Societatea Naţională de Gaze Naturale "ROMGAZ" SA

I[ST] HALF YEAR REPORT

ON ECONOMIC- FINANCIAL ACTIVITY OF ROMGAZ AS OF JUNE 30, 2017 (JANUARY 1, 2017 - JUNE 30, 2017)

SUMMARY

IDENTIFICATION DETAILS ON REPORT AND ISSUER

Report based on	Article 65 of Law no. 24/2017 on issuers of financial instruments and market operations and Annex no. 31 of CNVM Regulation no. 1/2006 for the six-month period ended on June 30, 2017 (H1 of the Financial Year 2017)
Report Date	August 11, 2017
Name of the Company	Societatea Naţională de Gaze Naturale "ROMGAZ" SA
Headquarters	Mediaş, 4 Piaţa Constantin I. Motaş, code 551130, County Sibiu
Telephone/fax number	0040 269 201020/0040 269 846901
Web/E-mail	www.romgaz.ro/ secretariat@romgaz.ro
Fiscal Code	14056826
Trade Registry No.	J32/392/2001
Subscribed and paid in share capital	RON 385,422,400
Number of shares	385,422,400, each having a nominal value of RON 1
Regulated markets where the issued securities are traded:	Bucharest Stock Exchange BVB (shares), London Stock Exchange (GDRs)

I. 1ST HALF YEAR 2017 OVERVIEW

1.1. Company performances[1]

In H1 2017, the Company's operational and financial performances increased significantly in comparison with both the previous reporting periods and the schedules set in the beginning of the year.

After recording at national level a reduction of natural gas consumption of approx. 4.6% in 2015 and of approx. 1.9% in 2016, 2017 experienced a consumption revival as it increased during the reporting period with approx. 22%, from 61.42TWh in H1 2016 to 74.90TWh in H1 2017.

Due to the increase of the national gas consumption, Romgaz succeeded to increase its deliveries by 31.59% as compared to the previous period from 24.34TWh to 32.03TWh. As such, *Romgaz market share* on the Romanian gas delivery market reached 42.76%, by 3.13% higher than the market share held during the previous reporting period (39.63%).

Natural gas production was 2.559 million m^3, higher by 362 million m^3 than the production recorded during the previous reporting period (+16.5%) and higher by 91.8 million m^3 than the production schedule (+3.7%). According to company's estimates, this production placed Romgaz at a market share of 46.5% for consumption of gas domestically produced, which is an increase of 4.91% in relation to the market share of the previous reporting period (41.59%).

Electricity production increased by 95.8% as compared to the production generated in the similar period of 2016, from 510.6 TWh to 999.7 TWh. This production placed Romgaz at a market share of 3.13%[2].

Revenue from natural gas sales are by 25.1% higher as compared to the same period of the previous year and by 17.3% higher than the estimated revenue included in the budget for this period.

The margins of the main profitability indicators: net profit (36.28%), EBIT (42.8%) and EBITDA (55.1%) confirm a high profitability of the company's activity; ***the net profit rate and EBIT ratio are the highest half-year values ever recorded by the company.***

Relevant Financial Result

million RON

Q2 2016	Q1 2017	Q2 2017	Δ Q2 (%)	Main indicators	HI 2016	HI 2017	Δ HI (%)
486.4	1,497.5	894.7	83.9	Revenue	1,849.9	2,392.2	29.3
594.1	1,390.3	936.9	57.7	Income	1,910.4	2,327.1	21.8
449.1	721.1	572.3	27.4	Expenses	1,155.4	1,293.4	11.9
145.0	669.2	364.6	151.4	Gross Profit	755.0	1,033.8	36.9
19.0	108.3	57.5	202.6	Profit Tax	139.7	165.8	18.7
125.9	560.9	307.1	143.9	Net Profit	615.3	868.0	41.1
138.8	664.2	358.8	158.5	EBIT	741.4	1,023.1	38.0

[1] Given the fact that ANRE has not published market monitoring reports since November 2016, the data used for the national consumption is an estimate.
[2] Source: CNTEE Transelectrica SA

Q2 2016	Q1 2017	Q2 2017	Δ Q2 (%)	Main indicators	HI 2016	HI 2017	Δ HI (%)
291.5	892.2	424.9	45.8	EBITDA	1,014.3	1,317.1	29.9
0.3	1.5	0.8	166.7	Earnings per share (RON)	1.6	2.25	40.6
25.9	37.5	34.3	32.4	Net Profit Rate (% from Revenue)	33.26	36.28	9.1
28.5	44.4	40.1	40.7	EBIT Ratio (% from Revenue)	40.1	42.8	6.7
59.9	59.6	47.5	-20.7	EBITDA Ratio (% from Revenue)	54.8	55.1	0.5
6,282	6,220	6,211	-1.1	Number of employees at the end of the period	6,282	6,211	-1.1

The figures above are rounded. Therefore, small differences may result upon reconciliation.

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

Revenue, profit and the other indicators calculated on their basis were set based on the estimated equivalent value of delivered natural gas, due to the fact that the gas balance has not been finalised since November 2016 because of lack of clear regulations on gas deliveries to households and assimilated consumers.

In Q2 2017, the company recorded significant increase of the main indicators as compared to the similar period of 2016: revenue +83.9%, EBIT +158.5%, EBITDA +45.8% şi net profit +143.9%. Also the relating profitability rates had significant values.

Summary of main indicators for H1 2017:

- *Total Income*, higher by **RON 416.7 million**, recording an increase of 21.8% while the total expenses recorded an increase of only 11.9%;
- *Net Profit*, higher by **RON 252.7 million** than the net profit recorded during the previous period (+41.1%), an increase generated from the increase of natural gas and electricity sales and from reduction of expenses;
- *Labour productivity* increased by **19.8%** as compared to the previous period from RON 329.37 thousand Revenue/employee in H1 2016 to RON 395.0 thousand in H1 2017;
- ***Net Profit Rate, EBIT Ratio and EBITDA Ratio*** are higher than compared to H1 2016 due to the significant increase of Revenue from RON 1,849.9 million to RON 2,392.2 million;
- *Earnings per Share* at RON 2.25, 40.6% higher than the H1 2016 recording.

Operational Results

Q2 2016	Q1 2017	Q2 2017	Δ Q2 (%)	Main Indicators	HI 2016	HI 2017	Δ HI (%)
823	1,333	1,226	49.0	Gas Produced (million m^3)	2,197	2,559	16.5
54	98	87	61.1	Petroleum Royalty (million m^3)	153	185	20.9
1,590	1,672	1,486	-6.5	Condensate Production (tonnes)	3,641	3,158	-13.3
191.8	611.4	388.2	102.3	Electricity delivered (GWh)	510.6	999.7	95.8
0.0	1,167.5	31.3	-	UGS gas withdrawal services (million m^3)	931.0	1,198.8	28.8
373.6	502.5	99.0	-73.5	UGS gas injection services	682.5	601.5	-11.9

(million m³)

Gas production was in the parameters expected when preparing the 2017 production schedule; the achieved level represents 103.72% of the schedule.

Romgaz produced 2,559 million m^3 of natural gas during the first half of 2017, 362 million m^3 (16.5%) more than the volume produced during the same period of the previous year.

As shown in the table below, the increase of *produced electricity* was in close relation to the low temperatures recorded during the cold season, therefore a 200 MW power unit operated during H1 2017.

MWh

	2016	2017	Ratio
1	2	3	4=3/2x100
Q1	318,720.48	611,482.91	191.85%
Q2	191,846.53	388,248.50	202.37%
H1	**510,567.01**	**999,731.41**	**195.80%**

1.2. Highlights

March 14, 2017

Romgaz, Duro Felguera and Romelectro representatives met at SPEE Iernut for the kick-off meeting of the project for the "*Development of CTE Iernut through the construction of a new combined-cycle power plant*".

April 1, 2017

As of April 1, 2017 the natural gas price for domestic production is liberalised in accordance with the GEO no. 64/2016 for the amendment and supplementation of the Electricity and Natural Gas Law no. 123/2012.

April 25, 2017

According to Resolution no. 1/2017, General Meeting of Shareholders:

- Approves the company's 2017 budget;
- Revokes Mr. Dumitru Chisalita, Mr. Aristotel Marius Jude, Mr. Stoicescu Razvan and Mrs. Aurora Negrut from their positions as Directors, members of SNGN Romgaz S.A. Board of Directors, as a result of their mandates' expiration in May 2017;
- Appoints as Interim Directors of SNGN Romgaz S.A. Board of Directors Mr. Stan Bogdan – Nicolae, Mr. Chirila Alexandru, Mr. Gheorghe Gheorghe – Gabriel and Mr. Metea Virgil Marius.

June 7, 2017

By Resolution no. 14, the Board of Directors approved the renewal of the Mandate Agreement for Mr. Metea Virgil Marius, as Director General, for a 4-year term and the adjustment of the 2017 performance indicators in line with GMS approval of the budget.

In the same meeting, Mr. Gheorghe Gheorghe – Gabriel was appointed Chairman of the Board.

II. COMPANY OVERVIEW

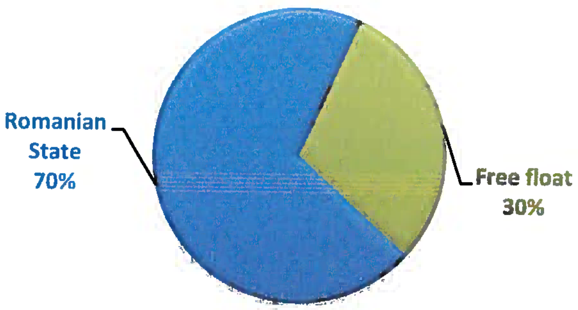
The company undertakes business in the following segments:

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

Shareholder structure

On June 30, 2017, the shareholder structure was:

	Number of shares	%
The Romanian State[3]	269,823,080	70.0071
Free float – total, out of which:	115,599,320	29.9929
*legal persons	*94,581,287*	*24.5396*
*natural persons	*21,018,033*	*5.4533*
Total	**385,422,400**	**100.0000**



Company Organization

The structural organization of Romgaz is specific for organizations of a hierarchy-functional type, with six hierarchical levels from the company's shareholders to the execution personnel.

Currently, the Company has seven branches established both on the basis of activities performed and of territoriality (natural gas production branches), as follows:

- Medias Production Branch
- Tirgu Mureş Production Branch
- Ploiesti Storage Branch
- SIRCOSS – Branch for Well Workover, Recompletions and Special Well Operations

[3] The Romanian State through the Ministry of Energy

- STTM – Technological Transport and Maintenance Branch
- SPEE – Iernut Power Generation Branch
- Bratislava Branch

Company Management

The company is governed by a **Board of Directors** composed of 7 members, having on June 30, 2017 the following structure:

Item no.	Name	Institution of Employment	Position in the Board
1	Gheorghe Gheorghe Gabriel	Ministry of Business Environment, Trade and Entrepreneurship	Chairman
2	Tcaciuc Sebastian Gabriel	Auris Capital	Member
3	Jansen Petrus Antonius Maria	Associate Lecturer London School of Business and Finance	Member
4	Buzatu Florin Danut	Societatea de Administrare a Investițiilor Muntenia Invest SA	Member
5	Stan Bogdan Nicolae	National Agency for Fiscal Administration	Member
6	Chirila Alexandru	Working Apparatus of the Prime-Minister	Member
7	Metea Virgil Marius	SNGN "Romgaz" SA	Member

The *directors CVs* can be found on the company webpage at: http://www.romgaz.ro/en/consiliu-administratie

On June 30, 2017, the following directors held shares in the company:

Item no.	Name	Number of shares	Share in the company's share capital (%)
1	Tcaciuc Sebastian Gabriel	33,000	0.00856204
2	Metea Virgil Marius	5,513	0.00143038
3	Buzatu Florin Dănuț	3,000	0.00077837

Virgil Marius Metea - Director General (CEO)

By Resolution no. 8 of June 12, 2013, the Board of Directors appointed Mr. Virgil Marius Metea, as Director General, and delegated him responsibilities and duties relating to internal management and representation. By Resolution no. 14 dated June 7, 2017, the Board of Directors approved the renewal of the Mandate Agreement for a term of 4 years.

The table below shows the **executive positions** in the company and its branches:

Name	Position
ROMGAZ - headquarters	
Rotar Dumitru Gheorghe	Deputy Director General
Dobrescu Dumitru	Deputy Director General
Bobar Andrei	Economic Director
Chertes Viorel Claudiu	Management Support Director
Cindrea Corin Emil	QHSE Director
Ciolpan Vasile	Energy Trade Director
Ştefănescu Dan Paul	E&P Director

Name	Position
Terciu Iulian Ermil	HR Director
Stancu Lucian Adrian	Corporate Management Director
Bodogae Horea Sorin	Procurement Director
Pavlovschi Vlad	Business Development Director
Balasz Bela Atila	Energy Management Director
Morariu Dan Nicolae	Information Technology and Telecommunication Director
Bîrsan Mircea Lucian	Technical Director
Sorescu Eugen	Exploration Director
Mediaş Branch	
Man Ioan Mihai	Director
Achimeţ Teodora Magdalena	Economic Director
Şuţoiu Florinel	Production Director
Seician Daniel	Technical Director
Tîrgu Mureş Branch	
Dincă Ispasian Ioan	Director
Caraivan Viorica	Economic Director
Rusu Graţian	Production Director
Baciu Marius Tiberiu	Technical Director
Ploieşti Branch	
Cârstea Vasile	Director
Ionescu Viorica Maria	Economic Director
Vecerdea Dan Adrian	Storage Director
Iernut Branch	
Bircea Angela	Director
Vlassa Susana Ramona	Economic Director
Oprea Maria Aurica	Commercial Director
David Ştefan	Technical Director
SIRCOSS	
Stăncicu Sorin	Director
Bordeu Viorica	Economic Director
Gheorghiu Sorin	Technical Director
STTM	
Pop Traian	Director
Ilinca Cristian Alexandru	Economic Director
Cioban Cristian Augustin	Operation-Development Director

The table below shows the number of shares held by the executive management as of June 30, 2017:

Item no.	Name	Number of shares	Share in share capital (%)
0	1	2	3
1	Rotar Dumitru Gheorghe	15,611	0.00405036
2	Bobar Andrei	4,400	0.00114160
3	Ştefănescu Dan Paul	601	0.00015593

4	Cârstea Vasile	412	0.00010690
5	Stăncicu Sorin	76	0.00001972
6	Ilinca Cristian Alexandru	74	0.00001920
7	Morariu Dan Nicolae	52	0.00001349
8	Dincă Ispasian Ioan	48	0.00001245
9	Vecerdea Dan Adrian	45	0,00001168
10	Balasz Bela Atila	38	0,00000986

Human Resources

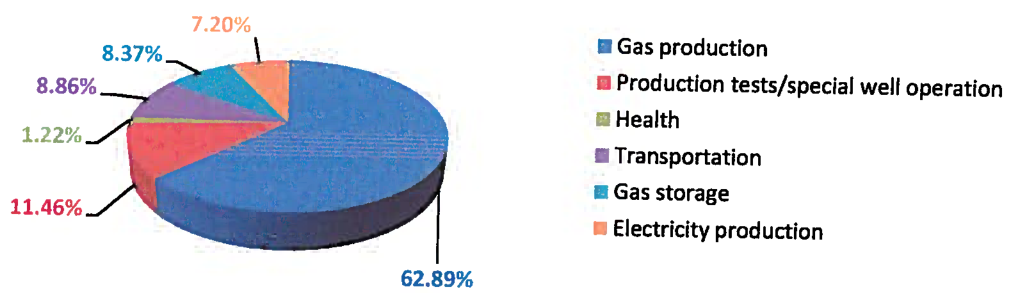
On June 30, 2017 the company had 6,211 employees.

The table below shows the evolution of the employees' number during January 1, 2014 – June 30, 2017:

Description	2014	2015	2016	HI 2017
1	2	3	4	5
Employees at the beginning of the period	6,472	6,344	6,356	6,246
Newly hired employees	92	159	168	113
Employees who terminated their labour relationship with the company	220	147	278	148
Employees at the end of the period	6,344	6,356	6,246	6,211

The structure of the employees at the end of the reporting period is shown below:

a) by activities



b) by level of education

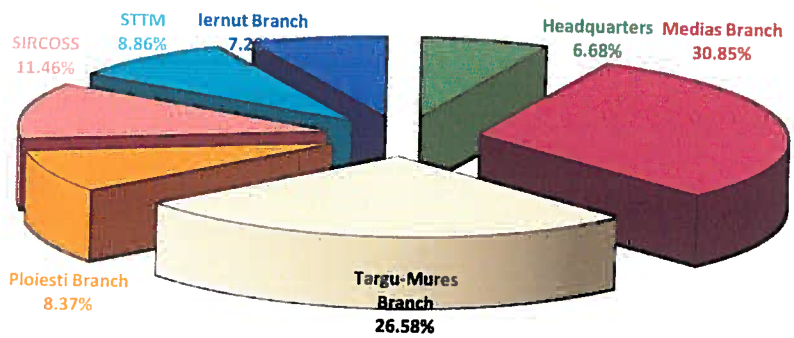
- University 23.73%;
- Secondary school 26.95%;
- Foreman school 3.62%;
- Vocational school 33.79%;
- Middle school 11.91%;

c) by age

- below 30 years 4.23%;
- 30-40 years 15.78%;

- 40-50 years 39.64%;
- 50-60 years 31.80%;
- above 60 years 8.55%;

d) by headquarters and branches



e) by categories

Entity	Workers	Foremen	Office	Total
1	2	3	4	5
Headquarters	31		384	**415**
Mediaş Branch	1,485	90	341	**1,916**
Tirgu-Mureş Branch	1,319	52	280	**1,651**
Ploieşti Branch	331	32	157	**520**
SIRCOSS	512	53	147	**712**
STTM	422	19	109	**550**
Iernut Branch	296	42	109	**447**
TOTAL	**4,396**	**288**	**1,527**	**6,211**

Romgaz on the stock exchange

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

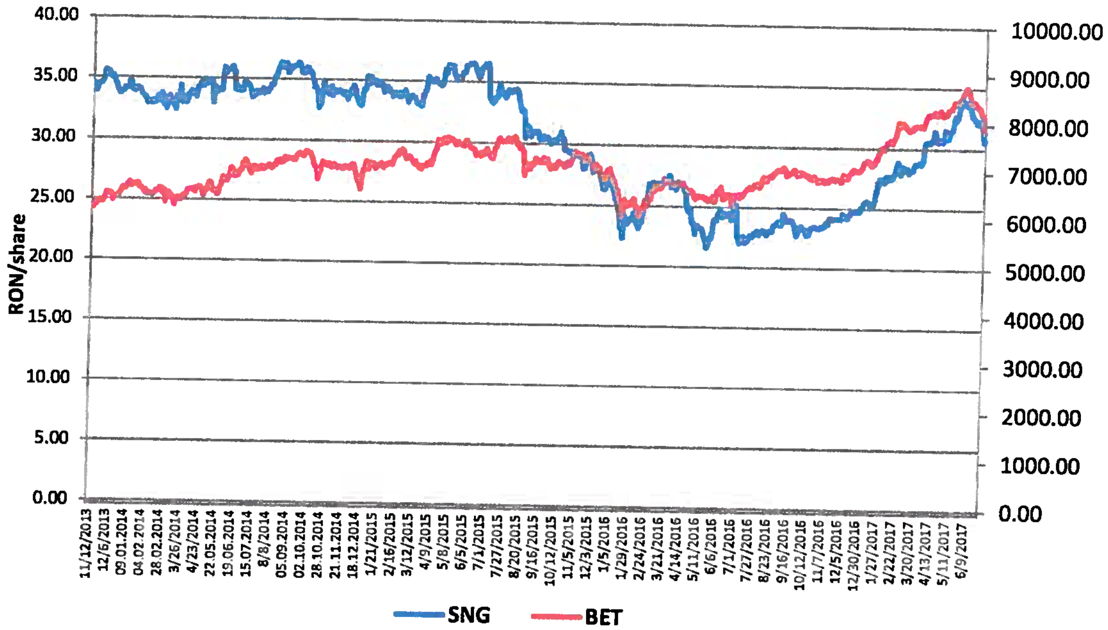
	June 30, 2015	June 30, 2016	June 30, 2017
Number of shares	385,422,400	385,422,400	385,422,400
Closing price (RON)	36.40	25.10	30.75
Market capitalization			
*mil.RON	14,029	9,674	11,852
*mil.EUR	3,136	2,140	2,603

At the end of H1 2017 Romgaz shares were quoted at RON 30.75, being 22.51% above the closing price on June 30, 2016. During the period in question, the price of BVB listed shares experienced an upward trend reaching a peak value of RON 33.95 on May 29, 2017. The GDRs followed the same positive trend reaching a peak value of USD 8.21 on May 26, 2017.

Romgaz is among the most significant local issuers and is also included in the trade indices on BVB and on other markets as well, as follows:

- 2nd place by market capitalization in the top of Premium local issuers on BVB. Having a market capitalization of RON 11,851.7 million, namely Euro 2,602.5 million on June 30, 2017, Romgaz is the second largest company listed in Romania, after OMV Petrom with a capitalization of RON 16,058 million, namely Euro 3,526 million;
- 3rd place by trading value in H1 2017 in the top of local issuers on BVB main segment, after Fondul Proprietatea and Banca Transilvania;
- According to the latest quarterly adjustments: 10.22% and 9.75% weight in the BET index (top 10 issuers) and namely in the BET-XT (BET Extended), 23.92% in the BET-NG index (energy and utilities), 10.46% in the BET-TR index (BET Total Return);
- the issuer Romgaz is also included in the global indices allocated for Romania, for example, in indices groups FTSE (Financial Times Stock Exchange), MSCI (Morgan Stanley Capital International), S&P (Standard & Poor's), STOXX (oriented mainly on European markets), Russel Frontier.

Performance of Romgaz shares compared to the BET index, from listing until June 30, 2017 is shown below:



III. REVIEW OF THE COMPANY'S BUSINESS

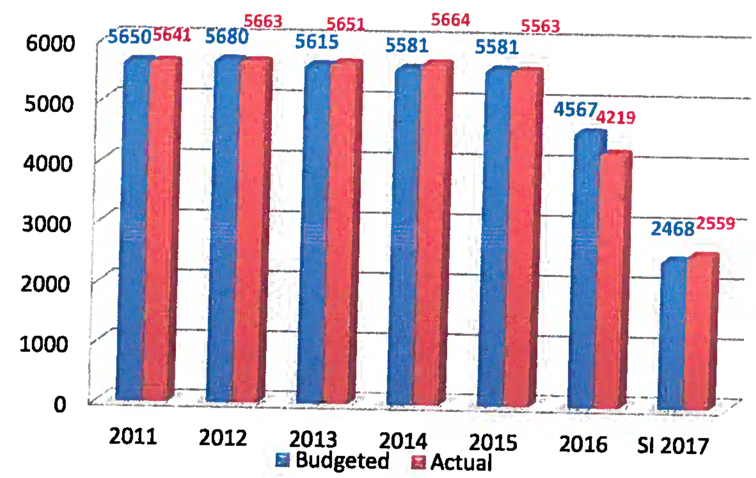
3.1. Operational Results

The 148 commercial fields, located in the Transylvanian Basin, Moldova, Muntenia and Oltenia, are operated by the Medias and Tirgu Mures branches; 80% of Romgaz total production is achieved by 30 mature reservoirs being in an advanced state of depletion, that have been producing for more than 30 years.

A retrospective analysis on the natural gas volumes produced between 2011- 2017 is shown below:

Specifications		2011	2012	2013	2014	2015	2016	H1 2017
1		2	3	4	5	6		7
Budgeted (mil.m^3)		5,650	5,680	5,615	5,581	5,581	4,567	2,468
Actual (mil.m^3)		5,641	5,663	5,651	5,664	5,563	4,219	2,559
Differences (Actual-Budgeted)	mil.m^3	-17	+36	+23	-18	+23	-348	91
Actual	[%]	99.7	100.7	100.8	99.7	100.8	92.4	103.7

The figure below shows the evolution of gas volumes produced between 2011 – 2016 and in H1 2017, budgeted vs actual:



Analysis of the production data shows that the produced gas volumes were almost equal or exceeded the expected gas volume. The natural decline of the gas reservoirs was arrested in this period (average decline in the last years between 1-2% per year).

The actual production for the analysed period was influenced mainly by the increase of the volumes of Romgaz natural gas sales. The following factors influenced the achievement of this production:

- Behaviour in production of the wells that were put into production on the new reservoir Caragele from Muntenia area, with a production of 73 million m^3, representing approximately 2.8% of the H1 total production;
- Increase of natural gas consumption to generate electric power by Iernut Power Plant;
- The flow injection obtained as a result of well workovers, which for H1 represented approximately 956 thousand m^3/day, resulting a production rate of 93.637 million m^3 (3.7% of the production accomplished in the same period).
- The main mature reservoirs were subject to an intense program to optimize the exploitation by carrying out recompletions and well workover by using methods to remove the water from wells, by implementing efficient perforation technologies and installing flow measuring equipment at the well. This last aspect allows a pro-active approach over the wells performances during exploitation and by a continuous monitoring of the operating parameters, causes that determine de decrease of production potential were identified and eliminated.

The table below shows the gas quantities produced, delivered, injected/withdrawn in/from the underground storage during January – June 2017 compared to the similar period of years 2015 and 2016 (million m^3):

Item no	Specifications	HI 2015	HI 2016	HI 2017	Ratios
0	1	2	3	4	5=4/3x100
1.	**Gross production – total, out of which:**	**2,776.7**	**2,197.4**	**2,559.4**	**116.5%**
1.1.	*own gas	2,675.6	2,123.1	2,474.6	116.6%
1.2.	*Schlumberger joint arrangement (100%)	101.1	74.4	84.8	114.0%
2.	Technological consumption	39.5	26.6	36.9	138.7%
3.	**Net own gas production** (*1.-1.2.-2.*)	**2,636.1**	**2,096.4**	**2,437.7**	**116.3%**
4.	Own gas stored in UGS	143.2	210.4	77.6	36.9%
5.	Own gas withdrawn from UGS	293.3	308.9	497.0	160.9%
6.	Difference from conversion to Gross Calorific Value	3.1	0.0	-6.6	
7.	**Delivered own gas** (*3.-4.+5.-6.*)	**2,783.1**	**2,194.9**	**2,863.7**	**130.5%**
8.1.	Gas sold in UGS				
8.2.	Gas delivered to CTE Iernut şi Cojocna	118.3	152.2	268.1	176.1%
9.	**Own gas delivered to the market** (*7.+8.1.-8.2.*)	**2,664.8**	**2,042.7**	**2,595.6**	**127.1%**
10.	**Gas from joint arrangements*) – total, out of which:**	**85.9**	**75.8**	**85.7**	**113.1%**
	*Schlumberger (50%)	50.5	37.2	42.4	114.3%
	*Raffles Energy (37.5%)	0.2	0.2	0.1	50.0%
	*Amromco (50%)	35.2	38.4	43.2	112.5%
11.	Gas acquisitions from domestic production	8.1	7.0	23.2	331.4%
12.	**Traded domestic gas** (*9.+10.+11.*)	**2,758.8**	**2,125.5**	**2,704.5**	**127.2%**
13.	**Gas delivered from domestic production** (*8.2.+12.*)	**2,877.1**	**2,277.7**	**2,972.6**	**130.5%**
14.	Delivered import gas	2.2	6.8	25.7	377.9%
15.	Gas delivered to Iernut and Cojocna and other sources (including imbalances)			17.7	
16.	**Total delivered** (*13.+14+15*)	**2,879.3**	**2,284.5**	**3,016.0**	**132.0%**
*	Invoiced UGS gas withdrawal services	1,190.1	931.0	1,198.8	128.8%

*	Invoiced UGS gas injection services	731.1	682.5	601.5	88.1%

*) With respect to Romgaz – Schlumberger joint arrangement, the gas produced is fully highlighted in Romgaz production, and then split in equal parts between the two partners, being sold separately by them. With respect to the joint arrangement with Amromco and Raffles Energy, the gas produced does not represent Romgaz production but the value of the gas is reflected in Romgaz revenue in accordance with the interest share held in the partnership.

3.2. Financial results

The company's revenue comes from natural gas production and delivery (production and delivery of own gas, gas from joint arrangements, delivery of import gas or from other internal producers), from provision of underground storage services, electric power generation and supply (since February 1, 2013) and other specific services.

RON thousand

Item no.	Specifications	HI 2016	HI 2017	Ratios (2017/2016)
0	1	2	3	4=3/2x100
1	**Income – total, out of which:**	**1,910,392**	**2,327,146**	**121.82%**
	*operating income	1,896,307	2,316,303	122.15%
	*financial income	14,085	10,843	76.98%
2	Revenue	1,849,903	2,392,220	129.32%
3	**Expenses – total, out of which:**	**1,155,388**	**1,293,373**	**111.94%**
	*operating expenses	1,145,483	1,284,086	112.10%
	*financial expenses	9,905	9,287	93.77%
4	**Gross profit**	**755,004**	**1,033,773**	**136.92%**
5	Income tax	139,737	165,814	118.66%
6	**Profit net**	**615,267**	**867,959**	**141.07%**

Note: incomes and expenditures do not include the production of fixed assets.

The total income for H1 2017 was higher by 21.8% than the income for the similar period of 2016.

Financial results

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

Description	H I 2016	H1 2017	Ratios (2017/2016)
1	2	3	4=3/2x100
Operating result	750,824	1,032,217	137.48%
Financial result	4,180	1,556	37.22%
Gross result	**755,004**	**1,033,773**	**136.92%**
Income tax	- 139,737	- 165,814	118.66%
Net result	**615,267**	**867,959**	**141.07%**

The net result achieved in H1 of 2017 is RON **867,959 thousand,** higher by 41.1% than the result achieved in the similar period of 2016.

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

Indicators	Calculation formula	M.U.	H1 2016	H1 2017
1	2	3	4	5
Working Capital (WC)	$C_{lt}-A_f=$ $E+L_{nc}+Pr+S_i-A_f$	Million RON	3,233	3,315
Working Capital Requirement (WCR)	(A_c-L+P_p) - $(L_{crt}-Cr_{st}+I_{df})$	Million RON	2,081	1,523
Net Cash Flow	$WC-WCR=D-Cr_{ts}$	Million RON	1,152	1,791
Economic Rate of Return	$P_g/C_{lt}x100$	%	7.84	10.98
Return on Equity (ROE)	$P_n/Ex100$	%	6.64	9.57
Return on Sales	$P_g/Rx100$	%	40.81	43.21
Return on Assets	$P_n/Ax100$	%	5.55	7.51
EBIT	$P_g+Ex_i-I_r$	Million RON	741	1,023
EBITDA	EBIT+Am	Million RON	1,014	1,317
ROCE	$EBIT/C_{emp}x100$	%	7.70	10.87
Current Liquidity	A_{crt}/L_{crt}	-	3.22	2.55
Asset Solvency	E/Lx100	%	83.63	78.50

where:

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

3.3. Prices and tariffs

The regulatory framework for ***natural gas production***, transmission, ***distribution, supply and storage***, organization and operation of the gas sector, market access as well as criteria and procedures for granting authorizations and/or licenses in the natural gas sector are set by Law No. 123/2012, which provides in Chapter XII "*Prices and Tariffs*", Article 179 for the following:

- activities in the regulated market comprise the following:
  - supply of natural gas to non-household customers at regulated price and under frame contracts until December 31, 2014. On January 1, 2015 regulated prices for non-household customers were eliminated;
  - supply of natural gas to household customers at regulated price and under frame contracts until December 31, 2021. To ensure non-discrimination between customer categories until the end of the regulated period, the household consumers and the thermal energy producers receive the same treatment in terms of security

of supply and sale price of consumed gas, exclusively for the gas quantities used for producing thermal energy in cogeneration plants and thermal power plants intended for household consumption, irrespective of their option to be eligible or regulated customers;

- supply of last resort of natural gas to final consumers at regulated price and under frame contracts;
- natural gas transmission;
- natural gas transmission through upstream supply pipelines, in accordance with the provisions of license validity conditions;
- underground gas storage;
- natural gas storage in pipelines;
- natural gas, bio-gas and bio-methane distribution;
- related activities performed by licensed operators;
- activities related to the operation of LNG terminal

- prices and tariffs on the regulated market are set by ANRE, based on methodologies approved and published by the authority, after informing and consulting all interested parties;
- the calendar for gradual deregulation of prices for the final customers is set by the Government in compliance with the schedule of producer price progress proposed by ANRE and ANRM, taking into account possible adverse effects of price deregulation, in order to mitigate the consequences for customers;
- ANRE will annually monitor the results of the gradual price deregulation calendar and, as the case may be, submit to the Government the proposal to trade domestic gas production on the domestic market until fulfilment of the approved calendar.

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

Underground gas storage

The storage tariffs applied during the two compared periods were approved by the ANRE Order no.58 of March 27, 2015.

We specify that ANRE, by Order no.9 of March 23, 2016 and Order no. 19 of March 30, 2017, respectively, extended the applicability term of Order no.58/2015.

The storage tariffs applied are shown in the table below:

Tariff Component	Unit	Tariffs
Volumetric component related to gas *injection*	RON/MWh	2.37
Fixed component related to storage *capacity booking*	RON/MWh storage cycle	13.68
Volumetric component related to gas *withdrawal*	RON/MWh	1.87

Natural Gas Distribution

Distribution tariffs applied during H1 2016 were approved by Order 133/2015 on establishing the regulated tariffs for distribution services and approving the prices for the regulated gas supply performed by Societatea Nationala de Gaze Naturale "Romgaz" - S.A. Medias and those applied during H1 2017 were approved by Order no. 58 of September 27, 2016.

The final regulated prices applied during H1 2016 are specified in ANRE Order 133/2015 and those applied during H1 2017 were approved by Order no. 58 of September 27, 2016.

3.4. Investments

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

During 2014 - June 30, 2017 the company made investments in amount of approx. RON *2.7 billion*, as follows:

Period	2014	2015	2016	H1 2017	Total
Value (thousand RON)	1,085,500	937,916	497,716	221,586	2,742,718

For 2017, Romgaz scheduled investments of RON *1,143.00 million*. For H1 2017, the scheduled investments were *RON 471.13 million* and the level of actual investments was RON *221.59 million* representing 47.03% degree of fulfilment.

Investments were financed exclusively from own sources.

In the reviewed period, the objectives commenced in the prior year were completed, the preparatory activities (design, acquire land use rights, approvals, agreements, authorisation, acquisitions) for the new objectives were carried out and the upgrade and capitalizable repair works at the operating wells were performed.

These physical achievements ensure the recording of H2 results, in terms of value.

Non-achievements were recorded at the objectives such as: technological installations at the well, retrofitting and revamping of installation and equipment and joint arrangements.

The value of achievements for H1 2017 is lower as compared to the similar period of 2016, due to the following:

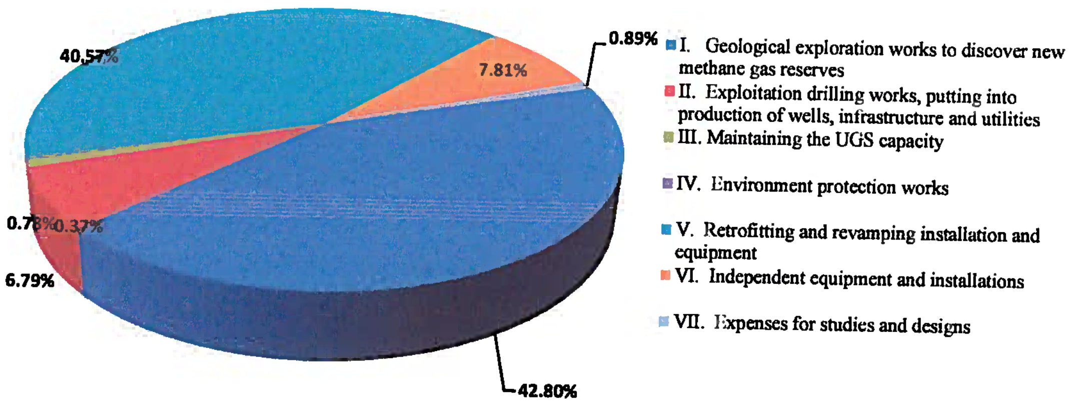
- In comparison with the allocated amounts, savings were recorded by drilling projects resulted further the drilling works acquisition;
- Unclear legislative context relating to the liability of contract beneficiaries or of the Road Administration Authority for performing works on public roads providing access to well locations;
- Delayed conclusion of agreements for execution of surface technological installations and gas collectors as a result of repeated rejection of the award documentation by SEAP (Electronic Public Procurement System);
- Impossibility to acquire land use rights necessary to fulfil some investments such as surface technological installations and gas collectors.

The table below shows a comparison between H1 2016 and H1 2017 split onto main investment categories:

thousand RON

Investment Categories	H1 2016	H1 2017	%
1	2	3	4=3/2x100
I. Geological exploration works to discover new methane gas reserves	72,704	94,837	130.44
II. Exploitation drilling works, putting into production of wells, infrastructure and utilities	10,730	15,056	140.32
III. Maintaining the UGS capacity	28,442	1,728	6.07
IV. Environment protection works	66	810	1.64
V. Retrofitting and revamping of installation and equipment	99,818	89,894	90.06
VI. Independent equipment and installations	13,879	17,296	124.42
VII. Expenses related to studies and projects	2,552	1,965	76.64
TOTAL	228,191	221,586	97.10

The chart below shows the structure of investments made during the reporting period:



A synthesis of outcomes shows that to a large extent investments were completed:

Item No.	Main physical objectives	Planned	Results
1.	Exploratory drilling	38 wells	- completed: 12 wells - in progress: 5 wells - procurement in progress: 11 wells - drafting tender documentation: 21 wells
2.	Drilling design	23 wells	25 well – under design or procurement in progress
3.	Production drilling	3 wells	in progress

4.	Construction of surface facilities – gas wells	44 wells	- completed: 2 wells - in progress: 13 - procurement in progress: 7 wells - under design: 7 - approvals for construction are pending: 15
5.	Sustaining the storage capacity	Urziceni UGS: - injection/gas withdrawal system - drilling 2 wells	 90% completed - in progress
6.	Well modernization	102 wells correlated with the annual plan agreed with ANRM	- completed: 102 wells - in progress: 20 wells
7.	Well capitalizable repairs and modernization (recompletion/reactivation)	102 wells, correlated with the annual plan agreed with ANRM	- completed: 102 wells
8.	Electricity generation	Procurement of refurbishment works	The contract was awarded and is undergoing: preparation of engineering, technical designs, documentations necessary for acquiring various approvals and authorizations, land use
9.	Joint arrangements	Aurelian Petroleum - testing well 1 Voitinel	in progress
		Lukoil: - geochemical survey (500 km^2) -survey by electrometric works -training and technology tranfer	Ongoing studies and data interpretation to identify leads and prospects for new exploration wells -in progress
		Amromco: - drilling 2 wells - repairs at 7 wells	 - completed - completed
		Slovakia: - drilling 5 wells - G&G studies	 - in progress - completed

During the reviewed period, investments in amount of RON 171,413 thousand were commissioned.

At the end of H1 2017, the company contracted RON 252,815 million for investments.

Development of CTE Iernut

One of Romgaz main strategic directions specified in the *2015-2025 Development Strategy* is to consolidate the company's position on the energy supply markets. In the field of power generation, Romgaz planned to "make the activity more efficient by making investments aiming to increase Iernut power plant conversion efficiency at minimum 55%, to comply with environmental requirements (NOX, CO_2 emissions) and to increase operational safety".

In terms of CTE Iernut adaptation to an increasingly competitive energy market, the analysis of the power plant's current situation and performances outlines the following key aspects:

- comparing electricity generation efficiency (specific fuel consumption) of existing groups with international performance of installations based on a combined gas-steam cycle (conversion efficiency of 55-59%) indicates a 15-20% difference in terms of conversion efficiency in favour of combined-cycle installations;
- by using a combined-cycle concept, operating flexibility of the groups and reduction of emissions (CO_2, NOX etc.) are added to the increase of conversion efficiency;
- the current need to reduce electricity generation costs correlated with hydrocarbon consumption reduction outlines the requirement to use efficient technology with specific minimum consumption.

As a consequence, the necessity and opportunity arose to analyse CTE Iernut's development possibilities with the view of improving economic and technical parameters, to increase operational life and to comply with the requirements on industrial emissions contained in EU Directive 75/2010.

As a result of all of the above mentioned elements and in accordance with Board Resolution no. 14 dated June 23, 2016, Romgaz will:

- develop and operate CTE Iernut without concluding a joint arrangement contract with legal or natural persons;
- finance the investment to develop CTE Iernut from own sources and by accessing funds under PNI (National Investment Plan);
- conclude, as soon as possible, a contract for works with the scope of developing CTE Iernut by building a new power plant under a constructive concept, a combined-cycle gas turbine (CCGT) with an installed power of maximum 430 MW and gross electric efficiency at nominal load of minimum 55%.

The company awarded a public procurement contract as provided by Law 99 of May 23, 2016 on sector procurements and by Government Decision no. 394/2016 on the enforcement guidelines of provisions relating to awarding sector contracts.

Romgaz signed works contract no. 13384/October 31, 2016 with Duro Felguera SA, Gijon, Spain in association with SC Romelectro SA Bucharest, by which the contractor undertook to carry out "*Development of CTE Iernut by means of constructing a new thermal power plant with combined-cycle gas turbine*". This means to carry out the turnkey project that includes the design, equipment delivery, carrying out of works and putting into operation.

The project kick-off meeting between Romgaz's representatives and Duro Felguera and Romelectro representatives, respectively, took place On March 14, 2017, at CTE Iernut.

A series of meetings between Romgaz's project team and contractor's specialists took place in order to complete the technical project that had to be endorsed by Technical Economic Committee of Iernut and Romgaz.

Equipment subassemblies were delivered.

The result of geotechnical study shows the necessity of foundation pillars.

The contractor plans to commence the works and test the foundation pillars on August 21, 2017.

3.5. Litigations

The summarized breakdown of litigations involving Romgaz shows the following:

- Total number of litigations is 115 (excluding labour-related litigations, specific performance obligations, cases where the company is a seized third party, etc.) out of which:
  - 74 cases where Romgaz is plaintiff;
  - 27 cases where Romgaz is defendant;
  - 14 cases where Romgaz is plaintiff claiming damages/injured party
- The total value of the files where Romgaz is plaintiff amounts to RON 1,856,727,429;
- the total value of the files where Romgaz is defendant amounts to RON 8,422,312.55 and EUR 60,000.

3.6. Legal documents concluded in compliance with Article 52 of Government Emergency Ordinance 109/2011

The table below shows the legal documents concluded during January 1 - June 30, 2017, in accordance with Article 52, paragraphs (1) and (6) of OUG no. 109 of November 30, 2011 on corporate governance of public enterprises as amended by Law no. 111/2016:

Item no	Contracting party	Contract no/date	Scope of contract	Value, VAT excluded (RON)
0	1	2	3	4
1	SC CET Govora SA	95/29.06.2017	sale-purchase of natural gas	27,176,310.50
		6/30.06.2016 extended and amended by A 1/2016 and 2/2017	- I I -	18,881,157.90
		7/30.06.2016 extended and amended by A 1,2,3,4/2016 and 5,6,7,8/2017	- I I -	1,949,519.14
2	SC Electrocentrale Constanța SA	18.051/20.06.2017	sale-purchase of natural gas	6,219,320.75
		24/30.09.2016 extended and amended by A 1/2017	- I I -	9,301,028.11
		25/30.09.2016 extended and amended by A 1,2,3/2016 and 4,5,6,7/2017	- I I -	64,460,491.22*)
3	SC Oltchim SA	100/29.06.2017	sale-purchase of natural gas	27,862,710.10
		101/29.06.2017	- I I -	20,939.64
4	SC Electrocentrale București SA	11.563/31.05.2017	sale-purchase of natural gas	3,187,325.26
		11.565/31.05.2017	- I I -	2,443,381.00
		8/29.07.2016 extended and amended by A 1,2,3,4/2016	- I I -	401,258,067.22*)
		9/29.07.2016 extended and amended by A 1,2,3/2016 and	- I I -	461,560,637.07*)

Item no	Contracting party	Contract no/date	Scope of contract	Value, VAT excluded (RON)
		4,5,6,7/2017		
5	SC Electrocentrale Galați SA	1/12.01.2017	- I I -	4,007,000.00*)
		32/31.10.2016 extended and amended by A 1,2,3/2016 and 4,5,6,7/2017	sale-purchase of natural gas	50,016,084.55*)
		33/31.10.2016 extended and amended by 1,2/2016 and 3,4,5/2017	- I I -	27,481,438.79*)
6	SC Termoficare Oradea SA	37/21.12.2015 extended and amended by 1,2/2016 and 3,4/2017	sale-purchase of natural gas	101,303,790.46*)
		38/21.12.2015 extended and amended by A 1,2,3,4,5/2016 and 6,7,8,9/2017	- I I -	101,891,439.36*)
7	SC Termo Calor Confort SA	13/29.09.2016 extended and amended by A 1/2017	sale-purchase of natural gas	2,424,981.17*)
		14/29.09.2016 extended and amended by A 1,2,3/2016 and 4,5,6,7/2017	- I I -	22,401,252.72*)
8	SC Complex Energetic Hunedoara SA	16/23.09.2016 extended and amended by A 1,2,3/2016 and 4,5,6,7/2017	sale-purchase of natural gas	2,318,149.48*)
		17/23.09.2016 extended and amended by A 1,2/2017	- I I -	31,216,922.68*)

*) –estimated value of the contracts is updated with the addendums concluded for H1 2017

IV. FINANCIAL-ACCOUNTING INFORMATION

4.1. Statement of Interim Financial Position

The table below presents a summary of the statement of the individual financial position as of June 30, 2017 and as compared to December 31, 2016:

INDICATOR	December 31, 2016 (thousand RON)	June 30, 2017 (thousand RON)	Variation (%)
1	2	3	4=(3-2)/2x100
ASSETS			
Non-current assets			
Property, plant and equipment	5,789,262	5,653,721	-2.34
Other intangible assets	397,864	373,071	-6.23
Investments in subsidiaries	1,200	1,200	0.00
Investments in associates	120	120	0.00
Other financial investments	69,657	69,678	0.03
TOTAL NON-CURRENTASSETS	**6,258,103**	**6,097,790**	**-2.56**
Current assets			
Inventories	575,983	487,552	-15.35
Trade and other receivables	828,610	683,719	-17.49
Other financial assets	2,892,751	2,443,872	-15.52
Other assets	141,525	51,624	-63.52
Cash and cash equivalents	280,526	1,791,267	538.54
TOTAL CURRENT ASSETS	**4,719,395**	**5,458,034**	**15.65**
TOTAL ASSETS	**10,977,498**	**11,555,824**	**5.27**
EQUITY AND LIABILITIES			
Equity			
Share capital	385,422	385,422	0.00
Reserves	3,020,152	3,036,461	0.54
Retained earnings	6,270,587	5,649,923	-9.90
TOTAL EQUITY	**9,676,161**	**9,071,806**	**-6.25**
Non-current liabilities			
Retirement benefit obligation	119,986	117,017	-2.47
Deferred tax liabilities	40,123	23,427	-41.61
Provisions	194,048	200,156	3.15
Total non-current liabilities	**354,157**	**340,600**	**-3.83**
Current liabilities			
Trade and other payables	569,941	329,410	-42.20
Current tax liabilities	60,295	61,728	2.38
Deferred revenue	4,924	1,631	-66.88
Provisions	50,437	37,865	-24.93
Other liabilities	261,583	1,712,784	554.78
Total current liabilities	**947,180**	**2,143,418**	**126.29**
TOTAL LIABILITIES	**1,301,337**	**2,484,018**	**90.88**
TOTAL EQUITY AND LIABILITIES	**10,977,498**	**11,555,824**	**5.27**

Non-current assets

The total non-current assets decreased by 2.56%, i.e. RON 160.31 million, from RON 6,258.1 million on December 31, 2016 to RON 6,097.8 million on June 30, 2017. The decrease is due, mainly, to the depreciation and impairment of these assets and a lower volume of investments in gas exploration and production assets, as well.

Currents assets

Current assets increased by RON 738.64 million due to the increase of cash and cash equivalents.

Inventories

The decrease by 15.35 % (RON 88.43 million) on June 30, 2017 as compared to December 31, 2016, is mainly due to decrease of gas stock, as a result of H1 2017 deliveries and storage of reduced quantities of gas during the first semester of 2017.

Trade and other receivables

Trade receivables decreased by 17.49 % as compared to December 31, 2016, as a result of lower sales made at the end of H1 2017, as compared to the end of 2016, as a result of the seasonality of activity.

Other assets

Other assets decreased on June 30, 2017 as compared to December 31, 2016, mainly as a result of the decrease of prepayments. Prepayments decreased due to transmission services carried out by Transgaz for the company's stored gas, that are presented as inventories at the end of H1 2017. On December 31, 2016, prepayments excluding gas transmission services amounted to RON 5.0 million.

Cash and cash equivalents. Other financial assets

On June 30, 2017, cash, cash equivalents and other financial assets amounted to RON 4,235.1 million, as compared to RON 3,173.3 million at the end of 2016, the increase being due to collections during H1 2017 and reduced volume of investment works. From these liquid assets, the dividends related to 2016 were paid in July, as approved by the company's shareholders.

Equity

The company's equity decreased by 6.25% (RON 604.36 million), as compared to December 31, 2016 due to distribution to shareholders of 2016 result and a share of the result achieved in the previous years, under the form of dividends, according to GMS Resolution.

Non-current liabilities

Non-current liabilities decreased as compared to December 31, 2016, mainly as a result of changes in the provision for decommissioning of production and storage wells owned by the company.

Current liabilities

Current liabilities increased by RON 1,196.24 million, from RON 947.18 million as recorded on December 31, 2016, to RON 2,143.42 million, the amount recorded on June 30, 2017 due to distributing dividends to shareholders.

Trade and other payables

Trade liabilities decreased by 42.20% as compared to December 31, 2016, as a result of reduced advance payments received for the gas to be delivered in the following period (RON 189.44 million on June 30, 2017 as compared to RON 464.05 million on December 31, 2016).

Other liabilities

Other liabilities increased by 554.78% as a result of the company's liability towards the shareholders, representing the distributed dividends, according to GMS Resolution, out of 2016 profit.

Provisions

Short-term provisions decreased by 24.93% as compared to the year ended on December 31, 2016, as a result of the provision reversal for employee's participation to profit further to the GMS approval of its payment.

4.2. Statement of Interim Comprehensive Income

The synthesis of the profit and loss account of the company for the period January 1 - June 30, 2017 as compared to the similar period of 2016 is shown below:

Description	H1 2016 (RON thousand)	H1 2017 (RON thousand)	Differences (RON thousand)	Variation (%)
1	2	3	4=3-2	5=4/2x100
Revenue	1,849,903	2,392,220	542,317	29.32
Cost of commodities sold	(37,867)	(45,791)	7,924	20.93
Investment income	13,624	10,704	(2,920)	-21.43
Other gains and losses	(130,984)	(64,599)	(66,385)	-50.68
Change in inventory	(17,639)	(142,057)	124,418	705.36
Raw materials and consumables used	(29,343)	(32,128)	2,785	9.49
Amortization, depreciation and impairment	(272,935)	(294,052)	21,117	7.74
Employee benefit expense	(229,977)	(261,084)	31,107	13.53
Finance cost	(9,167)	(8,875)	(292)	-3.19
Exploration expenses	-	(70,181)	70,181	n/a
Other expenses	(444,648)	(516,460)	71,812	16.15
Other income	64,037	66,076	2,039	3.18
Profit before tax	**755,004**	**1,033,773**	**278,769**	**36.92**
Income tax expense	(139,737)	(165,814)	**26,077**	**18.66**
Net Profit	**615,267**	**867,959**	**252,692**	**41.07**

Revenue

In H1 ended June 30, 2017, the Company's revenue increased by 29.32% (RON 542.32 million) as compared to the same period of the previous year.

The increase by RON 376.33 million of the revenue from gas sales, both from Romgaz production, as well as from sales of gas purchased to be resold and from joint arrangements was supplemented by the increase of revenue from sale of electricity and gas storage services as well as auxiliary services. The significant increase of revenue is due both to higher gas sales and to higher gas volumes withdrawn from storages.

Cost of Commodities Sold

The cost of commodities sold increased by 20.93%, namely RON 7.92 million in H1 ended June 30, 2017, compared to the similar period of 2016, as a result of delivering higher gas quantities purchased for resale, especially import gas and for compensating the market unbalances regulated by the network code.

Other Gains and Losses

In H1 ended June 30, 2017, the Company recorded a net loss of RON 66.4 million, decreasing as compared to the same period of the previous year when an allowance for doubtful debts was recorded, regarding one of the main clients of the company. In H1 2017 the Company recorded insignificant allowances for doubtful debts of RON 2.5 million.

The net loss on disposal of non-current assets in H1 2017 of RON 37.0 million is almost totally offset by the income from reversal of the impairment recorded in previous years. The income is included in the Depreciation, Amortization and Impairment caption.

Changes in Inventory

In H1 2017 and 2016, gas volumes – Romgaz property- withdrawn from UGSs were higher than those injected, therefore generating a negative change in inventory (loss). The large difference between the withdrawn quantity and the injected quantity in H1 2017 as compared to the similar period of the previous year generated the variation of 705.36% between the two periods.

Depreciation, amortization and impairment

For H1 2017 depreciation, amortization and impairment expenses of tangible and intangible non-current assets increased compared to the similar period of 2016, mainly due to impairment of non-current assets and of exploration assets.

Employee Benefit Expense

In the reviewed period, expenses with salaries, taxes and social contributions related to employees increased by 13.53% as compared to the similar period of 2016. The increase as compared to the previous year is mainly due to the expenses with the employee's participation to profit, approved by the GMS in June 2017. This expense was offset by releasing to income the provision previously recorded, the income being listed at Other expenses.

Exploration expenses

Exploration expenses recorded in H1 2017 of RON 70.2 million are offset by the release to income of the impairment recorded in the previous years. This income was recorded in H1 at net expenses with Depreciation, amortization and impairment.

Other Expenses

Other Expenses recorded an increase by 16.15% as compared to H1 2016. The increase is due to the following:

- in 2017 in order to produce electricity import gas was used besides the gas produced by the Company;

- increase of expenses related to gas transmission services and electricity distribution services.

Concurrently, expenses with taxes and duties increased compared to the same period of the previous year as a result of an increased windfall tax and of an increased royalty on gas production and storage activity.

Cancelation of the tax on special constructions had positive effects on the results of H1 2017.

The table below shows the breakdown of segment interim global result for the period January – June 2017, respectively January - June 2016:

RON thousand

Description	Upstream	Storage	Electricity	Other activities	Adjustments and eliminations	TOTAL
1	2	3	4		5	6
Revenue						
*Half I 2016	1,574,438	194,890	155,691	114,630	(189,746)	1,849,903
*Half I 2017	1,998,444	251,959	299,000	124,589	(281,772)	2,392,220
Cost of Commodities Sold						
*Half I 2016	(15,399)	(408)	(21,756)	(304)	-	(37,867)
*Half I 2017	(40,182)	(1)	(5,268)	(340)	-	(45,791)
Investment income						
*Half I 2016	456	2,256	23	10,889	-	13,624
*Half I 2017	196	1,134	10	9,364	-	10,704
Other gains or losses						
*Half I 2016	(129,153)	(721)	(327)	(783)	-	(130,984)
*Half I 2017	(43,714)	(1,459)	(361)	(19,065)	-	(64,599)
Changes in inventory						
*Half I 2016	(10,843)	(8,442)	75	1,571	-	(17,639)
*Half I 2017	(111,807)	(31,356)	44	1,062	-	(142,057)
Raw materials and consumables						
*Half I 2016	(19,824)	(4,658)	(731)	(5,264)	1,134	(29,343)
*Half I 2017	(23,522)	(4,971)	(516)	(5,405)	2,286	(32,128)
Depreciation, amortization and impairment						
*Half I 2016	(210,834)	(46,936)	(3,438)	(11,727)	-	(272,935)
*Half I 2017	(229,993)	(51,677)	(3,660)	(8,722)	-	(294,052)
Employee benefit expenses						
*Half I 2016	(146,642)	(21,929)	(13,499)	(47,907)	-	(229,977)
*Half I 2017	(166,816)	(25,139)	(15,722)	(53,407)	-	(261,084)
Financial cost						
*Half I 2016	(8,366)	(801)	-	-	-	(9,167)
*Half I 2017	(8,058)	(817)	-	-	-	(8,875)
Exploration cost						
*Half I 2016	-	-	-	-	-	-
*Half I 2017	(70,181)	-	-	-	-	(70,181)
Other expenses						
*Half I 2016	(480,322)	(44,800)	(87,610)	(21,121)	189,205	(444,648)
*Half I 2017	(536,594)	(26,294)	(200,610)	(32,809)	279,847	(516,460)
Other income						
*Half I 2016	63,408	568	40	614	(593)	64,037
*Half I 2017	66,120	28	33	256	(361)	66,076
Profit before tax						
***Half I 2016**	**616,919**	**69,019**	**28,468**	**40,598**	**-**	**755,004**
***Half I 2017**	**833,893**	**111,407**	**72,950**	**15,523**	**-**	**1,033,773**
Income tax expense						
*Half I 2016	-	-	-	(139,737)	-	(139,737)
*Half I 2017	-	-	-	(165,814)	-	(165,814)
Net profit						
***Half I 2016**	**616,919**	**69,019**	**28,468**	**(99,139)**	**-**	**615,267**

Description	Upstream	Storage	Electricity	Other activities	Adjustments and eliminations	TOTAL
1	2	3	4		5	6
***Half I 2017**	833,893	111,407	72,950	(150,291)	-	867,959

4.3. Statement of Cash Flows

Statements of cash flows recorded in H1 2017 and respectively in H1 2016 are as follows:

INDICATOR	H1 2016 (RON thousand)	H1 2017 (RON thousand)	Variation (%)
1	2	3	4=(3-2)/2x100
Cash flow from operating activities			
Net Profit for the period	**615,267**	**867,959**	**41.07**
Adjustments for:			
Profit tax expenses	139,737	165,814	18.66
Interest expense	9	3	-66.67
Unwinding of decommissioning provision	9,158	8,872	-3.12
Interest revenue	(13,624)	(10,704)	-21.43
Loss on disposal of non-current assets	49,347	37,043	-24.93
Change in decommissioning provision recognized in result for the period, other than unwinding	(1,230)	(838)	-31.87
Change in other provisions	(4,911)	(15,550)	216.64
Expenses for impairment of exploration assets	13,890	(8,730)	n/a
Losses from exploration projects	-	70,181	n/a
Impairment of property, plant and equipment	(23,126)	28,270	n/a
Depreciation and amortization expense	282,171	274,512	-2.71
Impairment of other financial investments	(1,516)	(21)	-98.61
Impairment of investments in associates	-	(3,392)	n/a
Loss from disposal of investments in associates and of other financial investments	1,577	3,392	115.09
Losses from trade and other receivables	78,537	21,882	-72.14
Write-down allowance of inventory	3,021	5,401	78.78
Cash generated from operations, before movements in working capital	**1,148,307**	**1,444,094**	**25.76**
Movements in working capital			
(Increase)/Decrease in inventory	30,861	83,054	169.12
(Increase)/Decrease in trade and other receivables	91,269	212,910	133.28
Increase/(Decrease) in trade and other liabilities	(145,558)	(260,539)	78.99
Cash generated from operations	**1,124,879**	**1,479,519**	**31.53**
Interest paid	(9)	(3)	-66.67
Income tax paid	(208,384)	(181,077)	-13.10
Net cash generated from operations	**916,486**	**1,298,439**	**41.68**
Cash flows from investing activities			
(Increase)/Decrease in other financial assets	(302,899)	449,829	n/a
Interest received	12,963	7,617	-41.24
Proceeds from sale of non-current assets	5	66	1220.00
Collections from disposal of other financial assets	400	-	n/a
Acquisition of non-current assets	(147,384)	(150,024)	1.79
Acquisition of exploration assets	(67,507)	(94,695)	40.27
Net cash used in investing activities	**(504,422)**	**212,793**	**-142.19**
Cash flows from financing activities			
Dividends paid	(123)	(491)	299.19
Net cash used in financing activities	**(123)**	**(491)**	**299.19**
Net Increase/(Decrease) in cash and cash equivalents	**411,941**	**1,510,741**	**266.74**
Cash and cash equivalents at the beginning of the period	**740,352**	**280,526**	**-62.11**

Cash and cash equivalents as of June 30	1,152,293	1,791,267	55.45

V. PERFORMANCE OF THE MANDATE CONTRACT/DIRECTOR AGREEMENT

The timeline of the Director Agreement, the Contract of Mandate, the Directors' Plan and the Management Plan is the following:

- ***June 12, 2013*** – The Board of Directors' Resolution no. 8 approves the appointment of Mr. Virgil Marius Metea as Executive Director - Director General;
- ***July 26, 2013*** – The GSM Resolution no. 12 approves the form of the Director's Agreement to be concluded with the members of the Board of Directors;
- ***September 25, 2013*** – the GSM Resolution no. 16 approves the 2013-2017 Directors' Plan as prepared and presented by the Board of Directors;
- ***December 16, 2013*** – the Board's Resolution no. 29 approves the Mandate Contract concluded between Romgaz and Mr. Virgil Marius Metea as Executive Director-Director General.
- ***January 29, 2014*** – the Board's Resolution no. 1 approves the "*Management Plan for 2013-2017 i.e. the mandate period of the Director General of Societatea Nationala de Gaze Naturale "ROMGAZ" – S.A.*";
- ***June 7, 2017*** – the Board of Directors approves by Resolution no.14 the renewal of the Director General Contract of Mandate – Mr. Virgil Marius Metea for a 4-year term and that the performance criteria and indicators from the Contract of mandate four 2017 will be those approved by the General Meeting of Shareholders in the income and expenditure budget.

Objectives and performance criteria

The Management Plan encloses the Director General's vision for fulfilling the company's strategic objectives as provided in the Directors' Plan and for meeting the performance criteria and objectives set in the Director Agreement.

The main ***performance objectives*** provided in the directors' agreements and in the management contract may be summarized as follows:

- Enhancement of the company's portfolio of gas resources and reserves by discovering new resources and by developing and improving the recovery degree of already discovered resources;
- Consolidation of the company's position on the electricity supply market;
- Optimization, development and diversification of the underground storage activity by reconsidering its importance with the aim of ensuring safety, continuity and flexibility of natural gas supply to customers;
- Enhancement of the company's performance;
- Identification of new growth and diversification opportunities;
- Enhancement of the company's organization structure, including the reorganization of the internal audit function.

Together with specific measures to be taken to fulfil each objective, Romgaz committed to implement general measures, which also support the fulfilment of the company's strategic objectives. Such measures target the following activity segments:

→ Human resources management;

→ Corporate governance and social responsibility;

→ Budgeting and control process optimization;

→ Improving the company's image;

→ Implementation of legal provisions on UGS activity separation;

→ Developing the role of the company's risk management.

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

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

Updating the performance indicators values

Provisions of the Director Agreement and of the Directors' Plan

The General Meeting of Shareholders approved by Resolution no.12 in the meeting held on July 26, 2013 the template of the Director Agreement that will be concluded with the board members.

The Director Agreement includes clauses related to the review/update of the performance indicators, as follows:

- *Art.4: "... the Director will execute all acts required ... to achieve the objectives and performance criteria established in Annex 1 to this document, and/or as annually amended, as the case may be, together with the other members of the Board of Directors, within 30 days from the approval/rectification of the income and expenditures budget";*
- *Art. 9: "The Director undertakes, together with the other Directors, to fulfil the work plan and GMS resolutions, in order to achieve the objectives and performance criteria established in Annex 1 to this Director Agreement. Performance criteria and*

objectives are applicable during the entire assignment of the Director, and the values of the performance indicators will be updated annually in accordance with the provisions of the income and expenditure budget".

The General Meeting of Shareholders approved on *September 25, 2013,* by Resolution no.16 the Director's Plan of the company for 2013-2017, submitted and prepared by the Board of Directors.

The plan provides also the possibility to adjust the performance indicators, stating that the achievement of the initial indicators undertaken by the directors is conditioned by fulfilling certain duties by state authorities:

- *"The performance indicators provided in this plan, as a result of the strategic objectives set and of the plan with measures to be achieved for their fulfilment, will be submitted again for review in order to be approved by the General Meeting of Shareholders, if it will be found that, for reasons beyond the director's control, because of external causes (natural gas and electricity market decline, amendments of the legal and regulatory framework etc.) or as a result of restating the financial statements according to the International Financial Reporting Standards (IFRS) the objectives and the performance indicators cannot be fulfilled"* – summary of the Directors Plan (last paragraph);

- *Achievement of the performance indicators is conditioned by:*

  - *Complying with Romania's commitment to gradually increase the trading price of internally produced gas on the Romanian market, to reach the convergence with the trading price of import gas on the Romanian market until December 31, 2018. The commitment is undertaken by the Letter of Intent signed with International Monetary Fund and by the Memorandum of Understanding signed with the European Commission, integral part of the Preventive Agreement signed with the International Monetary Fund and the European Commission.*
  - *ANRE has to observe the legal provisions related to adjusting the regulated income and the underground gas storage tariffs respectively.*

....

If other circumstances or events beyond Romgaz control require such, the level of the performance indicators of the Director's Plan will be amended/modified/supplemented accordingly" – item 4.7 Performance criteria and objectives of the Director's Plan (page 76, last paragraph).

Provisions of the Director Agreement and of the Director's Plan

The Board of Directors approved by Resolution no.29 taken during the meeting held on *December 16, 2013*, the Contract of Mandate to be concluded with the Director General.

The Contract of Mandate provides the possibility to be renegotiated, as follows:

"At the beginning of each mandate year the parties may renegotiate the remuneration of the director general by complying with the effective legal provisions and by being budgeted.

The scope of the renegotiation will regard the amount of the remuneration, the calculation manner and the criteria for calculating the fixed and the variable *components of the allowance by taking into account the director's plan and the management plan";*

The management plan for 2013-2017, as approved by the company's Board of Directors by Resolution no.1 of January 29, 2014, provides that:

- *"The performance indicators provided in this plan, as a result of the strategic objectives set and of the plan of measures to be achieved for their fulfilment, will be submitted for review in order to be approved by the Board of Directors, if it will be found that, for reasons beyond the directors' control, for external reasons (natural gas and electricity market decline, amendments of the legal and regulatory framework etc.) the objectives and the performance indicators cannot be fulfilled"* – summary of the Management Plan (last paragraph);

- *Achievement of the performance indicators is conditioned by:*

  - *Complying with Romania's commitment to gradually increase the trading price of internally produced gas on the Romanian market, to reach the convergence with the trading price of import gas on the Romanian market until December 31, 2018. The commitment is undertaken by the Letter of Intent signed with International Monetary Fund and by the Memorandum of Understanding signed with the European Commission, integral part of the Preventive Agreement signed with the International Monetary Fund and the European Commission.*

  - *ANRE has to observe the legal provisions related to adjusting the regulated income and the underground gas storage tariffs respectively.*

If other circumstances or events beyond the director general control require such, the Management Plan will be amended/modified/supplemented accordingly as regards the level of the performance indicators" – item 6 Performance criteria and objectives of the Management Plan (last paragraph).

Steps taken to modify the contracts

Several objective causes arose as of the first year of mandate, unpredictable and beyond the control of the company's board of directors and executive management, hindering the fulfilment of the performance indicators and objectives included in the Director Agreement and in the Contract of Mandate, namely:

- not complying with the calendar for gradually increasing the gas trading price, considered when preparing and approving the Director's Plan;
- fiscal regulations with significant impact on the company's performances, such as:
  - extending beyond December 31, 2014 the effectiveness of the windfall tax obtained by gas producers further to price deregulation;
  - introducing as of January 1, 2014 the tax on special constructions;
- reduced gas consumption in the country.

Director Agreements

Further to the above mentioned, according to the provisions of the Director's Plan and the Director Agreement, the board of directors requested the shareholders to adjust the manner of calculating the performance indicators of the Directors' Agreements. The request was substantiated in Note no.13293 as of May 16, 2016 submitted to the shareholders and debated in the ordinary meeting on *June 16, 2016.*

After reviewing the above mentioned note, the General Meeting of Shareholders approved by item I of Resolution no.5 as of June 16, 2016 the *"to modify the manner of calculating the performance indicators namely to eliminate the effects of external factors that are beyond the control of the company's management"*. Item II of the same resolution approved *"the conclusion of an Addendum to the Director Agreement to modify the manner of calculating the performance indicators namely to eliminate the effects of external factors that are beyond the control of the company's management"*, mandating the representative of the major shareholder to sign the Addendum to the Director Agreement (item III).

At the request of the Ministry of Energy, as major shareholder, the agenda of the Ordinary General Meeting of Shareholder of August 11, 2016 was supplemented by the proposal to cancel the approvals of the GMS given in the meeting held on June 16, 2016 related to modifying the calculation manner of the performance indicators, and related to the conclusion of an Addendum to the Director Agreement and mandating the representative of the major shareholder to sign such addendum. GMS approved by Resolution no.7 as of August 11, 2016 the requests of the Ministry of Energy.

The agenda of the Ordinary General Meeting of Shareholders on November 15, 2016 included for review and approval, *Note no. 25988 of October 5, 2016 related to the proposal to modify the performance indicators of the Director Agreement*. By this note, the Board of Directors requested *"to set performance indicators at the level of the indicators of the income and expenditure budget approved by the General Meeting of Shareholders in Resolution no. 5 of June 16, 2016"*. The GMS did not approve in Resolution no.10 of November 15, 2016 *"the performance criteria and objectives corroborated SNGN Romgaz SA income and expenditure budget approved by Resolution no. 5/2016"*.

The agenda of the Ordinary General Meeting of Shareholders on *April 25, 2017* included for review and approval, *Note no.8756 of March 23, 2017 on the proposal to modify the performance indicators of the Director Agreement*. The Board of Directors requested in this note *"to set the performance indicators at the level of the indicators included in the income and expenditure budget that will be approved by the General Meeting of Shareholders"*. By Resolution no.1 of April 25, 2017 the GMS did not approve *the modification of the performance indicators of the Director Agreement"*.

The Contract of Mandate

The Board of Directors approved by Resolution no. 11 of May 12, 2016 "to *modify the calculation manner of the performance indicators namely to eliminate the effects of external factors that are beyond the control of the company's management, due to which the performance indicators and objectives cannot be fulfilled"* and *"to conclude an Addendum to the Contract of Mandate of the Director General recorded under no. 3066/2013 to modify the calculation manner of the performance indicators namely to eliminate the effects of external factors that are beyond the control of the company's management, subsequent to the approval by the Ordinary General Meeting of Shareholders of their calculation method."*

Although the condition related to concluding an addendum to the Contract of Mandate, set in GMS Resolution no.5, June 16, 2016 was fulfilled, the company did not sign it.

The Board of Directors approved by Resolution no.14 June 7, 2017 the renewal of the Contract of Mandate of the Director General Mr. Metea Virgil Marius for a period of four years, as well as the modification of the performance indicators value for 2017 at the level of those approved by the General Meeting of Shareholders in the income and expenditure budget.

2014-2017 Results

The table below presents the values of the main indicators achieved in H1 of years 2014-2017 (thousand RON):

Indicators	H1 2014	H1 2015	H1 2016	H1 2017
1	2	3	4	5
Revenue	2,526,342	2,235,108	1,849,903	2,392,220
Operating income*)	2,656,020	2,322,941	1,983,987	2,416,151
Operating expense*)	1,444,729	1,203,057	1,158,240	1,373,008
Gross profit	1,089,527	952,141	755,005	1,033,773
Net profit	870,953	766,610	615,268	867,959
EBITDA	1,630,907	1,448,351	1,115,264	1,347,528
OPEX to RON 1000 operating income	543.9	517.9	583.8	568.3
Average number of employees	6,257	6,186	6,128	6,056
Labour productivity (RON thousand revenue/person)	403.8	361.3	301.9	395.0
Natural gas production (million m³)	2,865.6	2,776.7	2,197.4	2,559.4
Volume of geological resources	805	1,800	1,570	1,087
Outstanding payments	0	0	0	0

*) – no adjustments or provisions

H1 2017 Results

Director Agreements

The achievement of the performance indicators and criteria provided in the Director Agreements for H1 2017 is shown in the table below:

	Weighting factor	Indicator	Average values 2013-2015	Target values	Results	Degree of achievement	Weighting
1	2	3	4	5	6	7=6/5x100	8=2x7
EBITDA	0.25	+4.5%	1,398,173.9	1,461,091.7	1,347,527.8	92.9	23.05
CA	0.20	+6%	2,203,784.4	2,336,011.5	2,392,219.6	102.4	20.48
W	0.10	+6%	356.0	377.4	395.0	104.7	10.47
C_{expl}/V_{expl}	0.10	-0.6%	546.6	543.3	568.3	95.6	9.56
RES	0.10	+1%	1,391.7	1,405.6	1,087.0	77.3	7.73
d_Q	0.15	-1.5%	2,724.7	2,683.8	2,559.4	95.4	14.31
P_{res}	0.10	0	0	0	0	110.0	11.00
Total	1.00	-	-	-	-	-	96.60

EBITDA – (RON thousand);
CA – revenue (RON thousand);
W – labour productivity (RON thousand/employee);
C_{expl}/V_{expl} – operating expenses to1000 RON operating income;
RES – volume of geological resources (million m³);

d_Q – gas production decline (%);
P_{res} – outstanding payments (RON thousand).

The performance indicators and objectives show an achievement rate of ***96.60%***.

The achievement of performance indicators and criteria has been positively influenced by:

- *Revenue* – higher than the target by RON 56.2 million ;
- *Labour productivity* – higher than the scheduled productivity by 17.6 thousand RON/employee
- *Level of outstanding payments* – zero;

The following indicators have not been fully achieved:

- *Volume of geological resources* – lower by 318.6 million m^3;
- *EBITDA* – below the target value by RON 113.6 million;
- *Operating expenses to 1000 RON operating income* – higher by 25 RON (+4.6%) as compared to the target value
- *Gas production* – by 124.4 million m^3 below the target value.

The Contract of Mandate

The achievement of the performance indicators and criteria according to the Contract of Mandate for H1 2017 is shown in the table below:

	M. U.	Performance criteria	Weighting factor	Target values[4]	Results	Degree of achievement	Weighting
1	2	3	4	5	6	7=6/5x100	8=2x7
EBITDA	RON thousand	increase	0.25	1,092,836.0	1,347,527.8	**123.3**	**30.83**
CA	RON thousand	increase	0.20	2,074,364.0	2,392,219.6	**115.3**	**23.06**
W	RON thousand / person	increase	0.10	329.37	395.0	**119.9**	**11.99**
C_{expl}/V_{expl}	RON	decrease	0.10	632.74	568.3	**111.3**	**11.13**
RES	Million m^3	increase	0.10	1,400.0	1,087.0	**77.6**	**7.76**
d_Q		maintained	0.15	2,468.0	2,559.4	**103.7**	**15.56**
P_{res}	RON thousand	maintained	0.10	0	0	**110.0**	**11.00**
Total	-	-	**1.00**	-	-	-	**111.33**

The performance indicators and objectives show an achievement rate of ***111.33%***.

[4] Represents the values included in or which were the basis for substantiating the 2017 Income and Expenditure Budget as approved by the General Meeting of Shareholders in Resolution no.1 of April 25, 2017

The achievement of performance indicators and criteria has been positively influenced by:

- *EBITDA* – higher than the target by RON 255 million (+23.3%);
- *Revenue* – higher by RON 318 million (+15.3%);
- *Labour productivity* – higher than the scheduled productivity by 66 thousand RON/employee (+19.9%);
- *Operating expenses to 1000 RON operating income* – lower by 64 RON (-10.2) as compared to the target value;
- *Gas production* – by 91 million m^3 higher than the target value;
- *Outstanding payments*

The only indicator not fully achieved is "*Volume of geological resources*" – lower by 313 million m^3 (-22.4%).

Attached hereto are the Interim Financial Statements for the period ending June 30, 2017 prepared in accordance with the International Financial Reporting Standards (IFRS).

Signatures:

Chairman of the Board of Directors,
GHEORGHE GHEORGHE GABRIEL
....

Director General,	Chief Financial Officer,
MARIUS VIRGIL METEA	**BOBAR ANDREI**
....	....

Societatea Națională de Gaze Naturale ROMGAZ" S.A. MEDIAȘ J32/392/2001 1