unwinding of decommissioning provision (note 9, note 19)	29,724	18,788
Interest revenue (note 4)	(53,017)	(22,349)
Net loss on disposal of non-current assets (note 6)	62,949	74,401
Change in decommissioning provision recognized in profit or loss, other than unwinding (note 19)	(34,390)	22,978
Change in other provisions (note 19)	19,169	11,389
Net impairment of exploration assets (note 7, note 12, note 13)	(118,809)	(45,100)
Exploration projects written off (note 13)	149,620	135,350
Net impairment of property, plant and equipment and intangibles (note 7, note 12)	235,661	24,489
Depreciation and amortization (note 7)	591,224	573,057
Amortization of contract costs	1,291	-
Impairment of investment in associates (note 6)	-	(12,462)
Impairment of other financial investments (note 6)	-	(21)
Change in investments at fair value through profit and loss (note 6)	40,782	-
Loss from disposal of investment in associates and other financial investments (note 6)	-	12,308
Net receivable write-offs and movement in allowances for trade receivables and other assets	20,048	38,575
Net movement in write-down allowances for inventory (note 6, note 15)	(2,052)	8,147
Liabilities written off	(58)	(610)
Subsidies income	(269)	(150)
	2,520,682	2,957,185
Movements in working capital:		
(Increase)/Decrease in inventory	143,138	178,363
(Increase)/Decrease in trade and other receivables	10,062	(180,283)
Increase/(Decrease) in trade and other liabilities	(201,729)	105,983
Cash generated from operations	2,472,153	3,061,248
Interest paid	-	(3)
Income taxes paid	(334,050)	(309,956)
Net cash generated by operating activities	2,138,103	2,751,289

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STATEMENT OF INDIVIDUAL CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2018

	Year ended December 31, 2018	Year ended December 31, 2017 (restated)*
	'000 RON	'000 RON
Cash flows from investing activities		
Payments to increase the investment in associates	-	(144)
Investment in subsidiaries	(46,800)	-
Net collections/(payments) related to other financial assets	1,916,474	104,964
Interest received	49,096	20,908
Proceeds from sale of non-current assets	7,223	207
Acquisition of non-current assets	(916,695)	(479,797)
Acquisition of exploration assets	(205,371)	(231,496)
Proceeds from disposal of associates	-	298
Net cash used in investing activities	801,927	(585,060)
Cash flows from financing activities		
Dividends paid	(2,638,535)	(2,220,003)
Subsidies received (note 20)	21,108	413
Net cash used in financing activities	(2,617,427)	(2,219,590)
Net increase/(decrease) in cash and cash equivalents	322,603	(53,361)
Cash and cash equivalents at the beginning of the year	227,165	280,526
Cash and cash equivalents at the end of the year	549,768	227,165

*) see note 32

These financial statements were endorsed by the Board of Directors on March 25, 2019.



Adrian Constantin Volintin
Chief Executive Officer



Andrei Bobar
Chief Financial Officer

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

1. BACKGROUND AND GENERAL BUSINESS

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

S.N.G.N. Romgaz S.A. is a joint stock company, incorporated in accordance with the Romanian legislation.

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

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

Romgaz has as main activity:

1. geological research for the discovery of natural gas, crude oil and condensed reserves;
2. operation, production and usage, including trading, of mineral resources;
3. natural gas production for:
 - ensuring the storage flow continuity;
 - technological consumption;
 - delivery in the transportation system.
4. commissioning, interventions, capital repairs for wells equipping the deposits, as well as the natural gas resources extraction wells, for its own activity and for third parties;
5. electricity production and distribution;

Starting April 1, 2018, Romgaz no longer performs the underground storage of natural gas (note 29).

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

In 2018, the Company modified on voluntary basis, the criterion to recognize seismic, geological, geophysical and similar activities as exploration expenses as incurred, rather than exploration assets, in accordance with the successful efforts method. This approach is widely used in the oil and gas business. The management believes that by adopting this method the Company's financial statements are better comparable to those of other companies in the industry.

In addition, the Company modified the computation method for the decommissioning provision by replacing the weighted average cost of capital with the interest rate on long-term treasury bonds as a discount factor. The amendment was intended to align with the practice commonly used in calculating this provision.

In 2018, the Company reconsidered the depreciation of the gas cushion as a fixed asset. This is a quantity of natural gas constituted as a reserve at the level of gas storages, physically recoverable, which ensures the optimum conditions necessary to maintain their technical-productive flow characteristics. As a result of this analysis, the Company concluded that depreciation for these fixed assets should not have been recorded as the residual value is higher than the cost. Therefore, the Company corrected the depreciation retrospectively by restating earlier periods.

The effect of the above is presented in note 32.

Except for the changes and corrections above and the effects of IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial Instruments", presented below, the same accounting policies and methods of computation are used in these financial statements as compared with the most recent annual financial statements.

Basis of preparation

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

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

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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

Fair value

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

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

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

Subsidiaries

A subsidiary is an entity controlled by the Company. In establishing the existence of control, the Company analyses the following:

- if it has authority over the invested entity;
- if it is exposed to, or has rights to variable returns from its involvement in the invested entity;
- if it has the ability to use its authority over the invested entity to affect these returns;

The investment in a subsidiary is recognized at cost less accumulated impairment.

Associated entities

An associate is a company over which the Company exercises significant influence through participation in decision making on financial and operational policies of the entity invested in. Investments are recorded at cost less accumulated impairment.

Joint arrangements

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

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

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

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

Joint operations

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

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

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

The accompanying notes form an integral part of these financial statements.

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

Joint ventures

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

Standards and interpretations valid for the current period

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

- Amendments to IAS 40 Transfers of Investment Property (effective for annual periods beginning on or after January 1, 2018);
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2018);
- Annual Improvements to IFRS Standards 2014–2016 Cycle (effective for annual periods beginning on or after January 1, 2018);
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4: Insurance Contracts (effective for annual periods beginning on or after January 1, 2018);
- Clarifications to IFRS 15: Revenue from Contracts with Customers (effective for annual periods beginning on or after January 1, 2018);
- IFRS 9: Financial Instruments (effective for annual periods beginning on or after January 1, 2018);
- IFRS 15: Revenue from Contracts with Customers, including amendments to IFRS 15: Effective date of IFRS 15 (effective for annual periods beginning on or after January 1, 2018);
- IFRIC 22: Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after January 1, 2018).

The adoption of these amendments, interpretations or improvements to existing standards has not led to changes in the Company's accounting policies except for IFRS 15 and IFRS 9. The effects of these standards on the Company's financial statements are presented below.

The impact of adopting IFRS 15: Revenue from Contracts with Customers

Beginning with 2018 the Company applies IFRS 15 for the recognition of revenue from contracts with customers. The Company elected to apply the standard retrospectively, with the cumulative effect of initial application recognized at the application date as an adjustment to the opening balance of retained earnings. Under this method, previous periods are not restated. The cumulative effect of the initial application of IFRS 15 was recognized as an adjustment to the opening balance of retained earnings for contracts that were not finalized at the date of initial application, i.e. January 1, 2018.

The adoption of the new standard did not generate any changes in the timing and how revenue is recognized, but generated reclassification of various elements of the financial statements.

The Company adopted the practical expedient allowed by IFRS 15 not to adjust the amount of promised value for the effects of a significant funding component given that at contract inception, the Company expects that the period the Company transfers a promised good or service to a client and when the client pays for that good or service does not exceed one year.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

The cumulative effect of retrospective restatement of IFRS 15 is presented below:

Statement of comprehensive income for continued operations

	Year ended December 31, 2018 (before IFRS 15)	Effect of applying IFRS 15 at December 31, 2018	Year ended December 31, 2018 (after IFRS 15)
	'000 RON	'000 RON	'000 RON
Revenue *)	4,664,344	186,780	4,851,124
Other gains or losses	(123,109)	19,941	(103,168)
Losses from impairment on trade receivables	-	(19,941)	(19,941)
Other expenses **)	(1,414,745)	(22)	(1,414,767)
Other income *)	201,499	(186,780)	14,719
Profit before tax	1,512,876	(22)	1,512,854

*) Due to the application of IFRS 15, the Company has reconsidered the income obtained by invoicing services provided by third party suppliers, included in the selling price of the goods delivered. Thus, starting 2018, income previously recorded as "Other income" is presented as revenue.

***) According to the new standard, the costs of obtaining contracts are recognized as current assets, to be amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates; previously, these were recognized directly in the period's result.

Statement of financial position

	December 31, 2018 (before IFRS 15)	The effect of applying IFRS 15 at December 31, 2018	December 31, 2018 (after IFRS 15)
	'000 RON	'000 RON	'000 RON
Current assets			
Trade and other receivables *)	1,014,828	(206,029)	808,799
Contract costs **)	-	583	583
Equity			
Retained earnings	5,429,260	583	5,429,843
Current liabilities			
Trade payables *)	441,765	(252,410)	189,355
Contract liabilities *)	-	46,381	46,381

*) Contract liabilities are amounts received from customers, in accordance with the contract provisions, for goods and services to be delivered or rendered in the following period. These amounts will be recognized as revenue when those goods or services are delivered. Advances received up to the end of the reporting period relating to deliveries during the period, not offset, have been reclassified to contract assets; previously, contract liabilities were presented as trade payables.

***) According to the new standard, the costs of obtaining contracts are recognized as current assets, to be amortized on a systematic basis that is consistent with the transfer to the customer of goods and services to which the asset relates; previously, these were recognized directly in the period's result.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

The impact of adopting IFRS 9: Financial Instruments

Starting with 2018, the Company applies IFRS 9. According to this Standard, after initial recognition, financial assets are recognized at amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on the business model of the Company; financial liabilities are recognized at amortized cost.

At the time of transition, the Company analyzed the financial assets held in terms of its business model and the contractual cash flows. As a result, financial investments previously recognized at cost less accumulated impairment losses are measured at fair value through profit or loss from January 1, 2018. The differences between the previous carrying amount and the fair value determined in accordance with IFRS 9 were recognized in the opening retained earnings, without restating previous financial statements. Except for this, no other significant differences between previous standards and IFRS 9 were identified.

	Financial assets measured at cost at December 31, 2017	Differences recorded in opening retained earnings	Financial assets measured at fair value through profit or loss
	'000 RON	'000 RON	'000 RON
Total	69,678	(19,083)	50,595

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

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

- IFRS 16 "Leases" (applicable to annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 9 "Prepayment Features with Negative Compensation" (applicable to annual periods beginning on or after 1 January 2019);
- IFRIC 23, "Uncertainties in the Treatment of Income Tax" (applicable to annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 "Long-term Investments in Associates and Joint Ventures" (applicable to annual periods beginning on or after 1 January 2019).

The Company did not adopt these standards and amendments before their effective dates. The Company will implement the above standards and amendments in the financial statements for the year 2019 and is currently evaluating their impact.

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

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

- IFRS 17 Insurance Contracts (effective for annual periods beginning on or after January 1, 2021);
- Annual Improvements to IFRS Standards 2015–2017 Cycle (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IAS 19: Plan amendment, Curtailment or Settlement (effective for annual periods beginning on or after January 1, 2019);
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after January 1, 2020);
- Amendments to IFRS 3: Business Combinations (effective for annual periods beginning on or after January 1, 2020);
- Amendments to IAS 1 and IAS 8: Definition of Material (effective for annual periods beginning on or after January 1, 2020).

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

Segment information

The information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the upstream segment, electricity production and distribution, and others, including headquarter activities. The Directors of the Company have chosen to organize the Company around differences in activities performed. The segment of natural gas storage services was transferred, in April 2018, to S.N.G.N. ROMGAZ S.A. – Filiala de Înmagazinare Gaze Naturale DEPOGAZ Ploiesti S.R.L. ("Depogaz").

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This is a free translation of the original Romanian version.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Specifically, the Company is organized in the following segments:

- upstream, which includes exploration activities, natural gas production and trade of gas extracted by Romgaz or acquired from domestic production or import, for resale; these activities are performed by Medias, Mures and Bratislava branches;
- storage activities, performed by Ploiesti branch until March 31, 2018;
- electricity production and distribution activities, performed by Iernut branch;
- other activities, such as technological transport, operations on wells and corporate activities.

Transactions between Company segments occur at cost.

Considering the insertion of individual and consolidated financial statements in a single annual financial report, the Company does not disclose segment information in the individual financial statements.

Revenue recognition

a) Revenue from contracts with customers

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

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

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

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

Revenue is recognized over time if:

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

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

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

Revenue from contracts with customers mainly relates to gas sales, electricity supply and related services, storage services until March 31, 2018. Revenue from these contracts are recognized at a point time on the basis of the actual quantities at the prices fixed in the contracts concluded or at the rates set by the regulatory authority, as the case may be.

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

b) *Other revenue*

Rental revenue is recognized on an accrual basis in accordance with the substance of the relevant agreements.

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

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

Exploration expenses

The costs of seismic exploration, geological, geophysical and other similar exploration activities are recognized as a result of the period as they occur.

Expenditure on exploration also includes the cost of exploration assets that have not identified gas resources.

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

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Costs of obtaining contracts with customers

Assets relating to customer contracts represent the Company's right to a consideration in exchange for goods or services transferred to a client other than receivables. These assets are tested for impairment at each reporting date. Impairment is recognized as an expense in the statement of comprehensive income.

Foreign currencies

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

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

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

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

Employee benefits

Benefits granted upon retirement

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

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

As the benefits are paid, the provision is reduced together with the reversal of the provision against income.

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

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

Employee participation to profit

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

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

Provisions

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

Greenhouse gas provisions

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

Provisions for decommissioning of wells

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

The Company recorded a provision for decommissioning wells.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

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

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

- a. subject to b., changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- b. the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognized immediately in the statement of comprehensive income;
- c. if the adjustment results in an addition to the cost of an asset, the Company considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Company tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss.

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

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

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

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

The accompanying notes form an integral part of these financial statements.
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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Current and deferred tax for the period

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

Property, plant and equipment

(1) Cost

(i) *Property, plant and equipment*

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

(ii) *Gas cushion*

This is a quantity of natural gas constituted as a reserve at the level of gas storages, physically recoverable, which ensures the optimum conditions necessary to maintain their technical-productive flow characteristics.

(iii) *Development expenditure*

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

(iv) *Maintenance and repairs*

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

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

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

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

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

(2) Depreciation

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

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

Assets representing the gas cushion are not depreciated, as the residual value exceeds their cost. In the financial statements of 2018, the Company corrected the previously recognized depreciation for these assets.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

For indirect production tangible assets and storage assets, depreciation is calculated at cost using the straight-line method over the estimated useful life of the asset as follows:

<u>Asset</u>	<u>Years</u>
Specific buildings and constructions	10 - 50
Technical installations and machines	3 - 20
Other plant, tools and furniture	3 - 30

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

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

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

For items of tangible fixed assets that are retired from use, and have not been written off at the data of financial statements, an impairment adjustment is recorded for the carrying value at the time of retirement.

(3) Impairment

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

Thus at the end of each reporting period, the Company assesses whether there is any indication of impairment of assets. If such indication is identified, the Company tests the assets to determine whether they are impaired.

Company's assets are allocated to cash-generating units. The cash-generating unit is the smallest identifiable asset group that generates independent cash inflows to a large extent from cash inflows generated by other assets or asset groups. The company considers each commercial field as a separate cash-generating unit. All gas storages held by the Company leased to Depogaz are considered as part of a single cash-generating unit, as the regulatory authority sets regulated tariffs by analyzing the storage activity as a whole, not every single deposit.

In 2018, indications of impairment were identified in the Upstream segment; the results of the impairment test are presented in note 12.

No impairment indication was identified relating to storage assets, as the Company estimates it will recover their carrying value through the rent received from Depogaz.

Recoverable amount is the largest of the fair value of an asset or a cash-generating unit less costs associated with disposal and its value in use. Considering the nature of the Company's assets, it was not possible to determine the fair value of the cash-generating units, being determined only the value in use of the assets.

Exploration and appraisal assets

(1) Cost

Natural gas exploration (other than seismic, geological, geophysical and other similar activities), appraisal and development expenditure is accounted for using the principles of the successful efforts method of accounting.

Costs directly associated with an exploration well are initially capitalized as an asset until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, drilling costs and payments made to contractors. If potentially commercial quantities of hydrocarbons are not found, the exploration well is eliminated from the statement of financial position, by recording an impairment, until National Agency for Mineral Resources (Agentia Nationala pentru Resurse Minerale – ANRM) approvals are obtained in order to be written off. If hydrocarbons are found and, subject to further appraisal activity, are likely to be capable of commercial development, the costs continue to be carried as an asset. Costs directly associated with appraisal activity, undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalized as an asset. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, an impairment is recorded for the assets, until the completion of the legal steps necessary for them to be written off. When proved reserves of natural gas are determined and development is approved by management, the relevant expenditure is transferred to property, plant and equipment other than exploration assets.

The accompanying notes form an integrant part of these financial statements.
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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(2) Impairment

At each reporting date, the Company's management reviews its exploration assets and establishes the necessity for recording in the financial statements of an impairment loss in these situations:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of gas resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of gas resources in the specific area have not led to the discovery of commercially viable quantities of gas resources and the Company has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Other intangible assets

(1) Cost

Licenses for software, patents and other intangible assets are recognized at acquisition cost.

Intangible assets are not revalued.

(2) Amortization

Patents and other intangible assets are amortized using the straight-line method over their useful life, but not exceeding 20 years. Licenses related to the right of use of computer software are amortized over a period of 3 years.

Inventories

Inventories are recorded initially at cost of production, or acquisition cost, depending on the case. The cost of finished goods and production in progress includes materials, labour, expense incurred for bringing the finished goods at the location and in the existent form and the related indirect production costs. Write down adjustments are booked against slow moving, damaged and obsolete inventory, when necessary.

At each reporting date, inventories are evaluated at the lower of cost and net realizable value. The net realizable value is estimated based on the selling price less any completion and selling expenses. The cost of inventories is assigned by using the weighted average cost formula.

Financial assets and liabilities

The Company's financial assets include cash and cash equivalents, trade receivables, other receivables, loans, bank deposits and bonds with a maturity from acquisition date of over three months and other investments in equity instruments. Financial liabilities include interest-bearing bank borrowings and overdrafts and trade and other payables. For each item, the accounting policies on recognition and measurement are disclosed in this note. Management believes that the estimated fair values of these instruments approximate their carrying amounts.

Cash and cash equivalents include petty cash, cash in current bank accounts and short-term deposits with a maturity of less than three months from the date of constitution.

The Company recognizes a financial asset or financial liability in the statement of financial position when and only when it becomes a party to the contractual provisions of the instrument. Upon initial recognition, financial assets are classified at amortized cost or measured at fair value through profit or loss. The classification depends on the Company's business model for managing the financial assets and their contractual cash flows.

The Company does not have financial assets measured at fair value through other comprehensive income.

On initial recognition, financial assets and financial liabilities are measured at fair value plus or minus, in the case of assets measured at amortized cost, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Receivables resulting from contracts with customers represent the unconditional right of the Company to a consideration. The right to a consideration is unconditional if only the passage of time is required before payment of the consideration is due. These are measured at initial recognition at the transaction price.

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments plus or minus cumulative depreciation using the effective interest method for each difference between the initial amount and the amount at maturity and, for financial assets, adjusted for any impairment.

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Any difference between the entry amount and the reimbursement amount is recognized in the income statement for the period of the borrowings using the effective interest method.

Financial instruments are classified as liabilities or equity in accordance with the nature of the contractual arrangement. Interest, dividends, gains and losses on a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are recorded directly in equity. Financial instruments are offset when the Company has a legally enforceable right to set off and intends to settle either on a net basis or to realize the asset and discharge the obligation simultaneously.

Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each reporting period.

Except for trade receivables, contract assets, the company measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk associated with the financial instrument, has increased significantly since initial recognition. If, at the reporting date, the credit risk for a financial instrument has not increased significantly since the initial recognition, the Company measures the loss allowance for that financial instrument at a value equal to 12 month expected credit losses.

The loss allowance on trade receivables or contract assets resulting from transactions that are subject to IFRS 15 is measured at an amount equal to lifetime expected credit losses.

The carrying amount of the financial asset, other than those at fair value through profit or loss, is reduced through the use of an allowance account.

De-recognition of financial assets and liabilities

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Reserves

Reserves include (note 18):

- legal reserves, which are used annually to transfer to reserves up to 5% of the statutory profit, but not more than 20% of the statutory share capital of the Company;
- other reserves, which represent allocations from profit in accordance with Government Ordinance no. 64/2001, paragraph (g) for the Company's development fund;
- reserves from reinvested profit, set up based on the Fiscal Code. The amount of profit that benefited from tax exemption under the fiscal legislation less the legal reserve, is distributed at the end of the year by setting up the reserve;
- development quota reserve, non-distributable, set up until 2004. Development quota reserve set up after 2004 is distributable and presented in retained earnings. Development quota set up after 2004 is allocated with the approval of General Meeting of Shareholders, based on depreciation, respectively write-off of the assets financed using the development quota;
- other non-distributable reserves, set up from retained earnings representing translation differences recorded at transition to IFRS. These reserves are set up in accordance with MOF 2844/2016.

Subsidies

Subsidies are non-reimbursable financial resources granted to the Company with the condition of meeting certain criteria. In the category of subsidies are included grants related to assets and grants related to income.

Grants related to assets are government grants for whose primary condition is that the Company should purchase, construct, or otherwise acquire long-term assets.

Grants related to income are government grants other than those related to assets.

Subsidies are not recognized until there is reasonable assurance that:

- a) the Company will comply with the conditions attaching to it; and
- b) subsidies will be received.

Grants related to assets are presented in the statement of financial position as "Deferred revenue", which is then recognized in profit or loss on a systematic basis over the useful life of the asset.

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Grants related to income are recognized in the statement of profit or loss under "Other income", as the related expenses are recorded. Until the time of the expense, the grant received is recognized as "Deferred revenue".

Use of estimates

The preparation of the financial information requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the end of reporting date, and the reported amounts of revenue and expenses during the reporting period. Actual results could vary from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments that the management has made in the process of applying the Company's accounting policies, and that have the most significant effect on the amounts recognized in the financial statements.

Estimates related to the exploration expenditure on undeveloped fields

If field works prove that the geological structures are not exploitable from an economic point of view or that they do not have hydrocarbon resources available, an impairment is recorded. The impairment assessment is performed based on geological experts' technical expertise.

Estimates related to the developed proved reserves

The Company applies the depreciation method based on the unit of production in order to reflect in the income statement an expense proportionate with the income realized from sale of production obtained from the total natural gas reserve at the beginning of the period. According to this method, the value of each production well is depreciated according to the ratio of the natural gas quantity extracted during the period compared to the gas reserve at the beginning of the period. The gas reserves are updated annually according to internal assessments that are based on certifications of ANRM.

Estimates related to the decommissioning provision

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

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

Estimates related to the retirement benefit obligation

Under the Collective Labor Agreement, the Company is obliged to pay to its employees when they retire a multiplier of the gross salary, depending on the seniority within the gas industry/electricity industry, working conditions etc. This provision is updated annually and calculated based on actuarial methods to estimate the average wage, the average number of employees to pay at retirement, the estimate of the period when they will be paid and brought to present value using a discount factor based on interest on investments with the highest degree of safety (government bonds).

The Company does not operate any other pension plan or retirement benefits, and therefore has no other obligations relating to pensions.

Contingencies

By their nature, contingencies end only when one or more uncertain future events occur or not. In order to determine the existence and the potential value of a contingent element, is required to exercise the professional judgment and the use of estimates regarding the outcome of future events (note 33).

Comparative information

For each item of the statement of financial position, the statement of comprehensive income and, where is the case, for the statement of changes in equity and for the statement of cash flows, for comparative information purposes is presented the value of the corresponding item for the previous period ended, unless the changes are insignificant. In addition, the Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements, which has a material impact on the Company.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

3. REVENUE AND OTHER INCOME

Continuing operations	Year ended	Year ended
	December 31, 2018	December 31, 2017
	'000 RON	'000 RON
Revenue from gas sold - domestic production	3,852,337	3,383,231
Revenue from gas sold – other arrangements	133,073	129,196
Revenue from gas acquired for resale – import gas	205,912	29,280
Revenue from gas acquired for resale – domestic gas	11,015	22,020
Revenue from electricity	322,036	464,170
Revenue from services	218,279	34,073
Revenue from sale of goods	17,603	10,210
Other revenues from contracts	392	-
Total revenue from contracts with customers	4,760,647	4,072,180
Other revenues	90,477	7,194
Total revenue	4,851,124	4,079,374
Other operating income *)	14,719	363,971
Total revenue and other income	4,865,843	4,443,345

*) Other operating income decreased compared to prior year following the transition to IFRS 15. The income related to services from third party suppliers included in the prices charged to customers is recognized as revenue starting 2018 (note 2).

Under IFRS 15, revenue from contracts with customers is recognized as or when the Company satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of goods sold by the Company usually coincides with title passing to the customer and the customer taking physical possession.

Revenues from gas and electricity are recognized when the delivery has been made at the prices fixed in the contracts with customers.

In measuring the revenue from gas and electricity, the Company uses output methods. According to these methods, revenues are recognized based on direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. The Company recognizes the revenue in the amount it has the right to charge.

The Company does not disclose information about the remaining performance obligations, applying the practical expedient in IFRS 15, since the contracts with the customers are generally signed for periods of less than one year and the revenues are recognized at the amount which the Company has the right to charge.

Other revenue

Continuing operations	Year ended	Year ended
	December 31, 2018	December 31, 2017
	'000 RON	'000 RON
Revenue from rentals	90,477	6,599
Other revenue	-	595
Total other revenue	90,477	7,194

The increase in revenue from rentals is due to the solution adopted for the transfer of the storage activity to Depogaz, where the fixed assets used in the storage activity remained in the Company's property and were leased to Depogaz. The rent contract was concluded for one year from April 1, 2018.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

4. INVESTMENT INCOME

Continuing operations	Year ended December 31, 2018 '000 RON	Year ended December 31, 2017 '000 RON
Interest income	52,838	20,862
Total	52,838	20,862

Interest income is derived from the Company's investments in bank deposits and government bonds.

5. COST OF COMMODITIES SOLD, RAW MATERIALS AND CONSUMABLES

Continuing operations	Year ended December 31, 2018 '000 RON	Year ended December 31, 2017 '000 RON
Consumables used	60,483	51,716
Cost of gas acquired for resale, sold – import	202,613	27,732
Cost of gas acquired for resale, sold – domestic	7,338	22,184
Cost of electricity imbalance	34,031	10,219
Cost of other goods sold	1,179	954
Other consumables	3,056	2,916
Total	308,700	115,721

6. OTHER GAINS AND LOSSES

Continuing operations	Year ended December 31, 2018 '000 RON	Year ended December 31, 2017 (restated) '000 RON
Forex gain	4,058	486
Forex loss	(5,248)	(1,794)
Net loss on disposal of non-current assets	(62,949)	(74,401)
Net loss on disposal of associates and other financial investments	-	(12,308)
Net receivable allowances (note 16 c) *)	117	(19,018)
Net impairment of associates and other financial investments	-	12,483
Net write down allowances for inventory (note 15)	1,860	(6,421)
Net gain/loss on financial assets at fair value through profit or loss (note 26)	(40,782)	-
Losses from other debtors *)	(224)	(19,367)
Total	(103,168)	(120,340)

*) Following the adoption of IFRS 15, net receivable allowances from contracts with customers are presented separately in the statement of comprehensive income. Previous period was not restated.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

7. DEPRECIATION, AMORTIZATION AND IMPAIRMENT EXPENSES

Continuing operations	Year ended December 31, 2018	Year ended December 31, 2017 (restated)
	'000 RON	'000 RON
Depreciation	591,224	573,057
out of which:		
- depreciation of property, plant and equipment	586,903	564,810
- amortization of intangible assets	4,321	8,247
Net impairment of non-current assets (note 12)	116,852	(20,611)
Total depreciation, amortization and impairment	708,076	552,446

8. EMPLOYEE BENEFIT EXPENSE

Continuing operations	Year ended December 31, 2018	Year ended December 31, 2017
	'000 RON	'000 RON
Wages and salaries *)	609,544	462,311
Social security charges *)	17,874	110,930
Meal tickets	16,871	14,882
Other benefits according to collective labor contract	23,911	20,437
Private pension payments	9,751	9,825
Private health insurance	6,112	6,156
Total employee benefit costs	684,063	624,541
Less, capitalized employee benefit costs	(120,307)	(116,479)
Total employee benefit expense	563,756	508,062

*) The increase in wages and salaries and the reduction of social security charges is due to the transfer in 2018 of social security from employer to employee. The Company has increased employee s' wages so that they are not affected by the legislative change.

9. FINANCE COSTS

Continuing operations	Year ended December 31, 2018	Year ended December 31, 2017 (restated)
	'000 RON	'000 RON
Interest expense	-	3
Unwinding of the decommissioning provision (note 19)	29,724	18,788
Total	29,724	18,791

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

10. OTHER EXPENSES

Continuing operations	Year ended December 31, 2018 '000 RON	Year ended December 31, 2017 (restated) '000 RON
Energy and water expenses	19,517	(1,134)
Expenses for capacity booking and gas transmission services	27,067	61,311
Expenses with other taxes and duties *) (Net gain)/Net loss from provisions movement (note 19)	995,109 (15,051)	670,627 34,116
Other operating expenses **)	388,125	264,076
Total	1,414,767	1,028,996

*) In the year ended December 31, 2018, the major taxes and duties included in the amount of RON 995,109 thousand (year ended December 31, 2017: RON 670,627 thousand) are:

- RON 550,792 thousand represent windfall tax resulting from the deregulation of prices in the natural gas sector according to Government Ordinance no. 7/2013 with the subsequent amendments for the implementation of the windfall tax following the deregulation of prices in the natural gas sector (year ended December 31, 2017: RON 386,312 thousand);
- RON 435,233 thousand represent royalty on gas production and storage activity (year ended December 31, 2017: RON 276,804 thousand). The increase over the previous year is mainly due to the change in the royalty calculation law, whereby the reference price taken into account is no longer the price obtained by the Company as a result of customer contracts but the reference price of the index "PEGAS CEGH Day Ahead Market Single Day Select, VWAP / CEGHIX Central European Gas Hub AG (CEGH)" higher. In 2018, the royalties for the storage activity, presented in the discontinued operations result, amounted to RON 3,460 thousand (in the year 2017: RON 17,042 thousand).

** Other operating expenses of RON 388,125 thousand (2017: RON 264,076 thousand) include expenses for the transportation and distribution of natural gas amounting to RON 162,814 thousand (2017: RON 122,353 thousand) and green certificates and CO2 certificates of RON 32,865 thousand (2017: RON 31,036 thousand).

11. INCOME TAX

Continuing operations	Year ended December 31, 2018 '000 RON	Year ended December 31, 2017 (restated) '000 RON
Current tax expense	260,489	311,584
Deferred income tax (income)/expense	(53,071)	(51,912)
Income tax expense from continuing operations	207,418	259,672
Discontinued operations		
Current tax expense	10,844	56,446
Income tax expense from discontinued operations	10,844	56,446
Total income tax expense	218,262	316,118

The tax rate used for the reconciliations below for the year ended December 31, 2018, respectively year ended December 31, 2017 is 16% payable by corporate entities in Romania on taxable profits.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

The total charge for the period can be reconciled to the accounting profit as follows:

	Year ended December 31, 2018	Year ended December 31, 2017 (restated)
	'000 RON	'000 RON
Accounting profit before tax	1,578,809	2,118,392
(Profit)/loss activities not subject to income tax	3,910	2,205
Accounting profit subject to income tax	1,582,719	2,120,597
Income tax expense calculated at 16%	253,235	339,296
Effect of income exempt of taxation	(54,131)	(54,142)
Effect of expenses that are not deductible in determining taxable profit	101,297	89,173
Effect of current income tax reduction, due to VAT split	(14,273)	(4,805)
Effect of tax incentive for reinvested profit	(6,796)	(3,806)
Effect of the benefit from tax credits, used to reduce current tax expense	13,059	10,442
Effect of deferred tax relating to the origination and reversal of temporary differences	(27,292)	(26,052)
Effect of the benefit from tax credits, used to reduce deferred tax expense	(46,837)	(33,988)
Income tax expense	218,262	316,118

Components of deferred tax (asset)/liability:

	December 31, 2018		December 31, 2017 (restated)	
	Cumulative temporary differences	Deferred tax (asset)/ liability	Cumulative temporary differences	Deferred tax (asset)/ liability
	'000 RON	'000 RON	'000 RON	'000 RON
Provisions	(693,809)	(111,010)	(862,402)	(137,985)
Property, plant and equipment	1,272,635	203,622	1,343,536	214,689
Exploration assets *)	(1,161,170)	(185,787)	(756,230)	(120,997)
Financial investments	(977)	(156)	-	-
Inventory	(18,485)	(2,958)	-	-
Receivables and other assets	(186,161)	(29,786)	(160,451)	(25,672)
Total	(787,967)	(126,075)	(435,547)	(69,965)
Change, out of which:		56,110		51,912
- In current year's result		53,071		51,912
- in other comprehensive income		3,039		-

*) According to the Fiscal Code applicable in Romania, expenses related to location, exploration, development or any preparatory activity for the exploitation of natural resources, which, according to the applicable accounting regulations, are recorded directly in the result, are recovered in equal rates for a period of 5 years, starting with the month in which the expenses are incurred. Also, for fixed assets specific to the exploration and production of gas resources, the carrying tax value of fixed assets written off is deducted using the tax depreciation method used before their write-off for the remaining period. All of these costs are treated as assets only from a tax point of view and generate a deferred tax asset.

The accompanying notes form an integrant part of these financial statements.
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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

12. PROPERTY, PLANT AND EQUIPMENT

	Land and land improvements '000 RON	Buildings '000 RON	Gas properties '000 RON	Plant, machinery and equipment '000 RON	Fixtures, fittings and office equipment '000 RON	Storage assets '000 RON	Tangible exploration assets '000 RON	Capital work in progress '000 RON	Total '000 RON
Cost									
As of January 1, 2018 (restated)	108,402	882,913	6,475,527	927,068	97,142	1,694,522	438,613	797,540	11,421,727
Additions	447	10	2,102	139	2	1	205,370	939,414	1,147,485
Transfers	-	9,520	227,799	68,058	3,723	4,909	(161,906)	(152,103)	-
Disposals	-	(1,737)	(251,340)	(11,481)	(2,259)	(1,424)	(149,620)	(30,947)	(448,808)
As of December 31, 2018	108,849	890,706	6,454,088	983,784	98,608	1,698,008	332,457	1,553,904	12,120,404
Accumulated depreciation									
As of January 1, 2018 (restated)	-	265,803	3,271,717	532,892	69,125	520,149	-	-	4,659,686
Depreciation *)	-	32,498	435,102	68,008	5,976	68,996	-	-	610,580
Disposals	-	(561)	(35,522)	(10,582)	(2,195)	(102)	-	-	(48,962)
As of December 31, 2018	-	297,740	3,671,297	590,318	72,906	589,043	-	-	5,221,304
Impairment									
As of January 1, 2018 (restated)	3,180	16,031	229,683	23,373	386	2,152	157,349	108,188	540,342
Charge	-	16,599	220,194	50,660	677	1,897	31,800	50,603	372,430
Transfers	-	-	12,039	-	-	-	(1,274)	(10,765)	-
Release	-	(1,107)	(71,492)	(2,807)	(154)	(528)	(150,609)	(28,881)	(255,578)
As of December 31, 2018	3,180	31,523	390,424	71,226	909	3,521	37,266	119,145	657,194
Carrying value									
As of January 1, 2018 (restated)	105,222	601,079	2,974,127	370,803	27,631	1,172,221	281,264	689,352	6,221,699
As of December 31, 2018	105,669	561,443	2,392,367	322,240	24,793	1,105,444	295,191	1,434,759	6,241,906

*) The amounts include depreciation of tangible assets used in the production of other fixed assets, capitalized in their cost, amounting to RON 21,171 thousand.

The accompanying notes form an integral part of these financial statements.

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

	Land and land improvements '000 RON	Buildings '000 RON	Gas properties '000 RON	Plant, machinery and equipment '000 RON	Fixtures, fittings and office equipment '000 RON	Storage assets '000 RON	Tangible exploration assets '000 RON	Capital work in progress '000 RON	Total '000 RON
Cost									
As of January 1, 2017 (restated)	106,991	881,566	6,067,913	893,944	94,404	1,674,274	417,216	659,927	10,796,235
Additions	1,429	1	143,595	-	144	-	231,309	497,754	874,232
Transfers	89	3,855	316,223	43,546	3,214	24,997	(74,562)	(317,362)	-
Disposals	(107)	(2,509)	(52,204)	(10,422)	(620)	(4,749)	(135,350)	(42,779)	(248,740)
As of December 31, 2017	108,402	882,913	6,475,527	927,068	97,142	1,694,522	438,613	797,540	11,421,727
Accumulated depreciation									
As of January 1, 2017 (restated)	-	233,949	2,868,192	475,904	63,308	454,494	-	-	4,095,847
Depreciation *)	-	33,031	415,019	66,507	6,380	69,712	-	-	590,649
Transfers	-	-	759	-	-	(759)	-	-	-
Disposals	-	(1,177)	(12,253)	(9,519)	(563)	(3,298)	-	-	(26,810)
As of December 31, 2017	-	265,803	3,271,717	532,892	69,125	520,149	-	-	4,659,686
Impairment									
As of January 1, 2017 (restated)	3,180	15,933	157,172	23,474	442	3,421	210,783	146,548	560,953
Charge	-	908	103,914	774	71	696	94,236	30,516	231,115
Transfers	-	-	24,814	-	-	-	(8,334)	(16,480)	-
Release	-	(810)	(56,217)	(875)	(127)	(1,965)	(139,396)	(52,396)	(251,726)
As of December 31, 2017	3,180	16,031	229,683	23,373	386	2,152	157,349	108,188	540,342
Carrying value									
As of January 1, 2017 (restated)	103,811	631,684	3,042,549	394,566	30,654	1,216,359	206,433	513,379	6,139,435
As of December 31, 2017	105,222	601,079	2,974,127	370,803	27,631	1,172,221	281,264	689,352	6,221,699

*) The amounts include depreciation of tangible assets used in the production of other fixed assets, capitalized in their cost, amounting to RON 22,973 thousand

The accompanying notes form an integral part of these financial statements.
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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Impairment of property, plant and equipment

Note 2 contains information on the conditions under which impairment losses for individual assets are recognized.

Impairment of assets in the Upstream segment

During 2018, the Company identified indications of impairment of commercial gas fields. Based on its assessment, the Company considered each commercial field as a separate cash-generating unit. The infrastructure common to several gas fields (e.g. compression stations, drying stations) was allocated to each field according to the quantities processed for each field served. The corporate assets were allocated to each field according to the estimated revenue to be earned by each field in the total revenue over the period considered in the impairment test.

The impairment test took into account the economic life of the fields, according to the latest studies approved by the National Agency of Mineral Resources, but no later than 2043, this being the limit year of the concession agreements, according to the legislation in force.

Following the impairment test, there was an impairment of RON 141,859 thousand.

In the impairment test the following assumptions were used:

- Weighted average cost of capital: 10%;
- The inflation rate for the years 2019-2022 was the one reported by the National Prognosis Commission in the autumn forecast for 2018. For the period 2023-2043 a constant inflation rate of 2% was used;
- The reference price used for calculating the royalties was (lei/MWh):

2019	2020	2021-2043
117	123	126

- Estimated prices used were (lei/MWh):

2019	2020	2021	2022
74	68	68	76

- After 2022, it was considered that prices would rise at a constant rate of 3%.

Sensitivity analysis - following the 1% change in the factors below, the impairment resulted from the impairment test would be (changes are independent one from each other):

	Increase by 1%	Decrease by 1%
	'000 RON	'000 RON
Weighted average cost of capital	145,196	140,946
Selling price used starting 2022	141,453	142,266
Inflation rate	140,918	145,467
Royalties price	141,995	141,724

Impairment of the current Iernut Power Plant

In 2018 the Company impaired the current power plant, recording an impairment of RON 47,474 thousand. By the date the financial statements were endorsed, no decision was taken about closing the current plant, but the management estimated that net value of the investment will not be recovered.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Rented assets

Carrying value of property plant and equipment rented to third parties:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
	'000 RON	'000 RON
Buildings	176,190	9,508
Plant, machinery and equipment	127,673	52
Fixtures, fittings and office equipment	3,880	-
Storage assets	1,042,227	990
Carrying value of rented property plant and equipment	1,349,970	10,550

Maturity analysis of revenue from rented assets

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
	'000 RON	'000 RON
Year 1	34,365	6,565
Year 2	7,188	7,016
Year 3	7,350	7,188
Year 4	7,467	7,350
Year 5	356	7,467
Over 5 years	-	356

13. EXPLORATION AND APPRAISAL FOR NATURAL GAS RESOURCES

The following financial information represents the amounts included within the Company's totals relating to activity associated with the exploration for and appraisal of natural gas resources. All such activity is recorded within the upstream segment.

	<u>Year ended December 31, 2018</u>	<u>Year ended December 31, 2017 (restated)</u>
	'000 RON	'000 RON
Continued operation		
Exploration assets written off (note 12)	(149,620)	(135,350)
Seismic, geological, geochemical studies	(97,503)	(47,771)
Exploration expenses	(247,123)	(183,121)
Net movement in exploration assets' impairment (note 12) (net income)/net loss	(118,809)	(45,100)
Net cash used in exploration investing activities	(205,371)	(231,496)
	<u>December 31, 2018</u>	<u>December 31, 2017 (restated)</u>
	'000 RON	'000 RON
Exploration assets (note 12)	295,191	281,264
Liabilities	(22,464)	(35,870)
Net assets	272,727	245,394

The accompanying notes form an integral part of these financial statements.
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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

14. OTHER INTANGIBLE ASSETS

	Other intangible assets	Licenses	Intangible work in progress	Total
	'000 RON	'000 RON	'000 RON	'000 RON
Cost				
As of January 1, 2018	15,079	168,581	51	183,711
Additions	-	207	260	467
Transfers	-	277	(277)	-
Disposals	(857)	(3,878)	(34)	(4,769)
As of December 31, 2018	14,222	165,187	-	179,409
Accumulated amortization				
As of January 1, 2018	11,694	163,388	-	175,082
Charge	2,213	2,108	-	4,321
Disposals	(857)	(3,872)	-	(4,729)
As of December 31, 2018	13,050	161,624	-	174,674
Carrying value				
As of January 1, 2018	3,385	5,193	51	8,629
As of December 31, 2018	1,172	3,563	-	4,735
	Other intangible assets	Licenses	Intangible work in progress	Total
	'000 RON	'000 RON	'000 RON	'000 RON
Cost				
As of January 1, 2017	15,079	170,921	34	186,034
Additions	-	252	2,809	3,061
Transfers	-	2,792	(2,792)	-
Disposals	-	(5,384)	-	(5,384)
As of December 31, 2017	15,079	168,581	51	183,711
Accumulated amortization				
As of January 1, 2017	9,477	161,966	-	171,443
Charge	2,217	6,030	-	8,247
Disposals	-	(4,608)	-	(4,608)
As of December 31, 2017	11,694	163,388	-	175,082
Carrying value				
As of January 1, 2017	5,602	8,955	34	14,591
As of December 31, 2017	3,385	5,193	51	8,629

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

15. INVENTORIES

	December 31, 2018	December 31, 2017
	'000 RON	'000 RON
Spare parts and materials	170,904	149,728
Work in progress	464	373
Finished goods (gas)	94,460	212,057
Residual products	148	85
Inventories at third parties	2,057	66,971
Goods for resale (gas)	-	471
Other inventories	78	81
Write-down allowance for spare parts and materials	(38,053)	(35,038)
Write-down allowance for residual products	(47)	(44)
Write-down allowance for inventories at third parties	(99)	(5,169)
Total	229,912	389,515

16. ACCOUNTS RECEIVABLE

a) Trade and other receivables

	December 31, 2018	December 31, 2017
	'000 RON	'000 RON
Trade receivables	1,643,855	1,518,568
Allowances for expected credit losses (note 16 c)	(1,218,188)	(1,198,247)
Accrued receivables	383,132	495,765
Total	808,799	816,086

Trade receivables from gas deliveries are generally due within 30 days of invoice issue. These must be guaranteed by customers through bank letters of guarantee. If customers do not provide such a guarantee, they must ensure that natural gas is paid in advance.

Trade receivables from the sale of electricity are generally due within 7 days of the date of invoice transmission. These must be guaranteed by customers through bank letters of guarantee. If customers do not provide such a guarantee, they must ensure that electricity is paid in advance.

b) Other assets

	December 31, 2018	December 31, 2017
	'000 RON	'000 RON
Advances paid to suppliers	9,584	20,891
Joint operation receivables	6,703	3,786
Other receivables *)	65,267	60,157
Allowance for expected credit losses other receivables (note 16 c) *)	(50,983)	(51,302)
Other debtors	47,188	46,248
Allowances for expected credit losses for other debtors (note 16 c)	(43,091)	(42,889)
Prepayments	4,996	5,298
VAT not yet due	5,086	19,255
Other taxes receivable **)	123,152	244,464
Total	167,902	305,908

*) (i) During May 13, 2014 – September 30, 2014 the National Agency for Tax Administration (Agentia Nationala de Administrare Fiscala - ANAF) ran a tax investigation at Romgaz regarding the tax statements and/or operations relevant for the investigation as well as the organization and management of tax and accounting evidence. The period under control was 2008 – 2013 for income tax and 2009 – 2013 for VAT.

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Following the tax inspection, an additional liability was established for Romgaz of RON 22,440 thousand, representing income tax, VAT, penalties and related interest. Of the total amount, Romgaz paid RON 2,389 thousand. For the remaining amount of RON 20,051 thousand, Romgaz performed a legal assessment which concluded that the additional tax, penalties and interest are not correct. Romgaz filed an appeal to the Ministry of Public Finance. The appeal was partially rejected for the amount of RON 15,872 thousand.

For RON 4,179 thousand a new fiscal control was ordered, which resulted in a tax burden of RON 2,981 thousand. The appeal filed to ANAF was rejected.

In 2015, Romgaz sued the Ministry of Finance to cancel the above mentioned administrative acts, including the partial cancellation of the decision issued for the appeal.

The payment made in 2016 generated additional penalties of RON 13,697 thousand, also paid. Considering the disagreement regarding the conclusions of the tax control, the Company recorded a receivable and an allowance.

The total receivable impaired in connection with this control is RON 32,550 thousand.

(ii) During the period December 2016 - April 2017 ANAF resumed the tax inspection on VAT for the period December 2010 – June 2011 and on income tax for the period January 2010 – December 2011, regarding the discounts granted by Romgaz to interruptible clients for deliveries during 2010 - 2011. This status was attributed to companies by Transgaz, the Romanian natural gas transmission operator. Following the tax inspection, additional tax obligations of RON 15,284 thousand were determined, and also penalties and late payment charges in amount of RON 3,129 thousand. The tax decision and the tax inspection report were appealed to ANAF. Romgaz paid the additional tax obligation and the late payment charges and based on the appeal, the Company recorded a receivable for which it recorded an allowance.

The total receivable impaired in connection with this control is RON 18,413 thousand.

***) In 2017 the excise tax inspection for the period January 2010 - March 2013 was finalized. The tax inspection report concluded that Romgaz was not subject to excise duties related to technological consumption. Based on this report, in 2017 Romgaz recorded an income of RON 244,385 thousand, of which RON 130,470 thousand refer to the period April 2013 - November 2016, for which Romgaz has submitted corrective statements. In 2018, Romgaz recovered RON 113,915 thousand by offsetting with other tax liabilities in balance at December, 31 2017. As for the amount of RON 130,470 thousand, Romgaz was subjected in 2018 to a new tax audit for reimbursement, which was finalized favorably in 2019, when the rest of the amount was recovered.

c) Changes in the allowance for expected credit losses for trade and other receivables and other assets

	2018	2017
	'000 RON	'000 RON
At January 1	1,292,438	1,273,230
Charge in the allowance for receivables (note 6) *)	388	38,451
Charge in the allowance for trade receivables	20,928	-
Forex		190
Release in the allowance for receivables (note 6) *)	(505)	(19,433)
Release in the allowance for trade receivables	(987)	-
At December 31	1,312,262	1,292,438

*) 2017 amounts contain the impairment of trade receivables

As of December 31, 2018, the Company recorded allowances for doubtful debts, of which Interagro RON 275,961 thousand (December 31, 2017: RON 275,961 thousand), GHCL Upsom of RON 60,371 thousand (December 31, 2017: RON 60,371 thousand), CET Iasi of RON 46,271 thousand (December 31, 2017: RON 46,271 thousand), Electrocentrale Galati with RON 223,396 thousand (December 31, 2017: RON 217,585 thousand), Electrocentrale Bucuresti with RON 570,274 thousand (December 31, 2017: RON 570,274 thousand), G-ON EUROGAZ of RON 14,848 thousand (December 31, 2017: RON 14,848 thousand) and Electrocentrale Constanta of RON 14,295 thousand (December 31, 2017: RON 0 thousand), due to existing financial conditions of these clients as well as ongoing litigating cases related to these receivables or exceeding payment terms.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

d) Credit risk exposure

	<u>Gross carrying amount</u>	<u>Expected credit loss rate</u>	<u>Lifetime expected credit losses</u>
	'000 RON	%	'000 RON
Current receivables	423,663	-	-
less than 30 days overdue	1,083	14.77	160
30 to 90 days overdue	1,317	97.49	1,284
90 to 360 days overdue	20,176	99.76	20,128
over 360 days overdue	1,197,616	99.92	1,196,616
Total trade receivables	1,643,855		1,218,188

17. SHARE CAPITAL

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
	'000 RON	'000 RON
385,422,400 fully paid ordinary shares	385,422	385,422
Total	385,422	385,422

The shareholding structure as at December 31, 2018 is as follows:

	<u>No. of shares</u>	<u>Value</u>	<u>Percentage (%)</u>
		'000 RON	
The Romanian State through the Ministry of Energy	269,823,080	269,823	70.01
Legal persons	98,004,388	98,004	25.42
Physical persons	17,594,932	17,595	4.57
Total	385,422,400	385,422	100

All shares are ordinary and were subscribed and fully paid as at December 31, 2018. All shares carry equal voting rights and have a nominal value of RON 1/share (December 31, 2017: RON 1/share).

18. RESERVES

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
	'000 RON	'000 RON
Legal reserves	77,084	77,084
Other reserves, of which:	1,746,603	2,235,448
- Company's development fund	1,028,449	1,559,772
- Reinvested profit	212,041	169,563
- Geological quota set up until 2004	486,388	486,388
- Other reserves	19,725	19,725
Total	1,823,687	2,312,532

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

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

19. PROVISIONS

	December 31, 2018	December 31, 2017 (restated)
	'000 RON	'000 RON
Decommissioning provision	510,114	682,041
Retirement benefit obligation	131,120	119,482
Total long term provisions	641,234	801,523
Decommissioning provision	20,352	31,116
Provisions for land restoration	-	16,043
Litigation provision	229	79
Other provisions *)	72,103	29,685
Total short term provisions	92,684	76,923
Total provisions	733,918	878,446

*) On December 31, 2018, other provisions of RON 72,103 thousand include the provision for employee's participation to profit of RON 28,718 thousand (December 31, 2017: RON 23,725 thousand) and the provision for CO2 certificates of RON 40,109 thousand (as at 31 December 2017, the provision for CO2 certificates in the amount of RON 20,804 thousand was presented within the trade payables).

a) Decommissioning provision

	2018	2017 (restated)
	'000 RON	'000 RON
Decommissioning provision movement		
At January 1 (restated)	713,157	541,067
Additional provision recorded against non-current assets	1,902	143,162
Unwinding effect (note 9)	29,724	18,788
Recorded in profit or loss	(34,390)	22,978
Change recorded against non-current assets	(179,927)	(12,838)
At December 31	530,466	713,157

The Company makes full provision for the future cost of decommissioning natural gas wells on a discounted basis upon installation. The provision for the costs of decommissioning these wells at the end of their economic lives has been estimated using existing technology, at current prices or future assumptions, depending on the expected timing of the activity, and discounted using a rate of 4.8% (year ended December 31, 2017: 4.32%). While the provision is based on the best estimate of future costs and the economic lives of the wells, there is uncertainty regarding both the amount and timing of these costs.

The increase with 1 percentage point of the discount rate would decrease the decommissioning provision with RON 91,075 thousand. The decrease with 1 percentage point of the discount rate would increase the decommissioning provision with RON 117,949 thousand.

b) Other provisions

	Litigation provision	Retirement benefit obligations	Other provisions	Land restoration provision	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
At January 1, 2018	79	119,482	29,685	16,043	165,289
Additional provision recorded in the result of the period	235	10,671	79,062	-	89,968
Additional provision over the period in other items of comprehensive income		18,994	-	-	18,994
Provisions used in the period	(85)	(7,202)	(36,616)	(5,389)	(49,292)
Unused amounts during the period, reversed	-	(10,825)	(28)	(10,654)	(21,507)
At December 31, 2018	229	131,120	72,103	-	203,452

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

	Litigation provision <u>'000 RON</u>	Retirement benefit obligations <u>'000 RON</u>	Other provisions <u>'000 RON</u>	Land restoration provision <u>'000 RON</u>	Total <u>'000 RON</u>
At January 1, 2017	-	119,986	24,951	8,963	153,900
Additional provision in the period	79	5,967	43,933	16,043	66,022
Provisions used in the period	-	(6,471)	(24,235)	(2,368)	(33,074)
Unused amounts during the period, reversed	-	-	(14,964)	(6,595)	(21,559)
At December 31, 2017	79	119,482	29,685	16,043	165,289

c) Retirement benefit obligation

	2018 <u>'000 RON</u>	2017 <u>'000 RON</u>
Movement for retirement benefit obligation		
January 1	119,482	119,986
Interest cost	4,848	4,019
Current service cost	5,823	5,640
Payments during the year	(7,202)	(6,471)
Actuarial (gain)/loss of the period	18,994	(3,692)
Curtailment	(10,825)	-
December 31	131,120	119,482

With the exception of actuarial gains/losses, all other movements in the retirement benefit obligation are recognized in the result of the period. In 2017, all movements in the retirement benefit obligation were recorded in the result of the period.

In determining the retirement benefit obligation, the following significant assumptions were used:

- No layoffs or restructurings are planned;
- Average discount rate: 5.14%;
- Average inflation rate: 2.51%;
- Average rate of increase in salaries: 4.51%.

Sensitivity analysis

The discount rate and the salary increase rate have a significant effect on the obligation. Isolated change in assumptions with 1 percentage point would have the following effect on the obligation:

	Increase of 1% in assumptions <u>'000 RON</u>	Decrease of 1% in assumptions <u>'000 RON</u>
Discount rate	(12,861)	15,030
Rate of increase in salaries	15,006	(13,063)

Maturity analysis of payment cash flows

	Benefit payments <u>'000 RON</u>
Up to 1 year	8,399
1-2 years	6,692
2-5 years	31,721
5-10 years	65,540
Over 10 years	358,147

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

20. DEFERRED REVENUE

	December 31, 2018	December 31, 2017
	'000 RON	'000 RON
Amounts collected from NIP *)	20,994	-
Other amounts received as subsidies	134	-
Total deferred revenue long term	21,128	-
Other amounts received as subsidies	123	263
Other deferred revenue	8,319	707
Total deferred revenue short term	8,442	970
Total deferred revenue	29,570	970

*) In Government Decision no. 1096/2013 approving the mechanism for the free allocation of greenhouse gas emission allowances to electricity producers for the period 2013-2020, Annex no. 3 "National Investment Plan" (NIP) at Item 22, S.N.G.N. ROMGAZ S.A. is included with the investment "Combined Gas Turbine Cycle".

For this investment, Romgaz signed a financing agreement with the Ministry of Energy in 2017, whereby the Ministry of Energy undertakes to grant a non-reimbursable financing of RON 320,912 thousand, representing a maximum of 25% of the total value of the eligible expenditure of the investment. In the year 2018 the amount of RON 20,994 thousand was collected. Amounts received under this contract will be transferred to income based on the depreciation rate of the investment, which is expected to be put into operation in 2020.

	Amounts collected from NIP	Other amounts received as subsidies	Total
	'000 RON	'000 RON	'000 RON
January 1, 2018	-	263	263
Received	20,994	114	21,108
Other increases	-	149	149
Amounts in revenue	-	(269)	(269)
December 31, 2018	20,994	257	21,251

21. TRADE AND OTHER CURRENT LIABILITIES

	December 31, 2018	December 31, 2017
	'000 RON	'000 RON
Accruals	33,679	61,998
Trade payables	28,343	45,621
Payables to fixed assets suppliers	127,333	112,782
Advances from customers *)	-	385,708
Total trade payables	189,355	606,109

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

	December 31, 2018	December 31, 2017
	'000 RON	'000 RON
Payables related to employees	40,244	36,368
Royalties	137,211	85,521
Social security taxes	17,029	23,927
Other current liabilities	29,914	32,090
Joint operations payables	3,593	3,800
VAT	82,224	95,959
Dividends payable	2,355	804
Windfall tax	69,875	50,190
Other taxes	469	445
Total other liabilities	382,914	329,104
Total trade and other liabilities	572,269	935,213

*) Contract liabilities, representing advances from customers, of RON 385,708 thousand as at December 31, 2017, generated revenues of RON 151,239 thousand in 2018. The amount of RON 12,923 thousand was repaid to the customers, as the advances received were higher than deliveries. The rest of the amount was recognized as revenue in 2017, but the decrease of advances took place after the issue of the reconciliation invoice in 2018.

As at December 31, 2018, contract liabilities are of RON 46,381 thousand. These relate to gas deliveries in the first quarter of 2019, the revenues being recognized in the month of delivery.

22. FINANCIAL INSTRUMENTS

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, inflation risk, interest rate risk), credit risk, liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance within certain limits. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements. The Company does not use derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Company is exposed to currency risk as a result of exposure to various currencies. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

As at December 31, 2018, the official exchange rates were RON 4.0736 to USD 1 and RON 4.6639 to EUR 1 and (December 31, 2017: RON 3.8915 to USD 1 and RON 4.6597 to EUR 1).

	EUR	GBP	USD	RON	Total
December 31, 2018	1 EUR = 4.6639 RON	1 GBP = 5.1931 RON	1 USD = 4,0736 RON	1 RON	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Financial assets					
Cash and cash equivalents	1,007	13	5	548,743	549,768
Other financial assets	-	-	-	878,555	878,555
Trade and other receivables	-	-	-	425,667	425,667
Total financial assets	1,007	13	5	1,852,965	1,853,990
Financial liabilities					
Trade payables and other payables	(18,388)	(28)	(811)	(136,449)	(155,676)
Total financial liabilities	(18,388)	(28)	(811)	(136,449)	(155,676)
Net	(17,381)	(15)	(806)	1,716,516	1,698,314

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

	EUR	GBP	USD	RON	
December 31, 2017	1 EUR = 4.6597 RON '000 RON	1 GBP = 5.2530 RON '000 RON	1 USD = 3.8915 RON '000 RON	1 RON	Total '000 RON
Financial assets					
Cash and cash equivalents	450	-	9	226,706	227,165
Other financial assets	-	-	-	2,781,784	2,781,784
Trade and other receivables	-	-	-	320,321	320,321
Total financial assets	450	-	9	3,328,811	3,329,270
Financial liabilities					
Trade payables and other payables	(63,366)	(7)	(278)	(94,752)	(158,403)
Total financial liabilities	(63,366)	(7)	(278)	(94,752)	(158,403)
Net	(62,916)	(7)	(269)	3,234,059	3,170,867

The Company is mainly exposed to currency risk generated by EUR and USD against RON. The table below details the sensitivity of the Company to a 5% increase/decrease in the EUR and USD exchange rate against the RON. The 5% rate is the rate used in internal reports to management on foreign currency risk and represents management's assessment of reasonable changes in the exchange rate. Sensitivity analysis includes only monetary items denominated in foreign currency in the balance sheet, and considers the transfer at the end of the period to a modified rate of 5%.

	December 31, 2018 '000 RON	December 31, 2017 '000 RON
RON weakening - loss	909	3,159

(ii) *Inflation risk*

The official inflation rate in Romania, during the year ended December 31, 2018 was under 10% as provided by the National Commission for Statistics of Romania. The cumulative inflation rate for the last 3 years was under 100%. This factor, among others, led to the conclusion that Romania is not a hyperinflationary economy.

(iii) *Interest rate risk*

The Company is exposed to interest rate risk, due to retirement benefit obligations and the decommissioning provision. The Company's sensitivity to changes in the discount rate is detailed in note 19.

Bank deposits and treasury bills bear a fixed interest rate.

(b) **Credit risk**

Financial assets, which potentially subject the Company to credit risk, consist principally of trade receivables. The Company has policies in place to ensure that sales are made to customers with low credit risk. Also, sales have to be secured, either through advance payments, either through bank letters of guarantee. The carrying amount of accounts receivable, net of bad debt allowances, represent the maximum amount exposed to credit risk. The Company has a concentration of credit risk in respect of its top 4 clients, which together amount to 89.55% of net trade receivable balance at December 31, 2018 (top 4 clients: 91.25% as of December 31, 2017). Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the bad debt allowance already recorded.

(c) **Capital risk management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimize the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the dividend policy, issue new shares or sell assets to reduce debt.

The Company's policy is to only resort to borrowing if investment needs cannot be financed internally.

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(d) Fair value estimation

Carrying amount of financial assets and liabilities is assumed to approximate their fair values.

Financial instruments in the balance sheet include trade receivables and other receivables, cash and cash equivalents, other financial assets, short-term loans and borrowings and trade and other payables. The estimated fair values of these instruments approximate their carrying amounts. The carrying amounts represent the Company's maximum exposure to credit risk for existing receivables.

e) Maturity analysis for non-derivative financial assets and financial liabilities

December 31, 2018	Due in less than a month '000 RON	Due in 1-3 months '000 RON	Due in 3 months to 1 year '000 RON	Due in 1-5 years '000 RON	Due in over 5 years '000 RON	Total '000 RON
Trade receivables	194,608	231,022	37	-	-	425,667
Bank deposits	205,591	125,167	-	-	-	330,758
Treasury bonds	-	178,990	368,807	-	-	547,797
Total	400,199	535,179	368,844	-	-	1,304,222
Trade payables	(141,597)	(14,049)	(30)	-	-	(155,676)
Total	(141,597)	(14,049)	(30)	-	-	(155,676)
Net	258,602	521,130	368,814	-	-	1,148,546

December 31, 2017	Due in less than a month '000 RON	Due in 1-3 months '000 RON	Due in 3 months to 1 year '000 RON	Due in 1-5 years '000 RON	Due in over 5 years '000 RON	Total '000 RON
Trade receivables	195,137	125,142	42	-	-	320,321
Bank deposits	349,174	577,171	1,459,639	-	-	2,385,984
Treasury bonds	55,540	230,710	109,550	-	-	395,800
Total	599,851	933,023	1,569,231	-	-	3,102,105
Trade payables	(149,614)	(8,727)	(62)	-	-	(158,403)
Total	(149,614)	(8,727)	(62)	-	-	(158,403)
Net	450,237	924,296	1,569,169	-	-	2,943,702

f) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company's management, which has established an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and current cash flows and by matching the maturity profiles of financial assets and liabilities.

23. RELATED PARTY TRANSACTIONS AND BALANCES

i. Sales of goods and services

	Year ended Dec 31, 2018 '000 RON	Year ended Dec 31, 2017 '000 RON
Subsidiaries	120,583	-
Associates	20,780	22,925
Total	141,363	22,925

Transactions with other companies controlled by the Romanian State are not considered transactions with related parties, for financial statements purposes.

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

ii. Purchase of goods and services

	Year ended Dec 31, 2018	Year ended Dec 31, 2017
	'000 RON	'000 RON
Subsidiaries	54,920	-
Total	54,920	-

iii. Trade receivables

	December 31, 2018	December 31, 2017
	'000 RON	'000 RON
Subsidiaries	16,567	-
Associates	642	111
Total	17.209	111

iv. Trade payables

	December 31, 2018	December 31, 2017
	'000 RON	'000 RON
Subsidiaries	8,536	-
Total	8,536	-

24. INFORMATION REGARDING THE MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

The remuneration of executives and directors

The Company has no contractual obligations on pensions to former executives and directors of the Company.

During the years ended December 31, 2018 and December 31, 2017, no loans and advances were granted to executives and directors of the Company, except for work related travel advances, and they do not owe any amounts to the Company from such advances.

	Year ended December 31, 2018	Year ended December 31, 2017
	'000 RON	'000 RON
Salaries paid to directors (gross)	16,979	14,601
of which, bonuses (gross)	2,234	2,767
Remuneration paid to administrators (gross)	1,598	1,237
of which, variable component (gross)	246	568
	December 31, 2018	December 31, 2017
	'000 RON	'000 RON
Salaries payable to directors	379	910
Salaries payable to administrators	64	58

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

25. INVESTMENT IN SUBSIDIARIES AND ASSOCIATES

a) Investment in subsidiaries

Subsidiaries' name	Main activity	Country of residence and operations	Percentage of interest held (%)	
			December 31, 2018	December 31, 2017
SNGN ROMGAZ SA - Filiala de Înmagazinare Gaze Naturale DEPOGAZ Ploiesti SRL	Natural gas storage	Romania	100	100
			<u>Cost at December 31, 2018</u> '000 RON	<u>Cost at December 31, 2017</u> '000 RON
SNGN ROMGAZ SA – Filiala de Înmagazinare Gaze Naturale DEPOGAZ Ploiesti SRL			66,056	1,200
Total			<u>66,056</u>	<u>1,200</u>

During 2018, the Company participated in two increases in the share capital of the Subsidiary:

- in kind contribution, respectively, inventory intake of RON 16,056 thousand;
- cash contribution of RON 48,800 thousand.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

b) Investment in associates

Name of associate	Main activity	Place of incorporation and operation	Proportion of ownership interest and voting power held (%)			
			December 31, 2018	December 31, 2017		
SC Depomures SA Tg Mures SC Agri LNG Project Company SRL	Storage of natural gas Feasibility projects	Romania Romania	40	40		
			25	25		
Name of associate	Cost as of December 31, 2018 '000 RON	Impairment as of December 31, 2018 '000 RON	Carrying value as of December 31, 2018 '000 RON	Cost as of December 31, 2017 '000 RON	Impairment as of December 31, 2017 '000 RON	Carrying value as of December 31, 2017 '000 RON
SC Depomures SA Tg Mures SC Agri LNG Project Company SRL	120	-	120	120	-	120
	977	(977)	-	977	(977)	-
Total	1,097	(977)	120	1,097	(977)	120

The accompanying notes form an integral part of these financial statements.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

26. OTHER FINANCIAL INVESTMENTS

Other financial investments are measured at fair value through profit or loss. The effects of IFRS 9 are disclosed in note 2.

Except for the investment in Patria Bank, which is a level 1 financial investment, all other investments are included in level 3 category, according to IFRS 13.

Company	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held (%)		
			December 31, 2018	December 31, 2017	
Electrocentrale București S.A.	Electricity and thermal power producer	Romania	2.49	2.49	
Patria Bank S.A.	Other activities – financial intermediations	Romania	0.03	0.03	
Mi Petrogas Services S.A.	Services related to oil and natural gas extraction, excluding prospections	Romania	10	10	
GHCL Upsom	Manufacture of other chemical, anorganic base products	Romania	4.21	4.21	
Lukoil association	Petroleum exploration operations	Romania	12.2	10	
Company		Fair value as of December 31, 2018 '000 RON	Cost as of December 31, 2017 '000 RON	Impairment as of December 31, 2017 '000 RON	Carrying value as of December 31, 2017 '000 RON
Electrocentrale București S.A. *)		4,457	64,310	-	64,310
Patria Bank S.A. **)		68	840	(759)	81
Mi Petrogas Services S.A.		60	60	-	60
GHCL Upsom		-	17,100	(17,100)	-
Lukoil association		5,227	10,454	(5,227)	5,227
Total		9,812	92,764	(23,086)	69,678

*) The fair value of the investment in Electrocentrale Bucuresti at December 31, 2018 was determined based on restructuring plan in the insolvency proceedings. At the transition to IFRS 9 a decrease was recorded in retained earnings in the amount of RON 19,083 thousand; the remaining decrease was recorded in the annual result. The investment in Electrocentrale Bucuresti is not quoted

**) Patria Bank's shares being quoted, the fair value at the end of the period is determined by taking into account the closing quotation of the share. The variation between the amount at December 31, 2018 and the amount at December 31, 2017 was recorded in the result of the period.

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

27. CASH AND CASH EQUIVALENTS

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
	'000 RON	'000 RON
Current bank accounts in RON *)	75,239	63,007
Current bank accounts in foreign currency	1,018	451
Petty cash	29	29
Term deposits in RON	367,610	73,507
Restricted cash **)	105,870	90,158
Amounts under settlement	<u>2</u>	<u>13</u>
Total	<u>549,768</u>	<u>227,165</u>

*) Current bank accounts include overnight deposits.

**) Restricted cash includes bank accounts used strictly for VAT transactions, as the Company opted in to the application of the split-VAT system (RON 103,287 thousand). It also includes bank accounts used only for dividend payments to shareholders, according to stock market regulations (RON 2,583 thousand).

28. OTHER FINANCIAL ASSETS

Other financial assets represent mainly treasury bonds and deposits with a maturity of over 3 months, from acquisition date.

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
	'000 RON	'000 RON
Treasury bonds in RON	532,447	393,694
Bank deposits in RON	330,758	2,385,984
Accrued interest receivable	2,670	4,382
Accrued interest on bonds	<u>15,350</u>	<u>2,106</u>
Total other financial assets	<u>881,225</u>	<u>2,786,166</u>

29. DISCONTINUED OPERATIONS

As of April 1 2018, natural gas storage was transferred from Romgaz to SNGN ROMGAZ SA – Filiala de Înmagazinare Gaze Naturale DEPOGAZ Ploiesti SRL.

The transfer of activity occurred as a result of the Company's legal obligation to achieve separation of natural gas storage activity from natural gas production and supply in accordance with Directive 2009/73 / EC of the European Parliament and of the Council of July 13, 2009 and the provisions of art. 141 align (1) of Law 123/2012.

The transfer involved the transfer of the license to the storage subsidiary, transfer of employees and the transfer of the unfinished acquisitions until 31 March 2018. The transfer did not involve a sale. As a result of the transfer of activity, the fixed assets were not transferred and they were leased to Depogaz.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Analysis of year's result from discontinued operations

	Year ended December 31, 2018	Year ended December 31, 2017
	'000 RON	'000 RON
Revenue	113,609	505,815
Cost of commodities sold	-	(7)
Investment income	179	1,487
Other gains and losses	192	(1,728)
Changes in inventory of finished goods and work in progress	(21,606)	(72,025)
Raw materials and consumables used	(4,834)	(9,695)
Employee benefit expense	(12,213)	(54,821)
Other expenses	(11,773)	(72,936)
Other income	2,401	198
Profit before tax from discontinued operations	65,955	296,288
Income tax expense	(10,844)	(56,446)
Profit for the year	55,111	239,842

Cash flows from discontinued operations

	Year ended December 31, 2018	Year ended December 31, 2017
	'000 RON	'000 RON
Net cash generated by/(used in) operating activities	(24,661)	39,216

30. COMMITMENTS UNDERTAKEN

	December 31, 2018	December 31, 2017
	'000 RON	'000 RON
Endorsements and collaterals granted	65,838	151,911
Total	65,838	151,911

In 2017, Romgaz signed a credit agreement with Raiffeisen Bank SA representing a facility for issuing letters of guarantee, and opening letters of credit for a maximum amount of USD 100,000 thousand. On December 31, 2018 are still available for use USD 86,880 thousand.

As of December 31, 2018, the Company's contractual commitments for the acquisition of non-current assets are of RON 812,938 thousand (December 31, 2017: RON 1,551,675 thousand), of which, the contract for CET Iernut development represents RON 408,123 thousand.

31. COMMITMENTS RECEIVED

	December 31, 2018	December 31, 2017
	'000 RON	'000 RON
Endorsements and collaterals received	1,552,496	1,534,757
Total	1,552,496	1,534,757

Endorsements and collateral received represent letters of guarantee and other performance guarantees received from the Company's clients.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

32. EFFECTS OF VOLUNTARY CHANGE IN ACCOUNTING POLICY AND CORRECTION OF ERRORS

- (a) In 2018 the management of the Group modified on voluntary basis the accounting for seismic, geological, geophysical and other similar exploration activities, effective January 1, 2018.

Until March 31, 2018 these activities were accounted as intangible exploration assets, in accordance with the accounting policy used before transition to IFRS, as permitted by IFRS 6. Starting with the second quarter of 2018 these are expensed as incurred, in line with the successful efforts method. This way of accounting is more consistent with the international practice, making the financial statements more relevant to the users.

- (b) The Company modified the computation method for the decommissioning provision by replacing the weighted average cost of capital with the interest rate on long-term treasury bonds as a discount factor. The amendment was intended to align with the practice commonly used in calculating this provision.

In accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors", these changes are explained by the alignment with accounting standards largely adopted by oil & gas companies and as such they have been applied retrospectively.

- (c) In 2018, the Company reconsidered the depreciation of the gas cushion, recognized as a fixed asset. This is a quantity of natural gas constituted as a reserve at the level of gas storages, physically recoverable, which ensures the optimum conditions necessary to maintain their technical-productive flow characteristics. As a result of this analysis, the Company concluded that depreciation for these fixed assets should not have been recorded as the residual value is higher than the cost. Therefore, the Company corrected the depreciation retrospectively by restating earlier periods.

To reflect the changes and corrections above and to ensure the comparability of the information presented in this set of financial statements, previous periods have been restated and presented as if they had always been applied.

The restatement required an adjustment of the opening balance of retained earnings and other comparative amounts as of January 1, 2017.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Effect of restatement on financial position

	January 1, 2017 (not restated)	Effect of change in accounting policy	Effect of correction of accounting errors	January 1, 2017 (restated)	December 31, 2017 (before restatement)	Effect of change in accounting policy	Effect of correction of accounting errors	December 31, 2017 (restated)
	'000 RON	'000 RON (a) + (b)	'000 RON (c)	'000 RON (restated)	'000 RON	'000 RON (a) + (b)	'000 RON (c)	'000 RON
Property, plant and equipment	5,789,262	291,121	59,052	6,139,435	5,842,366	311,235	68,098	6,221,699
Other intangible assets	397,864	(383,273)	-	14,591	412,284	(403,655)	-	8,629
Deferred tax asset	-	27,501	(9,448)	18,053	1,464	79,397	(10,896)	69,965
Retained earnings	6,270,587	(355,024)	49,604	5,965,167	6,612,922	(415,096)	57,202	6,255,028
Deferred tax liabilities	40,123	(40,123)	-	-	-	-	-	-
Provisions (long-term and short-term)	244,485	330,496	-	574,981	356,891	402,073	-	758,964

The accompanying notes form an integral part of these financial statements
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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Effect of restatement on comprehensive income

	Year ended December 31 (not restated)	Effect of change in accounting policy	Effect of correction of accounting errors	Year ended December 31, 2017 (restated)
	'000 RON	'000 RON (a) + (b)	'000 RON (c)	'000 RON
Other gain and losses	(120,335)	(1,733)	-	(122,068)
Amortization and depreciation	(548,869)	(12,622)	9,045	(552,446)
Finance cost	(18,624)	(167)	-	(18,791)
Exploration expense	(137,083)	(46,038)	-	(183,121)
Other expenses	(1,090,647)	(11,284)	-	(1,101,931)
Profit before tax	2,181,191	(71,844)	9,045	2,118,392
Income tax expense	(326,443)	11,772	(1,447)	(316,118)
Profit for the year	1,854,748	(60,072)	7,598	1,802,274

Effect of restatement on cash flow statement

	Year ended December 31, 2017 (not restated)	Effect of change in accounting policy	Effect of correction of accounting errors	Year ended December 31, 2017 (restated)
	'000 RON	'000 RON (a) + (b)	'000 RON (c)	'000 RON
Net cash generated by operating activities	2,799,059	(47,770)	-	2,751,289
Net cash generated by investing activities	(632,830)	47,770	-	(585,060)

33. CONTINGENCIES

(a) *Litigations*

The Company is subject to several legal actions arisen in the normal course of business. The management of the Company considers that they will have no material adverse effect on the results and the financial position of the Company.

On December 28, 2011, 27 former and current employees were notified by DIICOT regarding an investigation related to sale contracts signed with one of the Company's clients for allegedly unauthorized discounts granted to this client during the period 2005-2010. DIICOT mentioned that this may have resulted in a loss of USD 92,000 thousand for the Company. On that sum, an additional burden to the state budget consists of income tax in amount of USD 15,000 thousand and VAT in amount of USD 19,000 thousand. The internal analysis carried out by the Company's specialized departments concluded that the agreement was in compliance with the legal provisions and all discounts were granted based on Orders issued by the Ministry of Economy and Finance and decisions of the General Shareholders' Board and Board of Directors. The management of the Company believes the investigation will not have a negative impact on the financial statements, to justify the registration of an adjustment. The Company is fully cooperating with DIICOT in providing all information necessary. On March 18 2014, Romgaz received an address from DIICOT, by which the investigators ordered an accounting expertise, indicating the objectives of the expertise.

Romgaz was notified that, as injured party, it may submit comments relating to objectives of the expertise (additions/changes), and may appoint an additional expert to participate in the expertise.

Thus, Romgaz proceeded to identify and appoint an expert with accounting and financial expertise that can participate to the expertise. After the report was completed, the parties could submit objections by November 2, 2015.

On March 16, 2016, DIICOT – Central Structure informed the persons involved in the cause about the start of legal actions against them. At the request of investigators, the Company announced that in case of a prejudice being established during the investigation, the Company will join the case as civil party.

In November 2016, DIICOT informed the Company the prejudice established in amount of RON 282,630 thousand. Following this request, Romgaz announced that will join the case as a civil party for the amount of RON 282,630 thousand to recover this amount from the respective client and any other person that may be found guilty for causing the prejudice.

The accompanying notes form an integrant part of these financial statements
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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

In June 2017, DIICOT issued a press release announcing the referral to court of several persons involved in the case. In January 2018, the High Court of Cassation and Justice ruled that the indictment prepared by DIICOT was not legal; the ruling is not definitive.

(b) *Taxation*

The Romanian taxation system is undergoing a process of consolidation and harmonization with the European Union legislation. However, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties. In Romania, tax periods remain open for fiscal verification for 5 years. The Company's management considers that the tax liabilities included in these financial statements are fairly stated.

(c) *Environmental contingencies*

Environmental regulations are developing in Romania and the Company has not recorded any liability at December 31, 2018 for any anticipated costs, including legal and consulting fees, impact studies, the design and implementation of remediation plans related to environmental matters, except the amount of RON 530,466 thousand (December 31, 2017: RON 713,157 thousand), representing the decommissioning liability.

Green-house gas emission certificates (CO2 certificates)

In accordance with Government Decision no. 1096/2013 for the approval of the mechanism for free transitional allocation of green-house gas emission certificates to electricity producers for the period 2013-2020, Annex no. 3 "National Investment Plan" position 22, Romgaz is included with the investment project "Combined cycle with gas turbines".

According to Annex no. 1 of the same decision, S.N.G.N. Romgaz S.A. was allocated for CTE Iernut 274,882 greenhouse gas certificates (EUA) for 2018.

As of December 31, 2018, Romgaz holds in the Greenhouse Gas Emissions Unique Registry 279,103 CO2 certificates, after meeting compliance obligations for the previous years and submitting the certificates to the Registry.

For the deficit between actual emissions and certificates held, the Company recognizes a provision measured at the best estimate of expenditure required to settle the obligation, namely the market price of the emission rights at reporting date. As of December 31, 2018 the Company records a deficit of 355,035 certificates for which it recorded a provision of RON 40,109 thousand (note 19).

According to EU Regulation No. 1123/2013 of November 8, 2013 regarding the establishment of the rights to international credits, pursuant to Directive 2003/87/EC of the European Parliament and of the Council, the Protocol to the Framework-Convention of the United Nations on Climate Change (Kyoto Protocol) sets up two mechanisms for the creation of international credits that Companies can use to reduce emissions. Joint Implementation provides for the creation of emission reduction units (ERU), while the Clean Development Mechanism (CDM) provides for the creation of certified emission reductions (CER). Industries that fall under the European Trading System of atmosphere emissions (EU ETS) can use these credits to offset their obligations on emissions of greenhouse gas. In this respect, Romgaz holds as linking availability (correlation availability EUA – ERU certificates) a number of 51,598 ERU certificates available to be used for compliance in the 2013-2020 period.

According to Government Decision no 1096/December 17, 2013, Romgaz was allocated CO2 certificates as follows:

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

(d) *Controls by The Romanian Court of Accounts*

In year ended 2016, the Company came under scrutiny from the Romanian Court of Accounts.

One of the Romanian Court of Accounts' conclusions is that during 2013-2015 Romgaz delivered gas on the regulated market over the quantities it was legally allowed to, according to the existing legislation. The price on the regulated market being lower than the one on the free market, The Romanian Court of Accounts issued Decision number 26/01.06.2016 and ordered Romgaz to determine and to recover the prejudice as a price difference on gas quantities delivered on the regulated market over its legal obligation, having January 2017 as due date for implementation. The alleged prejudice estimated by the Court of Accounts is over RON 160 million. Romgaz appealed the decision, but the Court of Accounts dismissed the appeal. Subsequently, the Company started legal proceedings against the Court of Accounts' decision no. 26/01.06.2016 and, also, contracted legal services for the annulment of the Court of Accounts' decision and to carry out the measures ordered by the Court of Accounts' decision. The Court of Accounts litigation was resolved by the Court of Appeal Alba Iulia, maintaining the findings and measures of Decision no. 26/2016 issued by the Court of Accounts, except for one measure.

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

The Company's management respects the decision taken by the Court of Appeal Alba Iulia and will implement the measures established by the Court of Accounts.

34. JOINT ARRANGEMENTS

In January 2002, Romgaz signed a petroleum agreement with Amromco for rehabilitation operations in order to achieve additional production in 11 blocks, namely: Bibești, Strâmba, Finta, Fierbinți-Târg, Frasin-Brazi, Zătreni, Boldu, Roșioru, Gura-Șuții, Balta-Albă and Vlădeni. For the base production, Romgaz holds a share of 100% and for the additional production, Romgaz owns a share of 50% and Amromco Energy SRL - 50%. As the agreement was signed to execute rehabilitation operations to obtain additional production, the mandatory work program is in accordance with the studies approved by ANRM. Accordingly, the annual work program, which includes both works provided in the studies and other works necessary and proposed by the partners, is approved annually by the Board of the joint arrangement before the start of each year. The duration of the joint arrangement is in line with the time frame of each individual concession agreements of the 11 perimeters stated above, which differs for each block.

The agreement with Schlumberger was terminated in 2018.

35. AUDITOR'S FEES

The fee charged by the Company's statutory auditor, S.C. Ernst & Young Assurance Services S.R.L. for the audit of 2018 financial statements is RON 390 thousand.

The fees charged by the Company's statutory auditor (S.C. Ernst & Young Assurance Services S.R.L. starting December 2018, and S.C. Deloitte Audit S.R.L. until August 2018) for other assurance services, provided in 2018 or related to 2018 are RON 197 thousand.

36. EVENTS AFTER THE BALANCE SHEET DATE

The litigation with the Court of Accounts mentioned in note 33 d) was settled by the Alba Iulia Court of Appeal, maintaining the findings and measures of Decision no. 26 / 01.06.2016 issued by the Court of Accounts, except for one of the measures.

The management respects the decision of the Alba Iulia Court of Appeal and will implement the measures established by the Court of Accounts.

The financial statements do not contain adjustments for this matter.

37. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on March 25, 2019.



Adrian Constantin Volintiru
Chief Executive Officer



Andrei Bobar
Chief Financial Officer