

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

**INDIVIDUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AS ADOPTED BY THE EUROPEAN UNION**

**TOGETHER WITH**

**THE INDEPENDENT AUDITOR'S REPORT**

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To the shareholders of,  
S.N.G.N. ROMGAZ S.A.

## INDEPENDENT AUDITOR'S REPORT

### Report on the Individual Financial Statements

- 1 We have audited the accompanying individual financial statements of S.N.G.N. ROMGAZ S.A. ("the Company") which comprise the statement of individual financial position as at December 31, 2015, and the statement of individual comprehensive income, statement of individual changes in equity and individual cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Individual Financial Statements*

- 2 Management is responsible for the preparation and fair presentation of these individual financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of the individual financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

3. Our responsibility is to express an opinion on these individual financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the individual financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the individual financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the individual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the individual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the individual financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

6. In our opinion, the accompanying individual financial statements present fairly, in all material respects, the individual financial position of S.N.G.N. ROMGAZ S.A. as at December 31, 2015, and its individual financial performance and its individual cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union.

### *Other Matters*

7. This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

### **Report on Conformity of the Administrators' report with the Individual Financial Statements**

The administrators are responsible for the preparation and presentation of the administrators' report in accordance with the requirements of the Ministry of Public Finance Order no. 1286/2012, Chapter II, articles 10-14, which does not contain material misstatements and for such internal control as management determines is necessary to enable the preparation of the administrators' report that is free from material misstatement, whether due to fraud or error.

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

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

- a) in the administrators' report, we have not identified information which is not consistent, in all material respects, with the information presented in the individual financial statements attached;

- b) the administrators' report identified above contains, in all material respects, the required information according to the provisions of Ministry of Public Finance Order no. 1286/2012, Chapter II, articles 10-14;
- c) based on our knowledge and understanding concerning the Company and its environment gained during the audit on the individual financial statements prepared as of December 31, 2015, we have not identified information included in the administrators' report that contains a material misstatement of fact.

Farrukh Khan, Audit Partner

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

Registered with the Romanian Chamber of Financial Auditors  
under no. 1533/25.11.2003

*On behalf of:*

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

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

Bucharest, Romania  
March 24, 2016

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

	Note	Year ended December 31, 2015 '000 RON	Year ended December 31, 2014 '000 RON
Revenue	3	4,052,684	4,493,341
Cost of commodities sold	5	(40,228)	(175,638)
Investment income	4	44,185	78,729
Other gains and losses	6	(318,903)	(275,141)
Changes in inventory of finished goods and work in progress		138,181	27,743
Raw materials and consumables used	5	(78,262)	(66,167)
Depreciation, amortization and impairment expenses	7	(793,598)	(776,839)
Employee benefit expense	8	(511,647)	(522,785)
Finance cost	9	(20,302)	(24,476)
Exploration expense	13	(42,395)	(43,332)
Other expenses	10	(1,040,670)	(1,034,627)
Other income	3	79,793	107,521
<b>Profit before tax</b>		<b>1,468,838</b>	<b>1,788,329</b>
Income tax expense	11	(274,553)	(378,448)
<b>Profit for the year</b>		<b>1,194,285</b>	<b>1,409,881</b>
Basic and diluted earnings per share		0.0031	0.0037
<b>Total comprehensive income for the year</b>		<b>1,194,285</b>	<b>1,409,881</b>

These individual financial statements were authorized for issue by the Board of Directors on March 24, 2016.

Virgil Metea  
General Manager

Lucia Ionascu  
Economic Director

\* Certain amounts shown here do not correspond to the 2014 published financial statements (note 33)  
The accompanying notes form an integral part of these individual financial statements.  
This is a free translation from the original Romanian version.

## STATEMENT OF INDIVIDUAL FINANCIAL POSITION AT DECEMBER 31, 2015

	Note	December 31, 2015 '000 RON	December 31, 2014 '000 RON (represented)*	January 1, 2014 '000 RON (represented)*
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	12	5,996,460	5,962,719	5,767,267
Other intangible assets	14	399,859	407,449	383,956
Investments in subsidiaries	24 a)	1,200	-	-
Investments in associates	24 b)	163	738	947
Other financial assets	28	29,300	-	-
Other financial investments	25	70,080	76,889	78,900
Other assets		-	-	17,093
<b>Total non-current assets</b>		<b>6,497,062</b>	<b>6,447,795</b>	<b>6,246,163</b>
<b>Current assets</b>				
Inventories	15	559,784	392,108	463,946
Trade and other receivables	16a	601,085	1,000,195	1,086,628
Other financial assets	28	2,148,827	2,343,864	1,574,924
Other assets	16b	139,612	101,886	146,179
Cash and cash equivalents	27	740,352	528,256	959,330
<b>Total current assets</b>		<b>4,187,640</b>	<b>4,364,309</b>	<b>4,231,007</b>
<b>Total assets</b>		<b>10,684,702</b>	<b>10,812,104</b>	<b>10,477,170</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	17	385,422	385,422	1,892,681
Reserves	18	2,581,853	2,142,347	1,949,600
Retained earnings		6,724,947	7,184,249	5,450,493
<b>Total equity</b>		<b>9,692,222</b>	<b>9,712,018</b>	<b>9,292,774</b>
<b>Non-current liabilities</b>				
Retirement benefit obligation	19	102,959	97,265	79,241
Deferred tax liabilities	11	62,589	131,305	146,440
Provisions	19	200,855	202,293	196,950
<b>Total non-current liabilities</b>		<b>366,403</b>	<b>430,863</b>	<b>422,631</b>

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

	Note	December 31, 2015	December 31, 2014	January 1, 2013
		'000 RON	'000 RON (represented)*	'000 RON (represented)*
<b>Current liabilities</b>				
Trade and other payables	20	186,937	216,983	202,796
Current tax liabilities		90,838	93,590	200,982
Provisions	19	28,779	35,814	47,316
Other liabilities	20	319,523	322,836	310,671
<b>Total current liabilities</b>		<b>626,077</b>	<b>669,223</b>	<b>761,765</b>
<b>Total liabilities</b>		<b>992,480</b>	<b>1,100,086</b>	<b>1,184,396</b>
<b>Total equity and liabilities</b>		<b>10,684,702</b>	<b>10,812,104</b>	<b>10,477,170</b>

These individual financial statements were authorized for issue by the Board of Directors on March 24, 2016.

Virgil Metea  
General Manager



Lucia Ionascu  
Economic Director

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## STATEMENT OF INDIVIDUAL CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2015

	Share capital '000 RON	Legal reserve '000 RON	Other reserves '000 RON	Retained earnings '000 RON	Total '000 RON
<b>Balance as of January 1, 2015</b>	<b>385,422</b>	<b>77,084</b>	<b>2,065,263</b>	<b>7,184,249</b>	<b>9,712,018</b>
Allocation to dividends *)	-	-	-	(1,214,081)	(1,214,081)
Transfer to other reserves	-	-	407,658	(407,658)	-
Reinvested profit	-	-	31,848	(31,848)	-
Total comprehensive income for the year	-	-	-	1,194,285	1,194,285
<b>Balance as of December 31, 2015</b>	<b>385,422</b>	<b>77,084</b>	<b>2,504,769</b>	<b>6,724,947</b>	<b>9,692,222</b>
<b>Balance as of January 1, 2014</b>	<b>1,892,681</b>	<b>77,084</b>	<b>1,872,516</b>	<b>5,450,493</b>	<b>9,292,774</b>
Allocation to dividends *)	-	-	-	(990,637)	(990,637)
Transfer to other reserves	-	-	162,079	(162,079)	-
Reinvested profit	-	-	30,668	(30,668)	-
Share capital decrease	(1,507,259)	-	-	1,507,259	-
Total comprehensive income for the year	-	-	-	1,409,881	1,409,881
<b>Balance as of December 31, 2014</b>	<b>385,422</b>	<b>77,084</b>	<b>2,065,263</b>	<b>7,184,249</b>	<b>9,712,018</b>

\*) In 2015, the Company's shareholders approved the allocation of RON 1,214,081 thousand to dividends (2014: RON 990,637 thousand), the dividend per share being RON 3.15 (2014: RON 2.57 per share).

Retained earnings include the geological quota reserve set up in accordance with the provisions of Government Decision no. 168/1998 on the establishment of the expense quota for the development and modernization of oil and natural gas production, refining, transportation and oil distribution. Following the Company's transition to IFRS the reserve was no longer set up, the reserve existing as of December 31, 2012 being included in retained earnings. The reserve is allocated to shareholders based on the depreciation, respectively write-off of the assets financed using this source. As of December 31, 2015 the geological quota reserve, before profit allocation, is of RON 2,431,376 thousand (December 31, 2014: RON 2,673,278 thousand).

These individual financial statements were authorized for issue by the Board of Directors on March 24, 2016.

**Virgil Metea**  
General Manager

**Lucia Ionascu**  
Director Economic



The accompanying notes form an integral part of these individual financial statements.  
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## STATEMENT OF INDIVIDUAL CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2016

	Year ended December 31, 2015	Year ended December 31, 2014
	'000 RON	'000 RON (represented)*
<b>Cash flows from operating activities</b>		
<b>Net profit for the year</b>	<b>1,194,285</b>	<b>1,409,881</b>
<b>Adjustments for:</b>		
Income tax expense (note 11)	274,553	378,448
Interest expense (note 9)	34	34
Investment income (note 3)	-	(3,268)
Unwinding of decommissioning provision (note 9)	20,268	24,442
Interest revenue (note 4)	(44,185)	(75,461)
Loss on disposal of non-current assets (note 6)	23,084	18,024
Change in decommissioning provision recognized in profit or loss, other than unwinding (note 19)	(19,724)	(7,877)
Change in other provisions	21,852	3,783
Impairment of exploration assets (note 12, note 14)	228,309	154,077
Exploration projects written-off	42,395	43,332
Impairment of non-current assets	5,219	137,783
Depreciation and amortization (note 7)	560,070	484,979
Impairment of financial investments (note 6, note 24 b)	1,328	209
Impairment of other financial investments (note 6, note 25)	6,809	11
Receivable write-offs and movement in allowances for trade receivables and other assets (note 6)	292,146	233,340
Revenues from dismantling of assets	(2,232)	-
Movement in write-down allowances for inventory (note 6)	(4,576)	21,907
	<b>2,599,635</b>	<b>2,823,644</b>
<b>Movements in working capital:</b>		
Decrease/(Increase) in inventory	(162,187)	50,008
Decrease/(Increase) in trade and other receivables	54,550	(154,869)
(Decrease)/Increase in trade and other liabilities	(15,202)	95,160
<b>Cash generated from operations</b>	<b>2,476,796</b>	<b>2,813,943</b>
Interest paid	(34)	(34)
Income taxes paid	(346,021)	(500,975)
<b>Net cash generated by operating activities</b>	<b>2,130,741</b>	<b>2,312,934</b>

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## STATEMENT OF INDIVIDUAL CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2015

	Year ended December 31, 2015	Year ended December 31, 2014
	'000 RON	'000 RON (represented)*
<b>Cash flows from investing activities</b>		
Increase in investments in associates (note 24 b)	(753)	-
Investment in subsidiaries (note 24 a)	(1,200)	-
(Increase)/Decrease in other financial assets	158,050	(770,854)
Interest received	53,872	77,200
Proceeds from sale of non-current assets	42	154
Loans granted to associates	(726)	-
Reimbursements of loans granted to associates	65	-
Dividends received	1,634	1,634
Acquisition of non-current assets	(357,281)	(580,708)
Acquisition of exploration assets	(555,423)	(485,147)
<b>Net cash used in investing activities</b>	<b>(701,720)</b>	<b>(1,757,721)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(1,214,925)	(988,287)
<b>Net cash used in financing activities</b>	<b>(1,214,925)</b>	<b>(988,287)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>214,096</b>	<b>(433,074)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>526,256</b>	<b>959,330</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>740,352</b>	<b>526,256</b>

These individual financial statements were authorized for issue by the Board of Directors on March 24, 2016 .

Virgil Metea  
General Manager



Lucia Ionascu  
Economic Director

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

**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. Motăș Square, 551130, Sibiu County.

The Ministry of Energy, Small and Medium Enterprises and Business Environment as representative of the Romanian State, is shareholder of S.N.G.N. Romgaz S.A. together with other legal and physical persons (note 17).

Romgaz has as main activity:

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

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Statement of compliance**

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

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

**Basis of preparation**

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Basis of preparation (continued)**

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

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

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

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

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

**Associated entities**

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

**Joint arrangements**

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Joint arrangements (continued)**

*Joint operations*

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

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

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

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

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

*Joint ventures*

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

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

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

- annual improvements to IFRSs – cycle 2011 - 2013, adopted by the EU on December 18, 2014 (effective for annual periods beginning on or after January 1, 2015);
- IFRIC 21 "Levies" adopted by the EU on June 13, 2014 (effective for annual periods beginning on or after June 17, 2014).

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

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

At the date of issue of the individual financial statements, the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were issued, but not yet effective:

- annual improvements to IFRS – cycle 2010-2012 adopted by the EU on December 17, 2014 (effective for annual periods beginning on or after February 1, 2015);



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

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

- amendments to IAS 19: Defined benefit plans: employee contributions - adopted by the EU on December 17, 2014 (effective for annual periods beginning on or after February 1, 2015);
- amendments to IAS 27: Equity method in separate financial statements, adopted by EU on December 18, 2015 (effective for annual periods beginning on or after January 1, 2016);
- amendments to IAS 1: Disclosure initiative, adopted by EU on December 18, 2015 (effective for annual periods beginning on or after January 1, 2016);
- annual improvements to IFRSs – cycle 2012-2014, adopted by EU on December 15, 2015 (effective for annual periods beginning on or after January 1, 2016);
- amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortization, adopted by EU on December 2, 2015, (effective for annual periods beginning on or after January 1, 2016);
- amendments to IFRS 11: Accounting for acquisitions of interests in joint operations, adopted by EU on November 24, 2015 (effective for annual periods beginning on or after January 1, 2016);
- amendments to IAS 16 and IAS 41: Bearer plants adopted by EU on November 23, 2015 (effective for annual periods beginning on or after January 1, 2016).

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

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

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2018);
- IFRS 14 "Regulatory deferral accounts" (effective for annual periods beginning on or after January 1, 2016);
- 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);
- IFRS 16 "Leases" (effective for annual periods beginning on or after January 1, 2019);
- amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities: applying the consolidation exception (effective for annual periods beginning on or after January 1, 2016);
- amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture (the effective date of the amendments has been deferred indefinitely);
- amendments to IAS 12: Recognition of deferred tax assets for unrealised losses (effective for annual periods beginning on or after January 1, 2017);
- amendments to IAS 7: Disclosure initiative (effective for annual periods beginning on or after January 1, 2017).

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the Company's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the individual financial statements, if applied as at the end of the reporting date.

**Revenue recognition**

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

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

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

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

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

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

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

**Foreign currencies**

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

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

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

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



NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Employee benefits**

*Benefits granted upon retirement*

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

Based on the Collective Labor Agreement, the Company is liable to pay to its employees at retirement a number of gross salaries, according to the years worked in the gas industry/electrical industry, work conditions etc. To this purpose, the Company recorded a provision for benefits upon retirement. This provision was 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 was brought to present value using a discount factor based on interest related to a maximum degree of security investments (government securities).

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

*Employee participation to profit*

At year end, the Company records an expense with a liability related to the fund for employee participation to profit in compliance with legislation in force. The expense is presented as an employee benefit expense.

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

**Provisions**

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

*Provisions for decommissioning of wells and restoration of lands damaged by the activity of exploiting natural gas resources*

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

The Company recorded a provision for decommissioning wells and restoring lands used in the activity of exploiting natural resources and returning them to the economic circuit.

This provision was computed based on the estimated future expenditure determined in accordance with local conditions and requirements and it was brought to present value using a discount factor based on the weighted average cost of capital.

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

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

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

*Provisions for decommissioning of wells and restoration of lands damaged by the activity of exploiting natural gas resources (continued)*

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

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

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

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

**Taxation**

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

*Current tax*

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

*Deferred tax*

Deferred tax is recognized on the differences between the carrying amounts of assets and liabilities in the individual financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Taxation (continued)**

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

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

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

*Current and deferred tax for the period*

Current tax for the period is recognized as an expense in the statement of 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 acquiree's identifiable assets, liabilities and contingent liabilities over cost.

**Property, plant and equipment**

(1) Cost

(i) *Property, plant and equipment*

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

(ii) *Development expenditure*

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

(iii) *Maintenance and repairs*

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Property, plant and equipment (continued)**

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

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

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

## (2) Depreciation

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

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

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

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

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 retired or otherwise 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 year.

**Exploration and appraisal assets**

## (1) Cost

Natural gas exploration, appraisal and development expenditure is accounted for using the principles of the successful efforts method of accounting.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and appraisal assets (continued)

(1) Cost (continued)

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 written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, are likely to be capable of commercial development, the costs continue to be carried as an asset. Costs directly associated with appraisal activity, undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalized as an asset. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, an impairment is recorded for the assets, until the completion of the legal steps necessary for them to be written off. When proved reserves of natural gas are determined and development is approved by management, the relevant expenditure is transferred to property, plant and equipment other than exploration assets.

(2) Impairment

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

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

Other intangible assets

(1) Cost

Licenses for software, patents and other intangible assets are recognized at acquisition cost. Operation licenses issued by the Regulatory Authority for Energy (Autoritatea Nationala de Reglementare in domeniul Energiei – ANRE) are recognized at cost from the moment they are obtained by the Company.

Intangible assets are not revalued.

(2) Amortization

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



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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Inventories**

Inventories are recorded initially at cost of production, or acquisition cost, depending on the case. The cost of finished goods and production in progress includes materials, labour, expense incurred for bringing the finished goods at the location and in the existent form and the related indirect production costs. Write down adjustments are booked against slow moving, damaged and obsolete inventory, when necessary. At each reporting date, inventories are evaluated at the lower of cost and net realizable value. The net realizable value is estimated based on the selling price less any completion and selling expenses. The cost of inventories is assigned by using the weighted average cost formula.

**Financial assets and liabilities**

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

Financial assets are classified into the following categories: "held-to-maturity investments" and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables, including trade and other receivables, bank balances and cash and other receivables, are initially recognized at fair value, net of transaction costs. Subsequently these are recorded at amortized cost using the effective interest method, less any impairment. Any difference between the initial recognition and repayable amount is recognized in profit and loss over the period of the loan, using the effective interest rate method.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the issue of financial liabilities, other than financial liabilities at fair value through profit or loss, are deducted from the fair value of financial liabilities on initial recognition.

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

The classification of investment depends on the nature and purpose and is determined at the time of initial recognition.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial assets and liabilities (continued)**

*Available for sale (AFS) financial assets*

Financial assets available for sale are non-derivatives financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or other financial assets measured at fair value through profit or loss.

Shares held in unquoted equity instrument are classified as being AFS and are stated at fair value, where it can be measured. Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the year.

Dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

*Impairment of financial assets*

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

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset, including trade receivables, is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off, together with the reversal of the allowance against income. Subsequent recoveries of amounts previously written off are credited as income in the period when the cash is collected. Changes in the carrying amount of the allowance account are recognized in profit or loss.

*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.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Reserves**

Reserves include:

- legal reserves, which are used annually to transfer profits from profits, up to 5% of the statutory profit being transferred each year, but not to exceed 20% of the Company's statutory share capital;
- other reserves, which represent allocations from profit in accordance with Government Ordinance no. 64/2001, paragraph (g) for the Company's development fund;
- reserves from tax incentives, set up based on Emergency Ordinance no. 19/April 23, 2014. The amount of profit that benefited from tax exemption under the above Ordinance less the legal reserve, was distributed at the end of the period 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;
- other reserves.

**Use of estimates**

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

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

*Estimates related to the exploration expenditure on undeveloped fields*

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

*Estimates related to the developed proved reserves*

The Company applies the depreciation method based on the unit of production in order to reflect in the income statement an expense proportionate with the income realized from sale of production obtained from the total natural gas reserve certified at the beginning of the year. According to this method, the value of each production well is depreciated according to the ratio of the natural gas quantity extracted during the year compared to the gas reserve certified at the beginning of the year. The gas reserves are updated annually based on internal assessment approved by the National Authority for Mineral Resources.

*Estimates related to the decommissioning provision*

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

The Company recorded a provision for decommissioning wells. This provision was computed based on the estimated future expenditure determined in accordance with local conditions and requirements and it was brought to present value using a discount factor using the weighted average capital cost.



NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

*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 was 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 was brought to present value using a discount factor based on interest on investments with the highest degree of safety (government bonds).

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

*Estimates regarding the environment provision*

The Company records a provision for the restoration of land and for the redemption of the land to the agricultural circuit, based on management's estimate of the necessary costs to be incurred in order to restore the land to its original state. The estimate is based on previous experience.

*Fair value measurements and valuation processes*

Some of the Company's assets and liabilities are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available. Where Level 3 inputs are not available, the Company engages third party qualified valuers to perform the valuation. The Company works closely with qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Economic Director reports the valuation findings to the board of directors of the Company on a regular basis to explain the cause of fluctuations in the fair value of the assets and liabilities.

*Contingencies*

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

**Comparative information**

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

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

## 3. REVENUE AND OTHER INCOME

	Year ended December 31, 2015	Year ended December 31, 2014
	'000 RON	'000 RON
Revenue from gas sold - domestic production	3,159,884	3,413,733
Revenue from gas sold - joint venture	131,373	139,657
Revenue from gas acquired for resale – import gas	4,169	116,443
Revenue from gas acquired for resale – domestic gas	14,545	15,050
Revenue from electricity	356,778	334,684
Revenue from sale of goods	13,876	11,242
Revenue from services	32,636	29,908
Revenue from storage services	332,528	425,575
Other operating revenues	86,690	114,570
<b>Total</b>	<b>4,132,477</b>	<b>4,600,862</b>

## 4. INVESTMENT INCOME

	Year ended December 31, 2015	Year ended December 31, 2014
	'000 RON	'000 RON
Interest income	44,185	75,461
Income from dividends	-	3,268
<b>Total</b>	<b>44,185</b>	<b>78,729</b>

## 5. COST OF COMMODITIES SOLD, RAW MATERIALS AND CONSUMABLES

	Year ended December 31, 2015	Year ended December 31, 2014
	'000 RON	'000 RON
Consumables used	73,988	62,235
Cost of gas acquired for resale, sold – import	4,027	108,712
Cost of gas acquired for resale, sold – domestic	12,639	12,411
Cost of electricity imbalance	22,673	53,395
Cost of other goods sold	888	1,120
Other consumables	4,275	3,932
<b>Total</b>	<b>118,490</b>	<b>241,805</b>

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

## 6. OTHER GAINS AND LOSSES

	Year ended December 31, 2015	Year ended December 31, 2014
	'000 RON	'000 RON
Forex gain	131	1,419
Forex loss	(243)	(3,069)
Loss on disposal of non-current assets	(23,084)	(18,024)
Receivable allowances and write offs, net (note 16 c)	(292,039)	(233,336)
Impairment of financial investments (note 24 b, note 25)	(8,137)	(220)
Write down allowances for inventory, net (note 15)	4,576	(21,907)
Losses from trade receivables	(107)	(4)
<b>Total</b>	<b>(318,903)</b>	<b>(275,141)</b>

## 7. DEPRECIATION, AMORTIZATION AND IMPAIRMENT EXPENSES

	Year ended December 31, 2015	Year ended December 31, 2014
	'000 RON	'000 RON
Depreciation	560,070	484,979
out of which:		
- depreciation of property, plant and equipment	541,874	469,297
- amortization of intangible assets	18,196	15,682
Impairment of non-current assets	233,528	291,860
<b>Total depreciation, amortization and impairment</b>	<b>793,598</b>	<b>776,839</b>

## 8. EMPLOYEE BENEFIT EXPENSE

	Year ended December 31, 2015	Year ended December 31, 2014
	'000 RON	'000 RON
Wages and salaries	454,732	443,316
Social security charges	108,828	120,162
Meal tickets	12,191	12,233
Other benefits according to collective labor contract	20,990	16,354
Private pension payments	10,775	10,534
<b>Total employee benefit costs</b>	<b>607,516</b>	<b>602,599</b>
Less, capitalised employee benefit costs	(95,869)	(79,814)
<b>Total employee benefit expense</b>	<b>511,647</b>	<b>522,785</b>

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

## 9. FINANCE COSTS

	Year ended December 31, 2015	Year ended December 31, 2014
	'000 RON	'000 RON
Interest expense	34	34
Unwinding of the decommissioning provision (note 19)	20,268	24,442
<b>Total</b>	<b>20,302</b>	<b>24,476</b>

## 10. OTHER EXPENSES

	Year ended December 31, 2015	Year ended December 31, 2014
	'000 RON	'000 RON
Energy and water expenses	18,472	20,755
Expenses for capacity booking and gas transmission services	40,574	40,427
Expenses with other taxes and duties	787,182	816,598
(Gain)/Loss from provisions movement	2,128	(4,093)
Other operating expenses	192,314	160,940
<b>Total</b>	<b>1,040,670</b>	<b>1,034,627</b>

In the year ended December 31, 2015, the major taxes included in the amount of RON 787,182 thousand (year ended December 31, 2014: RON 816,598 thousand) for taxes and duties are:

- RON 367,165 thousand, including amounts related to joint ventures, represent windfall tax resulting from the deregulation of prices in the natural gas sector according to Government Ordinance no. 7/2013 modified by the Emergency Ordinance no. 13/2014 for the implementation of the windfall tax following the deregulation of prices in the natural gas sector (year ended December 31, 2014: RON 369,685 thousand);
- RON 64,988 thousand, including amounts related to joint ventures, represent tax on special construction according to Government Ordinance no. 102/2013 for the modification and completion of Law 571/2003 regarding the Fiscal Code and for the regulation of certain financial-fiscal measures (year ended December 31, 2014: RON 91,745 thousand);
- RON 304,671 thousand, including amounts related to joint ventures, represent royalty on gas production and storage activity (year ended December 31, 2014: RON 303,232 thousand).

## 11. INCOME TAX EXPENSE

	Year ended December 31, 2015	Year ended December 31, 2014
	'000 RON	'000 RON
Income tax		
Current tax expense	343,269	393,583
Deferred income tax (income)/expense	(68,716)	(15,135)
<b>Income tax expense</b>	<b>274,553</b>	<b>378,448</b>

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

## 11. INCOME TAX EXPENSE (continued)

The tax rate used for the reconciliations below for the years ended December 31, 2015, respectively December 31, 2014 is the corporate tax rate of 16% payable by corporate entities in Romania on taxable profits.

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

	Year ended December 31, 2015	Year ended December 31, 2014
	'000 RON	'000 RON
<b>Accounting profit before tax</b>	<b>1,468,838</b>	<b>1,788,329</b>
Income tax expense calculated at 16%	235,014	286,133
Effect of income exempt of taxation	(48,705)	(18,130)
Effect of expenses that are not deductible in determining taxable profit	188,807	162,563
Tax incentives	(5,118)	(4,907)
Effect of temporary differences	(95,445)	(47,211)
<b>Income tax expense</b>	<b>274,553</b>	<b>378,448</b>

Components of deferred tax liability:

	December 31, 2015		December 31, 2014	
	Cumulative temporary differences	Deferred tax (asset)/ liability	Cumulative temporary differences	Deferred tax (asset)/ liability
	'000 RON	'000 RON	'000 RON	'000 RON
Provisions	(302,388)	(48,382)	(320,227)	(51,236)
Property, plant and equipment	844,937	135,190	1,290,285	208,448
Receivables and other assets	(151,367)	(24,219)	(149,399)	(23,905)
<b>Total</b>	<b>391,182</b>	<b>62,589</b>	<b>820,659</b>	<b>131,305</b>
<b>Charged to Income</b>		<b>(68,716)</b>		<b>(15,135)</b>

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

## 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 - WIP '000 RON	Capital work in progress - other '000 RON	Total '000 RON
<b>Cost</b>									
As of January 1, 2015	104,058	457,028	4,872,197	1,096,588	157,645	1,604,301	852,508	548,085	9,692,410
Reclassification	-	355,583	256,831	(434,327)	(76,280)	(101,807)	-	-	-
Additions *)	2,359	19,573	551,968	48,349	7,108	111,363	469,322	743,720	1,953,760
Disposals **)	(18)	(747)	(47,562)	(5,754)	(518)	(12,055)	(663,968)	(491,180)	(1,221,802)
As of December 31, 2015	106,399	831,437	5,633,432	704,856	87,955	1,601,802	657,862	800,625	10,424,368
Accumulated depreciation									
As of January 1, 2015	-	84,071	2,030,012	505,872	113,502	370,324	-	-	3,103,781
Reclassification	-	66,055	106,394	(126,928)	(60,662)	(4,859)	-	-	-
Charge for the year**)	-	31,922	397,204	56,778	6,770	81,042	-	-	573,716
Disposals during the year	-	(142)	(2,858)	(4,634)	(504)	(9,525)	-	-	(17,663)
As of December 31, 2015	-	201,906	2,530,752	431,088	59,106	436,982	-	-	3,659,834
Impairment									
As of January 1, 2015	3,180	15,178	174,085	24,881	298	6,253	339,084	62,953	625,910
Reclassification	-	610	14	(404)	58	(478)	-	-	-
Transfers	-	-	3,110	-	-	2,402	(28,957)	23,445	-
Charge for the year	-	337	59,778	4,777	131	2	216,017	27,361	308,403
Release during the year	-	(788)	(51,547)	(5,351)	(67)	(4,290)	(61,259)	(22,937)	(166,239)
As of December 31, 2015	3,180	15,835	185,440	23,903	420	3,889	444,885	90,822	768,074
Carrying value									
As of January 1, 2015	100,878	357,781	2,668,100	565,835	43,845	1,227,724	513,424	485,132	5,962,719
As of December 31, 2015	103,219	613,998	2,917,240	249,865	28,429	1,160,931	212,977	709,803	5,996,460

\*) Amounts include put in functions/transfers in amount of RON 722,377 thousand.

\*\*) The amounts include depreciation of tangible assets used in the production of other fixed assets, capitalized in their cost, amounting to RON 28,264 thousand.

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## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

## 12. PROPERTY, PLANT AND EQUIPMENT (continued)

Cost	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 - WIP '000 RON	Capital work in progress - other '000 RON	Total '000 RON
As of January 1, 2014	103,110	449,978	4,539,218	1,002,118	153,893	1,539,539	691,698	312,332	8,791,884
Additions *)	948	7,371	384,588	98,411	4,302	65,588	382,434	614,297	1,517,937
Disposals *)	-	(321)	(31,607)	(3,941)	(550)	(828)	(201,622)	(378,544)	(617,411)
As of December 31, 2014	104,058	457,028	4,872,197	1,096,588	157,645	1,604,301	852,508	548,085	9,692,410
Accumulated depreciation									
As of January 1, 2014	-	54,773	1,739,258	415,026	89,594	297,858	-	-	2,596,507
Charge for the year **)	-	29,423	295,323	94,115	24,354	72,741	-	-	515,956
Disposals during the year	-	(125)	(4,587)	(3,269)	(446)	(275)	-	-	(6,682)
As of December 30, 2014	-	84,071	2,030,012	505,872	113,502	370,324	-	-	3,103,781
Impairment									
As of January 1, 2014	3,180	14,383	69,645	22,780	124	-	276,880	41,118	428,110
Charge for the year	-	793	106,256	2,268	174	6,253	124,622	27,772	268,136
Release during the year	-	-	(1,818)	(165)	-	-	(62,418)	(5,937)	(70,336)
As of December 31, 2014	3,180	15,176	174,085	24,881	298	6,253	339,084	62,953	625,910
Carrying value									
As of January 1, 2014	99,930	380,822	2,730,317	564,312	64,175	1,241,681	414,816	271,214	5,767,267
As of December 31, 2014	100,878	357,781	2,668,100	565,835	43,845	1,227,724	513,424	485,132	5,962,719

\*) Amounts include put in functions/transfers in amount of RON 515,414 thousand.

\*\*) The amounts include depreciation of tangible assets used in the production of other fixed assets, capitalized in their cost, amounting to RON 46,659 thousand.

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

## 13. EXPLORATION AND APPRAISAL FOR NATURAL GAS RESOURCES

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

	<u>Year ended December 31, 2015</u>	<u>Year ended December 31, 2014</u>
	'000 RON	'000 RON
Exploration projects written-off	42,395	43,332
Net movement in exploration assets' impairment	228,309	154,077
Net cash used in exploration investing activities	<u>(555,423)</u>	<u>(485,147)</u>
	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	'000 RON	'000 RON
Exploration assets	592,715	894,705
Liabilities	<u>(67,076)</u>	<u>(125,496)</u>
<b>Net assets</b>	<u><b>525,639</b></u>	<u><b>769,209</b></u>



## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

## 14. OTHER INTANGIBLE ASSETS

	Other intangible assets '000 RON	Licenses '000 RON	Intangible exploration assets - WIP '000 RON	Intangible work in progress - other '000 RON	Total '000 RON
<b>Cost</b>					
<b>As of January 1, 2015</b>	14,584	168,266	497,329	2,606	682,785
Additions	2,682	12,000	92,008	10,382	117,072
Disposals	(2,187)	(2,025)	-	(12,823)	(17,035)
<b>As of December 31, 2015</b>	15,079	178,241	589,337	165	782,822
<b>Accumulated amortization</b>					
<b>As of January 1, 2015</b>	5,056	152,045	-	-	157,101
Charge for the year	2,204	15,992	-	-	18,196
Disposals during the year	-	(1,933)	-	-	(1,933)
<b>As of December 31, 2015</b>	7,260	166,104	-	-	173,364
<b>Impairment</b>					
<b>As of January 1, 2015</b>	-	-	116,048	2,187	118,235
Charge for the year	-	-	167,733	-	167,733
Transfers during the year	2,187	-	(74,182)	(2,187)	(76,369)
Release during the year	(2,187)	-	-	-	-
<b>As of December 31, 2015</b>	-	-	209,599	-	209,599
<b>Carrying value</b>					
<b>As of January 1, 2015</b>	9,528	16,221	381,281	419	407,449
<b>As of December 31, 2015</b>	7,819	12,137	379,738	165	399,859

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

## 14. OTHER INTANGIBLE ASSETS (continued)

Cost	Other intangible assets '000 RON	Licenses '000 RON	Intangible exploration assets - WJP '000 RON	Intangible work in progress - other '000 RON	Total '000 RON
<b>As of January 1, 2014</b>	<b>4,133</b>	<b>160,044</b>	<b>381,577</b>	<b>4,834</b>	<b>550,588</b>
Additions	10,506	9,216	118,260	6,623	144,605
Disposals	(55)	(994)	(2,508)	(8,851)	(12,408)
<b>As of December 31, 2014</b>	<b>14,584</b>	<b>168,266</b>	<b>497,329</b>	<b>2,606</b>	<b>682,785</b>
<b>Accumulated amortization</b>					
<b>As of January 1, 2014</b>	<b>4,088</b>	<b>138,359</b>	-	-	<b>142,457</b>
Charge for the year	1,023	14,659	-	-	15,682
Disposals during the year	(55)	(983)	-	-	(1,038)
<b>As of December 31, 2014</b>	<b>5,056</b>	<b>152,045</b>	-	-	<b>157,101</b>
<b>Impairment</b>					
<b>As of January 1, 2014</b>	-	-	<b>24,175</b>	-	<b>24,175</b>
Charge for the year	-	-	94,378	2,187	96,565
Release during the year	-	-	(2,505)	-	(2,505)
<b>As of December 31, 2014</b>	-	-	<b>116,048</b>	<b>2,187</b>	<b>118,235</b>
<b>Carrying value</b>					
<b>As of January 1, 2014</b>	<b>45</b>	<b>21,675</b>	<b>357,402</b>	<b>4,834</b>	<b>383,956</b>
<b>As of December 31, 2014</b>	<b>9,528</b>	<b>16,221</b>	<b>381,281</b>	<b>419</b>	<b>407,449</b>

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

## 15. INVENTORIES

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	'000 RON	'000 RON
Spare parts and materials	158,034	142,687
Work in progress	594	144
Finished goods	351,773	240,104
Residual products	86	105
Inventories at third parties	65,248	39,816
Goods for resale (gas)	10,344	122
Other inventories	95	96
Write-down allowance for spare parts and materials	(25,789)	(24,060)
Write-down allowance for residual products	(22)	-
Write-down allowance for inventories at third parties	(579)	(6,906)
<b>Total</b>	<b>559,784</b>	<b>392,108</b>

## 16. ACCOUNTS RECEIVABLE

## a) Trade and other receivables

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	'000 RON	'000 RON
Trade receivables	1,438,204	1,528,203
Bad debt allowances (note 16 c)	(856,676)	(565,968)
Accrued receivables	19,537	37,960
<b>Total</b>	<b>601,065</b>	<b>1,000,195</b>

## b) Other assets

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	'000 RON	'000 RON
Advance paid to suppliers	13,933	34,999
Joint venture receivables	5,113	436
Loans to associates (note 22 iv)	17,887	17,054
Interest on loan to associates (note 22 iv)	1,041	846
Bad debt allowance on loans to associates (note 16 c, note 22 iv)	(18,928)	(17,900)
Other receivables	5,499	9,289
Bad debt allowance for other receivables	(549)	-
Other debtors	45,148	45,404
Bad debt allowances for other debtors (note 16 c)	(42,692)	(42,757)
Prepayments	84,481	42,015
VAT not yet due	28,679	12,500
<b>Total</b>	<b>139,612</b>	<b>101,886</b>

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## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

## 16. ACCOUNTS RECEIVABLE (continued)

## c) Changes in the allowance for doubtful debts

	2015	2014
	'000 RON	'000 RON
At January 1	<u>626,625</u>	<u>393,289</u>
Charge during the year	321,998	249,701
Forex on revaluation of foreign currency balances	181	-
Release during the year	<u>(29,959)</u>	<u>(16,365)</u>
At December 31	<u>918,845</u>	<u>626,625</u>

As of December 31, 2015, the Company recorded allowances for doubtful debts, of which Interagro RON 273,229 thousand (December 31, 2014: RON 268,660 thousand), GHCL Upsom of RON 60,371 thousand (December 31, 2014: RON 60,371 thousand), CET Iasi of RON 46,271 thousand (December 31, 2014: RON 46,271 thousand), Electrocentrale Galati with RON 209,907 thousand (December 31, 2014: RON 160,678 thousand), Electrocentrale Bucuresti with RON 238,094 thousand (December 31, 2014: RON 0 thousand) and G-ON EUROGAZ of RON 14,848 thousand (December 31, 2014: RON 14,903 thousand), due to existing financial conditions of these clients as well as ongoing litigating cases related to these receivables or exceeding payment terms.

	December 31, 2015	December 31, 2014
	'000 RON	'000 RON
Current receivables but not impaired	559,927	958,596
<b>Overdue receivables but not impaired</b>		
less than 30 days overdue	7,186	10,534
30 to 90 days overdue	14,396	1
90 to 360 days overdue	19	749
over 360 days overdue	<u>-</u>	<u>-</u>
<b>Total overdue receivables but not impaired</b>	<u>21,601</u>	<u>11,284</u>
<b>Total trade receivables</b>	<u>581,528</u>	<u>969,880</u>

Overdue receivables but not impaired were collected during 2016.

## 17. SHARE CAPITAL

	December 31, 2015	December 31, 2014
	'000 RON	'000 RON
385,422,400 fully paid ordinary shares	<u>385,422</u>	<u>385,422</u>
<b>Total</b>	<u>385,422</u>	<u>385,422</u>

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

## 17. SHARE CAPITAL (continued)

The shareholding structure as at December 31, 2015 is as follows:

	<u>No. of shares</u>	<u>Value</u> '000 RON	<u>Percentage (%)</u>
The Romanian State through the Ministry of Energy, Small and Medium Enterprises and Business Environment	289,823,080	289,823	70
Legal persons	100,967,301	100,967	26
Physical persons	14,632,019	14,632	4
<b>Total</b>	<b>385,422,400</b>	<b>385,422</b>	<b>100</b>

All shares are ordinary and were subscribed and fully paid as at December 31, 2015. All shares carry equal voting rights and have a nominal value of RON 1/share (December 31, 2014: RON 1/share).

## 18. RESERVES

	<u>December 31, 2015</u> '000 RON	<u>December 31, 2014</u> '000 RON
Legal reserves	77,084	77,084
Other reserves, of which:	2,504,769	2,065,263
- Company's development fund	1,955,242	1,548,207
- Tax incentives	62,516	30,668
- Geological quota set up until 2004	486,368	486,368
- Other reserves	623	-
<b>Total</b>	<b>2,581,853</b>	<b>2,142,347</b>

## 19. PROVISIONS

	<u>December 31, 2015</u> '000 RON	<u>December 31, 2014</u> '000 RON
Decommissioning provision	184,983	202,293
Retirement benefit obligation	102,959	97,265
Litigation provision *)	15,872	-
<b>Total long term provisions</b>	<b>303,814</b>	<b>299,558</b>
Decommissioning provision	12,629	19,950
Provisions for land restoration	14,253	15,146
Litigation provision	79	-
Other provisions	1,818	718
<b>Total short term provisions</b>	<b>28,779</b>	<b>35,814</b>
<b>Total provisions</b>	<b>332,593</b>	<b>335,372</b>

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

## 19. PROVISIONS (continued)

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

Following the tax inspection, an additional liability was established for Romgaz of RON 22,440 thousand, representing income tax, VAT, penalties and related interest. Of the total amount, Romgaz paid RON 2,389 thousand.

For the remaining amount of RON 20,051 thousand, Romgaz performed a legal assessment which concluded that the additional tax, penalties and interest are not correct. Romgaz filed an appeal to the Ministry of Public Finance.

The appeal was partially rejected for the amount of RON 15,872 thousand. In 2015 Romgaz started a legal case against the Ministry of Public Finance for the cancelation of the above decisions, including the partial cancelation of the decision issued for the appeal.

For RON 4,179 thousand a new fiscal control was ordered, which resulted in a tax burden of RON 2,981 thousand. Against this decision, Romgaz filed an appeal to ANAF. To the date of the financial statements, the appeal was not resolved.

Based on the above and to prevent the forced execution of the tax liabilities subject to the appeal, on October 23, 2014 (in accordance with provisions of art. 148<sup>1</sup> of Government Ordinance no. 92/2003 regarding the Tax Procedure Code, respectively art. 235 of Law no. 2017/2015 regarding the Tax Procedure Code), Romgaz issued a bank letter of guarantee in favor of the Ministry of Public Finance for the amount of the additional liabilities, respectively RON 20,051 thousand, valid until October 13, 2016. For the tax decision related to the RON 2,981 thousand, on November 11, 2015 the Company issued a bank letter of guarantee in favor of the Ministry of Public Finance, valid until November 10, 2016.

**Decommissioning provision****Decommissioning provision movement**

	<u>2015</u>	<u>2014</u>
	'000 RON	'000 RON
<b>At January 1</b>	<b>222,243</b>	<b>214,161</b>
Additional provision recorded against non-current assets	3,883	8,527
Unwinding effect (note 9)	20,268	24,442
Recorded in profit or loss	(19,724)	(7,877)
Release against non-current assets	<u>(29,058)</u>	<u>(17,010)</u>
<b>At December 31</b>	<b>197,612</b>	<b>222,243</b>

The Company makes full provision for the future cost of decommissioning natural gas wells on a discounted basis upon installation. The provision for the costs of decommissioning these wells at the end of their economic lives has been estimated using existing technology, at current prices or future assumptions, depending on the expected timing of the activity, and discounted using a weighted average cost of capital of 9.3% (December 31, 2014: 8.8%). While the provision is based on the best estimate of future costs and the economic lives of the wells, there is uncertainty regarding both the amount and timing of these costs.

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

## 20. TRADE AND OTHER CURRENT LIABILITIES

	December 31, 2015	December 31, 2014
	'000 RON	'000 RON
Accruals	65,283	48,844
Trade payables	23,976	39,324
Payables to fixed assets suppliers	40,967	110,859
Advances from customers	56,711	17,956
<b>Total trade payables</b>	<b>186,937</b>	<b>216,983</b>
Payables related to employees	49,141	55,353
Royalties	81,711	77,097
Social security taxes	16,160	28,465
Other current liabilities	40,785	31,600
Joint venture payables	977	4,089
VAT	81,348	70,260
Dividends payable	1,506	2,350
Windfall tax	43,596	50,188
Other taxes	4,299	5,434
<b>Total other current liabilities</b>	<b>319,523</b>	<b>322,836</b>
<b>Total trade and other current liabilities</b>	<b>506,460</b>	<b>539,819</b>

## 21. FINANCIAL INSTRUMENTS

## Financial risk factors

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

## (a) Market risk

## (i) Foreign exchange risk

The Company is not exposed to currency risk as a result of reduced exposure to various currencies. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

As at December 31, 2015, the official exchange rates were RON 4.1477 to USD 1 and RON 4.5245 to EUR 1 and (December 31, 2014: RON 3.6868 to USD 1 and RON 4.4821 to EUR 1).

## (ii) Inflation risk

The official inflation rate in Romania, during the year ended December 31, 2015 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 hyperinflation economy.



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

21. FINANCIAL INSTRUMENTS (continued)

Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk

The Company is exposed to interest rate risk due to loans granted to related parties.

As of December 31, 2015, the Company had granted variable interest bearing loans having a gross value and the related interest of RON 18,928 thousand (December 31, 2014: RON 17,900 thousand).

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 cash and cash equivalents, bank deposits, trade receivables and loans. The Company has policies in place to ensure that sales are made to customers with an appropriate credit history. 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, cash and cash equivalents and loans, represent the maximum amount exposed to credit risk. The Company has a concentration of credit risk in respect of its top 4 clients, which together amount to 94% of trade receivable balance at December 31, 2015 (92% as of December 31, 2014). 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 dividend policy, issue new shares or sell assets to reduce debt.

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

(d) Fair value estimation

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

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

The shares held in available for sale financial investments are not listed in an active market and their fair value cannot be reliably measured, therefore they are measured at cost. At each year end, the Company makes an assessment to determine whether there is any indication of impairment. As of December 31, 2015 the Company did not identify any indication of impairment of other financial investments, except for the impairment already recorded.



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

## 21. FINANCIAL INSTRUMENTS (continued)

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

December 31, 2016	Due in less than a month	Due in 1-3 months	Due in 3 months to 1 year	Due in 1-5 years	Due in over 5 years	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Trade receivables	329,707	251,770	51	-	-	581,528
Deposits	23,750	395,100	913,710	29,300	-	1,361,860
Treasury bills	-	400,430	410,440	-	-	810,870
<b>Total</b>	<b>353,457</b>	<b>1,047,300</b>	<b>1,324,201</b>	<b>29,300</b>	<b>-</b>	<b>2,754,258</b>
Trade payables	(52,787)	(12,155)	(1)	-	-	(64,943)
<b>Total</b>	<b>(52,787)</b>	<b>(12,155)</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>(64,943)</b>
<b>Net</b>	<b>300,670</b>	<b>1,035,145</b>	<b>1,324,200</b>	<b>29,300</b>	<b>-</b>	<b>2,689,315</b>
December 31, 2014	Due in less than a month	Due in 1-3 months	Due in 3 months to 1 year	Due in 1-5 years	Due in over 5 years	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Trade receivables	497,013	472,569	298	-	-	969,880
Deposits	232,805	920,755	435,030	-	-	1,588,590
Treasury bills	149,991	123,980	488,016	-	-	741,987
<b>Total</b>	<b>879,809</b>	<b>1,517,304</b>	<b>903,344</b>	<b>-</b>	<b>-</b>	<b>3,300,457</b>
Trade payables	(216,983)	-	-	-	-	(216,983)
<b>Total</b>	<b>(216,983)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(216,983)</b>
<b>Net</b>	<b>662,826</b>	<b>1,517,304</b>	<b>903,344</b>	<b>-</b>	<b>-</b>	<b>3,083,474</b>

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

## 21. FINANCIAL INSTRUMENTS (continued)

## 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.

## 22. RELATED PARTY TRANSACTIONS

## (i) Sales of goods and services

	<u>Year ended December 31, 2015</u> '000 RON	<u>Year ended December 31, 2014</u> '000 RON
Romgaz's associates	23,736	21,464
<b>Total</b>	<b>23,736</b>	<b>21,464</b>

## (ii) Interest revenue

	<u>Year ended December 31, 2015</u> '000 RON	<u>Year ended December 31, 2014</u> '000 RON
Romgaz's associates	186	176
<b>Total</b>	<b>186</b>	<b>176</b>

## (iii) Trade receivables

	<u>December 31, 2015</u> '000 RON	<u>December 31, 2014</u> '000 RON
Romgaz's associates	-	1,306
<b>Total</b>	<b>-</b>	<b>1,306</b>

## (iv) Loans granted to associates

	<u>December 31, 2015</u> '000 RON	<u>December 31, 2014</u> '000 RON
Romgaz's associates (note 16 b)	18,928	17,900
Bad debt allowance (note 16 b)	(18,928)	(17,900)
<b>Total</b>	<b>-</b>	<b>-</b>

Most of the Company's clients are companies in which the Romanian State has control or continues to have a significant influence after their privatization, given the strategic importance of the industry in which both the Company and its clients operate. In the years ended December 31, 2015 respectively December 31, 2014, the Company conducted transactions with these companies only in the normal course of business. These transactions are done on the basis of standard contractual relationships.

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

**23. INFORMATION REGARDING THE MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES****The remuneration of executives and directors**

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

During the years ended December 31, 2015 and, respectively, December 31 2014, no loans and advances were granted to executives and directors of the Company, except for work related travel advances, and they do not owe any amounts to the Company from such advances

	<u>Year ended December 31, 2015</u> '000 RON	<u>Year ended December 31, 2014</u> '000 RON
Salaries paid to directors	11,407	11,931
	<u>December 31, 2015</u> '000 RON	<u>December 31, 2014</u> '000 RON
Salaries payable to directors	486	400

**24. INVESTMENT IN SUBSIDIARIES AND ASSOCIATES****a) Investment in subsidiaries**

Given the Company's legal obligation to separate the natural gas storage activity from the production and supply of natural gas activity, under Directive 2009/73/EC of the European Parliament and of the Council of July 13, 2009 and the provisions of art. 141, paragraph (1) of Law 123/2012, the shareholders decided at the end of 2014 to establish a subsidiary for the natural gas underground storage activity.

In August 2015 the subsidiary S.N.G.N. Romgaz S.A. – Filiala de Înmagazinare Gaze Naturale Depogaz Ploiești S.R.L., 100% owned by the Company, was registered at the Trade Register. The share capital of the subsidiary is RON 1,200 thousand, divided into 120,000 shares with a nominal value of RON 10/share.

As of the date the individual financial statements for the year ended December 31, 2015 were authorized for issue, the storage activity is being further carried by the Company. The Regulatory Authority for Energy (Autoritatea Nationala de Reglementare in Domeniul Energiei – ANRE), by Presidential decision no. 2588/December 30, 2015, had changed license no. 1942 regarding the operations of the underground gas storage facilities granted to Romgaz by ANRE presidential decision no. 151/January 22, 2014 in the sense of changing the licence holder with S.N.G.N Romgaz S.A. – Filiala de Înmagazinare Gaze Naturale Depogaz Ploiesti S.R.L. The modified license was granted starting April 1, 2016 to September 13, 2056.

The Company did not prepare consolidated financial statements as of December 31, 2015 given the fact that the subsidiary did not carry out any activity since incorporation.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

## 24. INVESTMENT IN SUBSIDIARIES AND ASSOCIATES (continued)

## b) Investment in associates

Name of associate	Main activity	Place of incorporation and operation	Proportion of ownership interest and voting power held (%)	
			December 31, 2015	December 31, 2014
SC Amgaz SA Medias	Gas production	România	35	35
SC Depomures SA Tg Mures	Storage of natural gas	România	40	40
Energia Torzym	Gas production	Polonia	30	30
Energia Cybinka	Gas production	Polonia	30	30
SC Agri LNG Project Company SRL	Feasibility projects	România	25	25

  

Name of associate	Value as of 31 December, 2015 '000 RON	Impairment as of 31 December, 2015 '000 RON	Carrying value as of 31 December, 2015 '000 RON	Value as of 31 December, 2014 '000 RON	Impairment as of 31 December, 2014 '000 RON	Carrying value as of 31 December, 2014 '000 RON
SC Depomures SA Tg Mures	120	-	120	120	-	120
Energia Torzym	1,750	(1,750)	-	1,750	(1,750)	-
Energia Cybinka	1,642	(1,642)	-	1,642	(1,642)	-
SC Agri LNG Project Company SRL	833	(790)	43	745	(476)	269
Total	13,559	(13,396)	163	12,808	(12,068)	738

This is a free translation from the original Romanian version.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

## 25. OTHER FINANCIAL INVESTMENTS

Company	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held (%)		
			31 decembrie 2015	31 decembrie 2014	
Electrocentrale București S.A.	Electricity and thermal power producer	România	2.49	2.49	
Electrocentrale Titan S.A.	Electricity and thermal power producer	România	0.74	0.74	
MKB Romexterra Bank S.A.	Other activities – financial intermediations	România	0.04	0.04	
Mi Petrogas Services S.A.	Services related to oil and natural gas extraction, excluding prospections	România	10	10	
GHCL Upsom	Manufacture of other chemical, anorganic base products	România	4.21	4.21	
Pan Atlantic and Lukoil association (note 32)	Petroleum exploration operations	România	10	10	
Compania	Value as of 31 December, 2015	Carrying value as of 31 December, 2015	Value as of 31 December, 2014	Impairment as of 31 December, 2014	Carrying value as of 31 December, 2014
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Electrocentrale București S.A.	64,310	64,310	64,310	-	64,310
Electrocentrale Titan S.A.*	1,977	400	1,977	-	1,977
MKB Romexterra Bank S.A.	840	83	840	(752)	88
Mi Petrogas Services S.A.	60	60	60	-	60
GHCL Upsom	17,100	-	17,100	-	-
Pan Atlantic and Lukoil association	10,454	5,227	10,454	(17,100)	-
		(5,227)			
<b>Total</b>	<b>94,741</b>	<b>70,080</b>	<b>94,741</b>	<b>(17,852)</b>	<b>76,889</b>

\* In November 2015, Electrocentrale Titan S.A.'s shareholders approved its merger by absorption by S.C. Electrocentrale Grup S.A.. In the shareholders' meeting, the Company voted against the merger. As a result of the vote, Romgaz exercised its right to withdraw as a shareholder, by selling its shares to S.C. Electrocentrale Titan S.A., according to legal provisions.

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

## 25. OTHER FINANCIAL INVESTMENTS (continued)

The shares held in the share capital of the companies above are not quoted in an active market and their fair value cannot be reliably measured, therefore they are measured at cost. At each year end, the Company makes an assessment to determine whether there are any indications of impairment. As of December 31, 2015 the Company did not identify any indication of impairment of other financial investments, other than adjustments already recorded.

## 26. SEGMENT INFORMATION

## a) Products and services from which reportable segments derive their revenues

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

Specifically, the Company is organized in the following segments:

- upstream, which includes exploration activities, natural gas production and trade of gas extracted by Romgaz or acquired for resale; these activities are performed by Medias, Mures and Bratislava branches;
- storage activities, performed by the Ploiesti branch;
- other activities, such as electricity production, technological transport, well operations and corporate activities.

Except for Bratislava branch, all assets and operations are in Romania. In Bratislava branch as of December 31, 2015 are recorded exploration assets in amount of RON 18,122 thousand (December 31, 2014 RON 12,553 thousand).

Gas deliveries between segments are made at actual cost. Deliveries of electricity produced by CET Iernut between segments are made at actual cost. The services (technological transport, well operations) between segments are made at actual costs starting 2015. Any internally generated profits are eliminated in the individual statement of comprehensive income

## b) Segment assets and liabilities

December 31, 2016	Upstream	Storage	Other	Total
	'000 RON	'000 RON	'000 RON	'000 RON
Property, plant and equipment	4,040,574	1,565,895	389,991	5,996,460
Other intangible assets	392,675	731	6,453	399,859
Investments in subsidiaries	-	-	1,200	1,200
Investments in associates	-	-	163	163
Other financial investments	-	-	70,080	70,080
Other financial assets	42	410,548	1,765,537	2,176,127
Inventories	435,822	98,206	25,756	559,784
Trade and other receivables	549,138	26,356	25,571	601,065
Other assets	12,812	13,080	113,720	139,612
Cash and cash equivalents	80,089	4,275	655,988	740,352
<b>Total assets</b>	<b>6,511,152</b>	<b>2,119,091</b>	<b>3,054,459</b>	<b>10,684,702</b>

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

## 26. SEGMENT INFORMATION (continued)

## b) Segment assets and liabilities (continued)

December 31, 2016	Upstream	Storage	Other	Total
	'000 RON	'000 RON	'000 RON	'000 RON
Retirement benefit obligation	-	-	102,959	102,959
Deferred tax liabilities	-	-	62,589	62,589
Provisions	194,651	17,294	17,689	229,634
Trade and other payables	148,627	2,294	36,016	186,937
Current tax liabilities	-	-	90,838	90,838
Other liabilities	184,499	3,593	131,431	319,523
<b>Total liabilities</b>	<b>527,777</b>	<b>23,181</b>	<b>441,622</b>	<b>992,480</b>
<b>December 31, 2014 (represented)*</b>	<b>Upstream</b>	<b>Storage</b>	<b>Other</b>	<b>Total</b>
	'000 RON	'000 RON	'000 RON	'000 RON
Property, plant and equipment	3,977,468	1,603,858	381,393	5,962,719
Other intangible assets	395,279	709	11,461	407,449
Investments in associates	-	-	738	738
Other financial investments	-	-	76,889	76,889
Other financial assets	67,734	260,402	2,015,728	2,343,864
Inventories	294,926	72,427	24,755	392,108
Trade and other receivables	930,283	34,858	35,054	1,000,195
Other assets	24,542	19,963	57,381	101,886
Cash and cash equivalents	85,891	1,800	438,565	526,256
<b>Total assets</b>	<b>5,776,123</b>	<b>1,994,017</b>	<b>3,041,964</b>	<b>10,812,104</b>
Retirement benefit obligation	-	-	97,265	97,265
Deferred tax liabilities	-	-	131,305	131,305
Provisions	237,389	-	718	238,107
Trade and other payables	188,682	4,333	23,968	216,983
Current tax liabilities	-	-	93,590	93,590
Other liabilities	191,210	3,995	127,631	322,836
<b>Total liabilities</b>	<b>617,281</b>	<b>8,328</b>	<b>474,477</b>	<b>1,100,086</b>

\* Certain amounts shown here do not correspond to the 2014 published financial statements (note 33)  
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## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

## 26. SEGMENT INFORMATION (continued)

## c) Segment revenues, results and other segment information

Year ended December 31, 2015	Upstream	Storage	Other	Adjustment and eliminations	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Revenue	3,511,385	332,639	697,831	(489,171)	4,052,684
Less: revenue between segments	(157,064)	-	(332,107)	489,171	-
Third party revenue	3,354,321	332,639	365,724	-	4,052,684
Interest income	1,681	5,593	36,911	-	44,185
Interest expense	(34)	-	-	-	(34)
Depreciation, amortization and impairment	(673,420)	(88,262)	(31,916)	-	(793,598)
<b>Segment profit before tax</b>	<b>1,195,534</b>	<b>116,684</b>	<b>156,620</b>	<b>-</b>	<b>1,468,838</b>
Year ended December 31, 2014	Upstream	Storage	Other	Adjustment and eliminations	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Revenue	3,853,030	425,830	748,731	(534,250)	4,493,341
Less: revenue between segments	(128,179)	-	(406,071)	534,250	-
Third party revenue	3,724,851	425,830	342,660	-	4,493,341
Interest income	4,549	4,755	66,157	-	75,461
Interest expense	(34)	-	-	-	(34)
Depreciation, amortization and impairment	(653,585)	(97,339)	(25,915)	-	(776,839)
<b>Segment profit before tax</b>	<b>1,404,572</b>	<b>146,152</b>	<b>237,605</b>	<b>-</b>	<b>1,788,329</b>

In the "Other" segment is included the Electricity Production Branch (CET Iernut). Sales of CET Iernut in the year ended December 31, 2015, including the sales to the rest of Romgaz's segments were of RON 443,164 thousand, of which RON 84,849 thousand were deliveries made to other Romgaz segments (year ended December 31, 2014: total sales of RON 424,175 thousand, of which deliveries within Romgaz were in amount of RON 88,419 thousand).

The profit obtained by CET Iernut in the year ended December 31, 2015, including deliveries to other segments of Romgaz, was of RON 105,051 thousand (year ended December 31, 2014: profit RON 77,278 thousand).

In the year ended December 31, 2015, the Company's three largest clients each individually represents more than 10% of revenue, sales to these clients being of RON 1,182,742 thousand, RON 1,116,151 thousand, respectively RON 750,645 thousand (in the year ended December 31, 2014 the Company's three largest customers represented individually, over 10% of revenue, sales to these clients being of RON 1,290,930 thousand, RON 1,301,112 thousand, respectively RON 628,565 thousand), together totaling 75% of total revenue (year ended 31 December 2014: 72%). Of the total revenue generated by those three clients, 4.6% are shown in the "Storage" segment and 95.3% in the "Upstream" segment (year ended December 31, 2014: 5.3% in the "Storage" segment, 94.4% in the "Upstream" segment).

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## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

## 27. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and in banks, short term deposits with maturity under 3 months.

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	'000 RON	'000 RON (represented)*
Current bank accounts in RON *)	86,532	76,108
Current bank accounts in foreign currency	92	24
Petty cash	30	23
Term deposits	653,686	450,100
Amounts under settlement	12	1
<b>Total</b>	<b>740,352</b>	<b>626,256</b>

\*) Current bank accounts include overnight deposits.

## 28. OTHER FINANCIAL ASSETS

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	'000 RON	'000 RON (represented)*
Bank deposits	29,300	-
<b>Total other long-term financial assets</b>	<b>29,300</b>	<b>-</b>
Treasury bonds	810,870	741,987
Bank deposits	1,332,580	1,588,590
Accrued interest receivable	3,397	13,287
<b>Total other short-term financial assets</b>	<b>2,146,827</b>	<b>2,343,864</b>
<b>Total other financial assets</b>	<b>2,176,127</b>	<b>2,343,864</b>

## 29. COMMITMENTS UNDERTAKEN

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	'000 RON	'000 RON
Endorsements and collaterals granted	41,044	34,551
<b>Total</b>	<b>41,044</b>	<b>34,551</b>

In 2015 a facility agreement was signed with CitiBank Europe plc, Dublin – Romanian Branch for bank loans for issuing and/or confirmation of letters of credit and letters of guarantee for a maximum amount of USD 14,000 thousand, valid up to March 23, 2016. On December 31, 2015 are still available for use USD 4,700 thousand (December 31, 2014: USD 5,436 thousand).

As of December 31, 2015, the Company's contractual commitments for the acquisition of non-current assets are of RON 93,319 thousand (December 31, 2014: RON 290,199 thousand).

\* Certain amounts shown here do not correspond to the 2014 published financial statements (note 33)  
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## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

## 30. COMMITMENTS RECEIVED

	December 31, 2015	December 31, 2014
	'000 RON	'000 RON
Endorsements and collaterals received	1,135,697	1,266,819
<b>Total</b>	<b>1,135,697</b>	<b>1,266,819</b>

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

## 31. CONTINGENCIES

(a) *Litigations*

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

(b) *Ongoing legal procedures for which S.N.G.N. Romgaz S.A. is neither claimant nor defendant*

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 which are suspected to have been granted unauthorized discounts to this client during the period 2005-2010. DIICOT mentioned that this may have resulted in a loss of USD 92,000 thousand for the Company. On that sum, an additional burden to the state budget consists of income tax in amount of USD 15,000 thousand and VAT in amount of USD 19,000 thousand. The internal analysis carried out by the Company's specialized departments concluded that the agreement was in compliance with the legal provisions and all discounts were granted based on Orders issued by the Ministry of Economy and Finance and decisions of the General Shareholders' Board and Board of Directors. The management of the Company believes the investigation will not have a negative impact on the individual financial statements. 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. At the moment, the objections are not known, nor whether they will be taken into account by the investigators. We can not say that the expertise (as it is currently formulated) provides a clear conclusion on the existence or nonexistence of the loss.

On March 16, 2016, DIICOT – Central Structure informed the persons involved in the cause about the start of legal actions against them.

(c) *Taxation*

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

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

## 31. CONTINGENCIES (continued)

(d) *Environmental contingencies*

Environmental regulations are developing in Romania and the Company has not recorded any liability at December 31, 2015 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 197,812 thousand (December 31, 2014: RON 222,243 thousand), representing the decommissioning liability, and a provision for land restoration of RON 14,253 thousand (December 31, 2014: RON 15,146 thousand).

**Green-house gas emission certificates (CO2 certificates)**

In accordance with Government Decision no. 1096/2013 for the approval of the mechanism for free transitional allocation of green-house gas emission certificates to electricity producers for the period 2013-2020, Annex no. 3 "National Investment Plan" position 22, Romgaz is included with the investment project "Combined cycle with gas turbines", starting 2014 (according to Government Decision no. 151/2015 amending and supplementing GD no. 1096/2013).

According to Annex no. 1 of the same decision, S.N.G.N. Romgaz S.A. was allocated for CTE Iernut 687,204 greenhouse gas certificates (EUA) for 2015.

In accordance with Government Decision no. 151/March 4, 2015 amending and supplementing Government Decision no. 1096/2013, the payment of the greenhouse gas emission certificates allocated free of charge is made in two instalments, as follows:

- first installment, between April 5 to December 31 of the year of allocation, with reference to the market price provided in para. (4) a);
- the second installment between October 5 to December 31 of the year of allocation, with reference to the market price provided in para. (4) b).

Romgaz acquired the 687,204 greenhouse gas certificates for the ended year December 31, 2015.

As of December 31, 2015, Romgaz holds in the Greenhouse Gas Emissions Unique Registry 1,196,706 CO2 certificates, as follows:

- 687,204 certificates acquired in 2015;
- a total of 824,645 certificates related to 2014, used for partial compliance with the 2014 emissions, namely 828,793 CO2 tons;
- of the 962,085 certificates acquired for 2013, 507,620 certificates were submitted for the 2013 emissions. Thereby, Romgaz holds in its account 454,465 certificates, of which 4,148 certificates were used for 2014 compliance. In the account remained 450,317 certificates;
- 7,587 certificates submitted to the Registry by Electrocentrale Bucuresti, related to the January 2013 emissions. Romgaz started to monitor the compliance when CET Iernut was taken over in February 2013.

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).

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

## 31. CONTINGENCIES (continued)

(d) *Environmental contingencies (continued)***Green-house gas emission certificates (CO2 certificates) (continued)**

Industries that fall under the European Trading System of atmosphere emissions (EU ETS) can use these credits to offset their obligations on emissions of greenhouse gas.

In this respect, S.N.G.N. Romgaz S.A. holds as linking availability (correlation availability EUA – ERU certificates) a number of 51,598 ERU certificates available to be used for compliance in the 2013-2020 period.

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

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

(e) *CET Iernut*

In the Romanian Government's view, the energy sector must play a key role in the economic and social development of Romania. Promoting investments, supporting strategic projects of national interest in order to secure the energy security of the country, are two of the Government's objectives related to the energy security.

Considering that there is a steadily growing portfolio with an uncontrolled production of electricity, in particular through wind power plants, it is necessary to commission balancing capacities which will be active in the balancing market, ancillary services market, spot markets, CET Iernut having the ability to be a provider of ancillary services in an area deficient in electricity power generation.

Within the National Power System (NPS), CET Iernut performs the following functions:

- coverage of NPS electricity consumption through groups' participation in the wholesale electricity market and balancing market;
- providing ancillary services needed for the functioning of NPS;
- eliminate the network congestion which may occur in the north-west of Transylvania.

## 32. JOINT ARRANGEMENTS

On December 31, 2015, the Company is part of the following joint arrangements:

- a) In January 2002, Romgaz signed a petroleum agreement with Amromco for rehabilitation operations in order to achieve additional production in 11 blocks, namely: Bibești, Strâmba, Finta, Fierbinți-Târg, Frasin-Brazi, Zătreni, Boldu, Roșioru, Gura-Șuții, Balta-Albă and Viădeni. For the base production, Romgaz holds a quota of 100% and for the additional production, Romgaz owns a quota 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 others work 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.



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

## 32. JOINT ARRANGEMENTS (continued)

- b) In February 2003, Romgaz signed a joint operation agreement for exploration, development and operation in the Brodina block, with Aurelian Petroleum SRL and Raffles Energy SRL. In November 2007, the partners agreed to split the Brodina block in two areas: area of Gas Constructions Bilca (Production Area Bilca) and the area other than the Gas Construction Bilca Area (Brodina Exploration Area).

Currently, the participation of Romgaz in the Production Area Bilca is 37.5% and the participation of the operator, Raffles Energy SRL, is 62.5%. The wells have clearances issued by ANRM. As the fields are in an advanced stage of depletion, the operator performed stimulation works on wells 1 Vicsani and 1 Fratauti, which led to the abandonment of well 1 Vicsani, 1 Fratauti well will be also abandoned in 2016, thus remaining only one productive well, 1 Bilca.

Romgaz's share in the Brodina Exploration Area is 50% and the share of Aurelian Petroleum SRL, operator of the association, is 50%. The concession agreement for this area is in the assessment phase of the Voitin field, which will expire on March 23, 2016. By this time, a well has to be drilled, as required by ANRM. The works needed to start the drilling were initiated.

- c) Romgaz has a joint operation agreement for exploration, development and operation in the North Bacau area, with Raffles Energy SRL, the operator of the joint operation. Romgaz holds 40% of the joint operation and Raffles Energy SRL - 60%. In June 2015, Liliaci 1 well was commissioned to convert natural gas into electricity, through a generator. This step marks the transition to the development-operational phase.
- d) In September 2003, Romgaz has concluded an operation agreement with Schlumberger for the rehabilitation of the Lasiău Mare block, in order to obtain additional production by using advanced techniques and technologies for the exploitation of the reserves and of the know-how owned by Schlumberger. The mandatory work program is in line with the study approved by ANRM. Therefore, the annual working program, which includes the workings from the study, is approved annually, before the start of each year, by the Operation Committee of the joint operation. The participation quota of Romgaz is 50% and that of Schlumberger is also 50%. Romgaz is the operator of the petroleum operations performed under the agreement.
- e) In June 2008, Romgaz signed a joint operation agreement for exploration, evaluation, development, exploitation in three blocks in Slovakia, namely: Svidnik, Snina and Medzilaborce. The owners of the exploration licenses are Aurelian Oil & Gas Slovakia, currently Alpine Oil & Gas (50% - operator), Jkx (25%) and Romgaz through Bratislava branch (25%). In the last quarter of 2015, clearances for the execution of three wells were obtained, one in each block.
- f) In January 2009, Romgaz signed the amendment to partnership agreements through which it holds a quota in the share capital of Energia Torzym spolka ograniczona odpowiedzialnoscia spolka komanditowa (Energia Torzym) and that of Energia Cybinka spolka ograniczona odpowiedzialnoscia spolka komanditowa (Energia Cybinka), the two companies holding exploration licenses for Cybinka and Torzym blocks in Poland. The agreement was signed for exploration, development and operation of the two blocks above. Participation shares are: Romgaz - 30%, Aurelian Oil & Gas Poland Sp. Zo.o - 45% and GB Petroleum Plc (currently SceptreOil&Gas Limited LTD) - 25%.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

## 32. JOINT ARRANGEMENTS (continued)

- g) In July 2012, Romgaz signed the amendments to the joint operations agreements with Lukoil Overseas Atash BV and Panatlantic (originally Vanco International Ltd), the three companies being holders of petroleum agreements. The agreement is for exploration, development and operation of offshore blocks EX-29 Est Rapsodia and EX-30 Trident of the Black Sea continental shelf. The participation quotas are: Lukoil 72%, Panatlantic 18% and Romgaz 10%. In the Rapsodia block, the drilling of a well was completed, generating negative results leading to the abandonment of the well. Consequently, following solid analysis, the partners have decided to notify the National Agency of Mineral Resources about their intention to cease petroleum operations within the Rapsodia block. At this moment, analysis are carried out on the notification sent by the partners and to carry out the formalities necessary to terminate the petroleum agreement that will cease once it is published in the Official Gazette. During 2015, two wells were drilled in the Trident block, one of which being abandoned, while the other generated positive results, leading to gas discoveries.

## 33. REPRESENTATION OF FINANCIAL STATEMENTS

According to the Company's accounting policies, bank deposits and bonds with a maturity under 3 months from the acquisition date are considered cash equivalents. Bank deposits and bonds with a maturity over 3 months from acquisition date are considered financial assets. In the annual financial statements up to December 31, 2014, the classifications of bank deposits and bonds as cash equivalents and other financial assets, respectively, was done based on the period remaining from year end to maturity.

The changes in the individual financial position compared to the published financial statements, following the reclassification above, are presented below:

	<u>January 1, 2014</u> '000 RON (published)	<u>Reclassifications</u> '000 RON	<u>January 1, 2014</u> '000 RON (represented)
Other financial assets	970,664	604,260	1,574,924
Cash and cash equivalents	<u>1,563,590</u>	<u>(604,260)</u>	<u>959,330</u>
<b>Total</b>	<b><u>2,534,254</u></b>	<b><u>-</u></b>	<b><u>2,534,254</u></b>
	<u>December 31, 2014</u> '000 RON (published)	<u>Reclassifications</u> '000 RON	<u>December 31, 2014</u> '000 RON (represented)
Other financial assets	916,333	1,427,531	2,343,864
Cash and cash equivalents	<u>1,953,787</u>	<u>(1,427,531)</u>	<u>526,256</u>
<b>Total</b>	<b><u>2,870,120</u></b>	<b><u>-</u></b>	<b><u>2,870,120</u></b>

## 34. EVENTS AFTER THE BALANCE SHEET DATE

*Withdrawal from joint arrangements*

On January 2016 the shareholders approved the Company's exit as partner in the partnerships concluded with Aurelian Oil & Gas Poland and Sceptre Oil & Gas for the performance of petroleum operations in Cybinka and Torzym blocks, and the Company's withdrawal as limited partner in the two limited liability partnerships Energia Torzym and Energia Cybinka.



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

**34. EVENTS AFTER THE BALANCE SHEET DATE (continued)**

Due to the nature of the obligations that derive from the joint operation agreements until the effective exit date, in February 2016, amendments to the original loan contracts were signed with Energia Torzym and Energia Cybinka, which state that the initial maturity for the repayment of the loans was extended from December 31, 2015 to December 31, 2016.

Subsequently, during February 2016, Romgaz notified its partners about its withdrawal as partner in the two agreements and its withdrawal as shareholder of the two entities effective March 31, 2016.

**35. AUDITOR'S FEES**

The fee charged by the Company's statutory auditor for the audit of the 2015 financial statements is RON 124 thousand.

The fees charged by the Company's statutory auditor for assurance services, other than audit services, provided in 2015 or related to 2015 are RON 852 thousand.

**36. APPROVAL OF INDIVIDUAL FINANCIAL STATEMENTS**

These individual financial statements were authorized for issue by the Board of Directors on March 24, 2016.

  
\_\_\_\_\_  
Virgil Măteia  
General Manager

  
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Lucla Ionascu  
Economic Director