



SOCIETATEA NATIONALA DE GAZE NATURALE "ROMGAZ" SA

QUARTERLY REPORT

REGARDING THE ECONOMIC-FINANCIAL
ACTIVITY OF SNGN "ROMGAZ" SA

AS OF MARCH 31, 2017

(January 01, 2017 - March 31, 2017)

IDENTIFICATION DETAILS ON REPORT AND ISSUER

| | |
|--|---|
| Report Basis | Article 67 of Law no. 24/2017 on issuers of securities and market operations and Annex 30 to CNVM Regulation no.1/2006 for a three-month period ended on March 31, 2017 |
| Report Date | May 10, 2017 |
| Name of the Company | Societatea Națională de Gaze Naturale "ROMGAZ" SA |
| Headquarter | Mediaș 551130, No.4 Piața Constantin I. Moțaș, County of Sibiu |
| Telephone/Fax number | 0040 269 201020 / 0040 269 846901 |
| Web/E-mail | www.romgaz.ro / secretariat@romgaz.ro |
| Fiscal Code | RO 14056826 |
| Trade Registry No. | J32/392/2001 |
| Subscribed and paid in share capital | RON 385,422,400 |
| Number of shares | 385,422,400 each with a nominal value of RON 1 |
| Regulated market where the company's shares are traded | Bucharest Stock Exchange (shares) and London Stock Exchange (GDRs) |

ROMGAZ BY FIGURES

The achievement of net profit margin (37.79%), EBIT margin (44.69%) and EBITDA margin (59.92%), confirms that the high profitability of the company's activity is maintained.

As compared to the same period of the previous year, the company's performances are definitely superior even if the natural gas production decreased by approximately 3%.

Relevant Financial Results

| | | | | *RON million* | | | |
|---------|---------|---------|----------|--|---------|---------|---------------|
| Q1 2016 | Q4 2016 | Q1 2017 | Δ Q1 (%) | Main Indicators | 2015 | 2016 | Δ '16/'15 (%) |
| 1,363.5 | 1,010.3 | 1,497.5 | 9.8 | Revenue | 4,052.7 | 3,411.9 | -15.8 |
| 1,316.3 | 989.3 | 1,390.3 | 5.6 | Income | 4,315.9 | 3,816.8 | -11.6 |
| 706.3 | 627.2 | 716.1 | 1.4 | Expenses | 2,847.1 | 2,536.1 | -10.9 |
| 610.0 | 362.1 | 674.2 | 10.5 | Gross Profit | 1,468.8 | 1,280.7 | -12.8 |
| 120.7 | 51.3 | 108.3 | -10.3 | Profit Tax | 274.6 | 256.1 | -6.7 |
| 489.3 | 310.9 | 565.9 | 15.7 | Net Profit | 1,194.3 | 1,024.6 | -14.2 |
| 602.6 | 358.1 | 669.3 | 11.1 | EBIT | 1,425 | 1,259 | -11.6 |
| 722.8 | 312.6 | 897.3 | 24.1 | EBITDA | 2,218 | 1,570 | -29.2 |
| 1.3 | 0.81 | 1.47 | 15.7 | Earnings per Share (EPS) (RON) | 3.10 | 2.66 | -14.2 |
| 35.9 | 30.77 | 37.79 | 5.3 | Net Profit Ratio (% of Revenue) | 29.5 | 30.0 | +1.7 |
| 44.2 | 35.44 | 44.69 | 1.1 | EBIT Ratio (% of Revenue) | 35.2 | 36.9 | +4.8 |
| 53.0 | 30.94 | 59.92 | 13.0 | EBITDA Ratio (% of Revenue) | 54.7 | 46.0 | -15.9 |
| 6,313 | 6,246 | 6,220 | -0.4 | Number of employees at the end of the period | 6,356 | 6,2246 | 0.2 |

The figures in the table above are rounded, thus there might result small reconciliation differences.

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

For Q1 2017, the company recorded an increase as compared to the previous quarter, the net profit being higher by 82.0%, EBIT by 86.9% and EBITDA by 187%. Also, the Q1 2017 performances are above as compared to the similar period of the previous year. The ratios of the indicators as reported to the revenue recorded increasing values both as compared to the previous quarter and to Q1 2016, confirming that the high profitability of the company's activity is maintained.

Operational Results

| Q1 2016 | Q4 2016 | Q1 2017 | Δ Q1/Q4 (%) | Main Indicators | Q1 2016 | Q1 2017 | Δ Q1 (%) |
|---------|---------|---------|-------------|--|---------|---------|----------|
| 1,374 | 1,185 | 1,333 | 12.5 | Gross production (mil m ³) | 1,374 | 1,333 | -3.0 |
| 100 | 84 | 98 | 16.7 | Petroleum royalty (mil m ³) | 100 | 98 | -1.6 |
| 2,047 | 1,023 | 1,672 | 63.4 | Condensate production (tonnes) | 2,047 | 1,672 | -18.3 |
| 318.7 | 726.3 | 611.4 | -15.8 | Electric power production (GWh) | 318.7 | 611.4 | 91.8 |
| 931.0 | 509.9 | 1,167.5 | 229.0 | UGS gas extraction services invoiced (mil m ³) | 931.0 | 1,167.5 | 25.4 |
| 308.9 | 65.0 | 502.5 | 773.1 | UGS gas injection services invoiced (mil m ³) | 308.9 | 502.5 | 62.7 |

The gas production recorded for Q1 2017 was of 1,333 mil m³, 12.5% higher than the production recorded in the previous quarter and respectively by 3% below the one recorded in the similar period of the previous year. These results were achieved under the following circumstances:

- ✎ Import of natural gas increased massively, for Q1 2017 Romania imported a quantity of 675.5 mil m³, by 460% higher than for the same period of 2016;
- ✎ From Romgaz natural gas stocks stored in underground storages, the withdrawn quantity was by 180 mil m³ more than in the same period of 2016.

The natural gas consumption estimated¹ at national level for Q1 2017 was of 50.3 TWh, out of which approximately 7.3 TWh was covered with import gas, and the difference of 43 TWh with gas from internal production, to which Romgaz supplied 19.26 TWh, representing 38.3% of the national consumption and 44.8% of the consumption covered with gas from internal production. Romgaz market share is increasing by 1.9% as compared to 42.9% recorded for Q1 2016.

For Q1 2017, the electricity supplied increased by 92.28%, resulting from favourable market conditions. According to the data offered by Transelectrica, the market share increased from 2.00 % (Q1 2016) to 3.61% (Q1 2017).

¹ The consumption is estimated because ANRE reports regarding the natural gas market are, at the date of the report, only for Q3 2016, therefore the data used are estimated or deducted related to the data known having a higher certainty degree.

ROMGAZ – BRIEF OVERVIEW

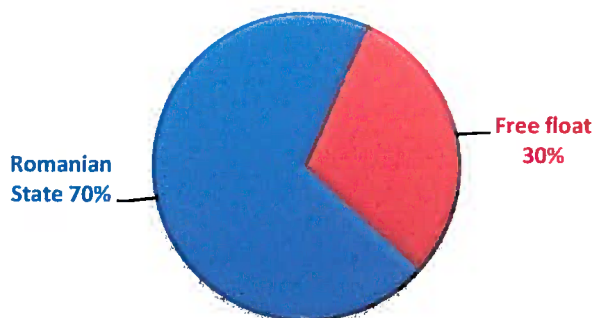
The activities developed by the company are as follows:

- ✎ Exploration and production of natural gas;
- ✎ Underground storage of natural gas;
- ✎ Supply of natural gas;
- ✎ Special well operations and services;
- ✎ Technological transport and maintenance services;
- ✎ Electric power production and supply;
- ✎ Distribution of natural gas.

Shareholder structure

On March 31, 2017 the shareholder structure was the following:

| | Number of shares | % |
|-----------------------------------|--------------------|-----------------|
| The Romanian State ² | 269,823,080 | 70.0071 |
| Free float – total, out of which: | 115,599,320 | 29.9929 |
| *legal persons | 96,896,464 | 25.1403 |
| *natural persons | 18,702,856 | 4.8526 |
| Total | 385,422,400 | 100.0000 |



Company organization

The organization of the company is the hierarchy-functional type with a number of six hierarchy levels from company shareholders to execution personnel.

Currently, the company has seven branches set up depending both on the specific business as well as on the activity location (production branches), as follows:

- Sucursala Medias (Medias Branch);
- Sucursala Targu Mures (Targu Mures Branch);
- Sucursala Ploiesti (Ploiesti Branch);
- Sucursala de Interventii, Reparatii Capitale si Operatii Speciale la Sonde Medias (SIRCOSS) (Branch for Well Workover, Recompletions and Special Well Operations);

² The Romanian State through the *Ministry of Energy*

- Sucursala de Transport Tehnologic și Mentenanța Targu Mures (STTM) (Technological Transport and Maintenance Branch);
- Sucursala de Producție Energie Electrică Iernut (Iernut Power Generation Branch);
- Sucursala Bratislava (Bratislava Branch).

Company management

The company is governed by a **Board of Directors** composed of 7 members, having on March 31, 2017 the following structure:

| Item no. | Name | Institution of employment | Position in the Board | Statute ^{*)} |
|----------|--|--|-----------------------|-----------------------|
| 1 | Chisalita Dumitru | Universitatea "Transilvania" Brasov | Chairman | Non-independent |
| 2 | Negrut Aurora | Ministry of Energy | Member | Non-independent |
| 3 | Jansen Petrus Antonius Maria | London School of Business and Finance | Member | Independent |
| 4 | Tcaciuc Sebastian Gabriel | Auris Capital SRL | Member | Independent |
| 5 | Jude Aristotel | - | Member | Non-independent |
| 6 | Stoicescu Razvan Florin ^{**)} | Musat&Asociatii SPARL | Member | Independent |
| 7 | Buzatu Florin Danut ^{**)} | Societatea de Investiții Financiare Transilvania | Member | Independent |

^{*)} – the directors of the Board submitted Declarations of Independence on their own risk, in accordance with the provisions of the company's Corporate Governance Code.

^{**)} - the Director Agreement does not include performance indicators and objectives

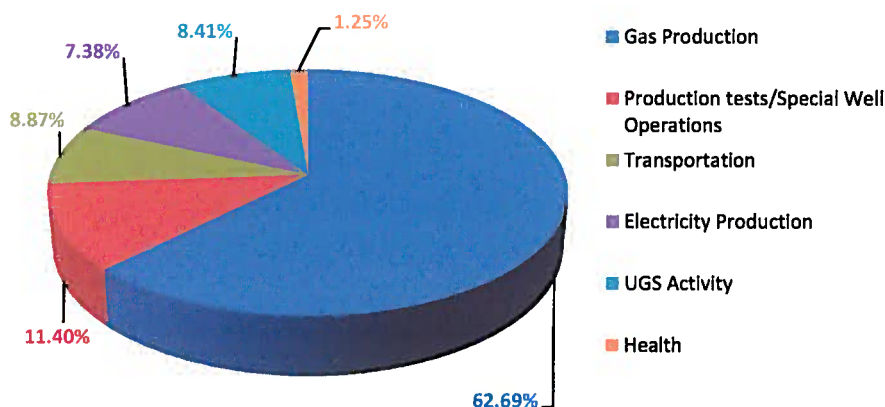
Human Resources

On March 31, 2017 the company had a number of 6,220 employees.

The table below shows the evolution of the employees' number between January 1, 2014 – March 31, 2017:

| Description | 2014 | 2015 | 2016 | 3 months 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 | 58 |
| Employees who terminated their labour relationship with the company | 220 | 147 | 278 | 84 |
| Employees at the end of the period | 6,344 | 6,356 | 6,246 | 6,220 |

The structure by activities of the company's personnel at the end of the reporting period is presented in the figure below:



ROMGAZ on the stock exchange

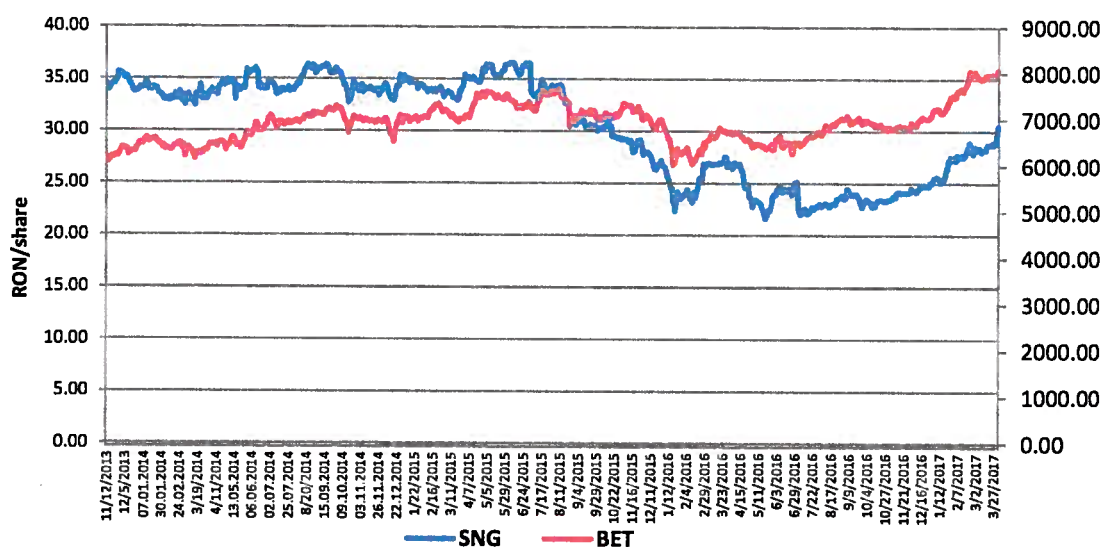
As of November 12, 2013 the company's shares are traded on the regulated market governed by BVB (Bucharest Stock Exchange) under the symbol "SNG" and on the regulated market governed by LSE (London Stock Exchange), as GDRs issued by the Bank of New York Mellon under the symbol "SNGR".

Romgaz is considered an attractive company for investors in terms of dividend distribution to shareholders and company stability.

The company holds a significant position in the top of local issuers and is included in BVB indices as well as in indices of other markets, as follows:

- Second place in the top of Premium BVB issuers by market capitalization as of March 31, 2017 (RON 11,755.4 million, respectively EUR 2,586.7 million);
- Fourth place in terms of traded values in the first 3 months of 2017 in the top of local issuers on BVB main segment (RON 232 million);
- Weights of 10.51% and 9.91% in the BET index (top 10 issuers) and the BET-XT index (BET extended), 22.62% in the BET-NG index (energy and utilities), 10.51% in the BET-TR (BET Total Return) index, 8.18% in the ROTX index (Romanian Traded Index);
- Romgaz issuer is also included in global indices with allocation for Romania, for instance in the following index groups: FTSE (Financial Times Stock Exchange), MSCI (Morgan Stanley Capital International), S&P (Standard & Poor's), STOXX (mainly oriented towards European markets), Russell Frontier.

Performance of Romgaz shares between listing and March 30, 2017 in relation to BET index, is shown below:



For Q1 2017, the trade price of Romgaz shares recorded an upward trend, increasing by 21% by the end of the period as compared to the previous year. The same positive evolution recorded the trade price of GDRs for the analyzed period (+23.6%).

As such, at the beginning of 2017 Romgaz share price was RON 25.20, and after reaching a minimum of RON 25.10 on January 13, 2017 the share price increased considerably, reaching RON 30.50 by the end of the quarter. The GDRs recorded the minimum price on the first trading day of the year (USD 5.67), following an upward trend for the entire period January – March 2017, until reaching the amount of USD 7.01 on the last day of the quarter.

PHYSICAL INDICATORS

The table below shows the gas volumes (million m³) that were produced delivered, injected/withdrawn into/from UGSs during January-March 2017 in comparison with the similar period of 2015 and 2016:

| Specifications | Q1 2015 | Q1 2016 | Q1 2017 | Indices % |
|---|----------------|----------------|----------------|--------------|
| 0 | 2 | 3 | 4 | 5=4/3x100 |
| 1. Total - gross production, out of which: | 1,436.1 | 1,374.4 | 1,333.0 | 97.0 |
| 1.1. *internal gas production | 1,384.4 | 1,330.9 | 1,290.8 | 97.0 |
| 1.2. *Schlumberger partnership (100%) | 51.7 | 43.5 | 42.2 | 97.0 |
| 2. Technological consumption | 21.5 | 19.8 | 20.2 | 102.0 |
| 3. Net gross internal gas production (1.-1.2.-2.) | 1,362.9 | 1,311.1 | 1,270.6 | 96.9 |
| 4. Internal gas volumes injected in storages | 2.2 | 6.8 | 0.0 | 0.0 |
| 5. Internal gas volumes withdrawn from storages | 292.2 | 308.9 | 491.3 | 159.0 |
| 6. Differences resulting from GCV | - | 2.2 | 0.0 | 0.0 |
| 7. Volumes supplied from internal production (3.-4.+5.-6.) | 1,652.9 | 1,611.0 | 1,761.0 | 109.4 |
| 8.1 Gas sold in storage | | | | |
| 8.2 Gas supplied to Iernut and Cojocna Power Plants | 51.2 | 93.0 | 154.6 | 166.2 |
| 9. Volumes supplied from internal production to the market (7.-8.) | 1,601.7 | 1,517.9 | 1,607.3 | 105.9 |
| 10. Natural gas from partnerships^{*)} – total, out | 44.9 | 41.5 | 40.8 | 98.4 |

| | | | | | |
|-----------|--|----------------|----------------|----------------|--------------|
| of which: | | | | | |
| | *Schlumberger (50%) | 25.9 | 21.7 | 21.1 | 97.5 |
| | *Raffles Energy (37.5%) | 0.1 | 0.1 | 0.0 | 0.0 |
| | *Amromco (50%) | 18.9 | 19.6 | 19.7 | 100.5 |
| 11. | Purchased internal gas volumes | 4.0 | 4.3 | 20.0 | 465.1 |
| 12. | Volumes sold from domestic production to the market (9.+10.+11.) | 1,650.6 | 1,563.8 | 1,668.1 | 106.7 |
| 13. | Volumes supplied from domestic production (8.+12.) | 1,701.8 | 1,656.8 | 1,822.7 | 110.0 |
| 14. | Supplied import volumes | 2.2 | 6.8 | 25.7 | 377.9 |
| 15. | Gas supplied to Iernut and Cojocna from other sources (including unbalances) | | | 17.7 | |
| 16. | Total gas supplies (13.+14.) | 1,703.9 | 1,663.6 | 1,866.1 | 112.2 |
| * | Invoiced UGS withdrawal services | 1,151.2 | 931.0 | 1,167.5 | 125.4 |
| * | Invoiced UGS injection services | 292.2 | 308.9 | 502.5 | 162.7 |

*) In case of Romgaz – Schlumberger partnership, the produced gas volumes are entirely outlined in Romgaz production. Romgaz sells such volumes and the resulting revenue is equally shared between the two partners. In case of Romgaz partnerships with Amromco and Raffles Energy, the produced gas volumes do not represent Romgaz production, but the relating value is included in Romgaz revenue proportionate to the company's working interest in the respective partnership.

INVESTMENTS

For Q1 2017, Romgaz scheduled investments in amount of *RON 186.3 million* and spent *RON 91.0 million* approximately 51.18% (i.e. *RON 95.3 million*) less than scheduled. Investments were exclusively financed from the company's own sources.

As compared to the similar time period of 2016, the investments made in 2017 are by 14.54% (i.e. *RON 15.5 million*) lower.

The value of fixed assets commissioned during the reviewed period is *RON 25.4 million*.

The table below shows the investments made in Q1 2017 in comparison with Q1 2016 and the scheduled investments, split onto main investment chapters:

RON thousand

| Investment chapter | Result Q1 2016 | Schedule Q1 2017 | Result Q1 2017 | 2017/2016 | R 2017/S 2017 |
|---|----------------|------------------|----------------|--------------|---------------|
| 1 | 2 | 3 | 4 | 5=4/2x100 | 6=4/3x100 |
| I. Geological exploration works for the discovery of new gas reserves | 33,963 | 72,000 | 35,132 | 103.44 | 48.79 |
| II. Exploitation drilling works, commissioning of new wells, infrastructure and utilities | 6,652 | 47,882 | 6,362 | 95.64 | 13.29 |
| III. Supporting underground gas storage capacities | 10,454 | 2,983 | 1,112 | 10.64 | 37.28 |
| IV. Environment protection works | 25 | 1,190 | 272 | 1,088.00 | 22.86 |
| V. Revamping and retrofitting of existing installations and pieces of equipment | 45,116 | 43,057 | 41,139 | 91.18 | 95.54 |
| VI. Independent equipment and installation | 8,482 | 13,537 | 4,758 | 56.10 | 35.15 |
| VII. Expenses relating to studies and designs | 1,749 | 5,669 | 2,194 | 125.44 | 38.70 |
| TOTAL | 106,441 | 186,318 | 90,969 | 85.46 | 48.82 |

Investments made during Q1 2017 were negatively impacted by: suspending certain works due to unfavourable weather conditions; extension of terms required for permit and land access, required authorization and permits for exploration wells, surface facilities, demolition of buildings and railway required for the construction of Iernut power plant.

The physical volume of drilling works for the exploration wells was higher than in the similar period of the previous year, 8,417 m drilled in Q1 2017 as compared to 3,853 m drilled in Q1 2016.

FINANCIAL AND ECONOMIC INDICATORS

Summary of the interim financial result

The table below shows the summary of the interim financial result on March 31, 2017 compared to December 31, 2016:

| INDICATOR | December 31, 2016 (RON thousand) | March 31, 2017 (RON thousand) | Variation (%) |
|--------------------------------------|-------------------------------------|----------------------------------|------------------|
| 1 | 2 | 3 | 4=(3-2)/2x100 |
| ASSETS | | | |
| <i>Non-Current Assets</i> | | | |
| Property, plant and equipment | 5,789,262 | 5,644,186 | -2.51 |
| Other intangible assets | 397,864 | 398,551 | 0.17 |
| Subsidiaries | 1,200 | 1,200 | 0.00 |
| Associates | 120 | 120 | 0.00 |
| Other financial investments | 69,627 | 69,657 | 0.00 |
| TOTAL NON-CURRENT ASSETS | 6,258,103 | 6,113,714 | -2.31 |
| <i>Current assets</i> | | | |
| Inventories | 575,983 | 404,673 | -29.74 |
| Trade and other receivables | 828,610 | 1,121,541 | 35.35 |
| Other financial assets | 2,892,751 | 2,962,949 | 2.43 |
| Other assets | 141,525 | 119,991 | 15.22 |
| Cash and cash equivalents | 280,526 | 489,396 | 74.46 |
| TOTAL CURRENT ASSETS | 4,719,395 | 5,098,550 | 8.03 |
| TOTAL ASSETS | 10,977,498 | 11,212,264 | 2.14 |
| EQUITY AND LIABILITIES | | | |
| <i>Capital and Reserves</i> | | | |
| Share capital | 385,422 | 385,422 | 0.00 |
| Reserves | 3,020,152 | 3,020,152 | 0.00 |
| Retained earnings | 6,270,587 | 6,836,474 | 9.02 |
| TOTAL CAPITAL AND RESERVES | 9,676,161 | 10,242,048 | 5.85 |
| <i>Non-Current Liabilities</i> | | | |
| Provisions for retirement | 119,986 | 118,195 | -1.49 |
| Deferred tax liabilities | 40,123 | 27,670 | -31.04 |
| Provisions | 194,048 | 197,196 | 1.62 |
| Total non-current liabilities | 354,157 | 343,061 | -3.13 |
| <i>Current liabilities</i> | | | |
| Trade and other payables | 569,941 | 224,817 | -60.55 |
| Current tax liabilities | 60,295 | 120,782 | 100.32 |
| Deferred income | 4,924 | 2,842 | -42.28 |

| INDICATOR | December 31, 2016 (RON thousand) | March 31, 2017 (RON thousand) | Variation (%) |
|-------------------------------------|-------------------------------------|----------------------------------|------------------|
| 1 | 2 | 3 | 4=(3-2)/2x100 |
| Provisions | 50,437 | 49,969 | -0.93 |
| Other liabilities | 261,583 | 228,745 | -12.55 |
| Total current liabilities | 947,180 | 627,155 | -33.79 |
| TOTAL LIABILITIES | 1,301,337 | 970,216 | -25.44 |
| TOTAL EQUITY AND LIABILITIES | 10,977,498 | 11,212,264 | 2.14 |

NON-CURRENT ASSETS

The total non-current assets decreased by 2.31%, i.e. by RON 144.4 million from RON 6,258.1 million on December 31, 2016 to RON 6,113.7 million on March 31, 2017, due to depreciation and impairment, as well as due to failure to achieve the investment plans.

CURRENT ASSETS

Current assets increased by RON 379.2 million (8.03%) on March 31, 2017 due to increase of trade receivables and cash and cash equivalents.

Inventories

On March 31, 2017, inventories were lower by 29.74% (RON 171.3 million) as compared to December 31, 2016 mainly due to decrease of gas stocks in storages as a result of Q1 2017 gas deliveries.

Trade receivables and other receivables

As compared to December 31, 2016, trade receivables increased by 35.35% as a result of Q1 gas deliveries. These receivables become due at the beginning of Q2 2017.

The adjustments for the impairment of receivables for Q1 2017 are insignificant, as a result of the implementation of the company's policy on reducing the non-collection risk by collecting in advance the amount for the delivered volumes or by providing securities by letters of bank guarantee.

Cash and cash equivalents. Other financial assets

On March 31, 2017, cash and cash equivalents and other financial assets were RON 3,452.3 million, as compared to RON 3,173.3 million at the end of 2016, as a result of collecting outstanding receivables on December 31, 2016 as well as the failure to achieve the scheduled investments.

Other assets

Other assets decreased on March 31, 2017 as compared to December 31, 2016, mainly due to reducing prepaid expenses.

EQUITY

The company's equity did not record significant changes during Q1 2017, except for the reviewed period's result of RON 565.9 million.

NON-CURRENT LIABILITIES

As compared to December 31, 2016, non-current liabilities decreased, mainly as a result of reducing the deferred tax liabilities.

CURRENT LIABILITIES

Current liabilities decreased with RON 320.0 million as compared to December 31, 2016, from RON 947.2 million to RON 627.2 million, as recorded on March 31, 2017.

Trade and other payables

Trade payables decreased by 60.55% as compared to December 31, 2016 due to reducing the advance payments from clients. The balance of these advance payments on March 31, 2017 reflects the collections for the gas to be delivered at the beginning of Q 2 2017.

Current tax liabilities

Current tax liabilities increased by 86.2% due to a higher gross result for Q1 2017 as compared to Q4 2016. This result is adjusted by tax-free income and non-deductible expenses, pursuant to fiscal regulations applicable in Romania, hence resulting the tax.

Other liabilities

Other liabilities decreased by 12.55% due to the decrease of value added tax and liabilities due to employees.

Summary of the interim global result

The synthesis of the Company's profit and loss account for the period January 1 – March 31, 2017, as compared to similar period of 2016 is shown below:

| Description | Q1 2016 (thousand RON) | Q1 2017 (thousand RON) | Q4 2016 (thousand RON) | Variation Q1 (%) | Variation Q1/Q4 (%) |
|---|------------------------------|------------------------------|------------------------------|------------------------|---------------------------|
| 0 | 1 | 2 | 3 | 4=(2-1)/1*100 | 5=(2-3)/3*100 |
| Revenue | 1,363,505 | 1,497,538 | 1,010,348 | 9.83 | 48.22 |
| Cost of commodities sold | (21,219) | (32,009) | (3,552) | 50.85 | 801.15 |
| Investment income | 7,448 | 4,963 | 4,094 | -33.36 | 21.23 |
| Other gains or losses | (138,376) | (4,608) | (60,630) | -96.67 | -92.40 |
| Changes in inventory of finished goods and work in progress | (99,572) | (163,810) | (52,564) | 64.51 | 211.64 |
| Raw materials and consumables used | (17,785) | (16,482) | (13,174) | -7.33 | 25.11 |
| Depreciation, amortization and impairment | (120,243) | (228,000) | 45,412 | 89.62 | -602.07 |
| Employee benefit expenses | (111,626) | (114,243) | (141,731) | 2.34 | -19.39 |
| Finance cost | (4,590) | (4,887) | (4,544) | 6.47 | 7.55 |
| Operating expenses | - | - | (172,846) | - | -100.00 |
| Other expenses | (291,982) | (315,730) | (276,068) | 8.13 | 14.37 |
| Other income | 44,465 | 51,484 | 27,397 | 15.79 | 87.92 |
| Profit before tax | 610,025 | 674,216 | 362,142 | 10.52 | 86.17 |
| Income tax expense | (120,705) | (108,329) | (51,265) | -10.25 | 111.31 |
| Net profit | 489,320 | 565,887 | 310,877 | 15.65 | 82.03 |

Revenue

In the quarter ended March 31, 2017, the revenue recorded an increase by 9.83% as compared to the similar period of the previous year and as compared to Q4 2016 the increase was by 48.22%. Compared to the previous quarter the increase is due to a higher income from sales of production gas by 44.67% (RON 344.8 million), higher income generated by acquisition of gas for resale by 3,072.02% (RON 37.7 million), the increase of income from storage activities by 71.08% (RON 58.7 million) and the increase by 32.39% (RON 46.9 million) of income from electricity sales.

Cost of Commodities Sold

The cost of commodities sold increased by 50.85% as compared to Q1 2016, namely by 801.15% as compared to the previous quarter mainly as a result of higher sales of gas purchased, from import or from internal production, for resale.

Other Gains and Losses

In Q1 2017, other gains or losses reduced as compared to Q1 of the previous year by 96.67%, namely 92.40% as compared to the previous quarter as a result of recording insignificant net losses related to bad debts, as previously mentioned.

Changes in Inventory of Finished Goods and Work in Progress

The negative changes in inventory are generated by the fact that in Q1 gas from own production has not been stored; instead own gas from storages was delivered by 59% more than in Q1 2016, namely by 219.6% more than in the previous quarter.

Depreciation, Amortization and Impairment

Depreciation, amortization and impairment expenses increased by 89.62% as compared to Q1 2016 as a result of impairment of fixed assets and of exploration assets.

Other expenses

Other expenses increased by 8.13% as compared to Q1 2016, namely by 14.37% compared to the previous quarter. The increase compared both to Q1 2016 and to the previous quarter is due to the following:

- in 2017 electricity has been generated by using gas produced by the Company and import gas;
- increase of expenses related to gas transmission services and electricity distribution services

At the same time, expenses with taxes and duties decreased compared to the similar period of the previous year as a result of eliminating the special constructions tax and of reducing expenses with excises. Compared to the previous quarter, there is an increase of expenses with taxes and duties further to increasing the tax on additional income and the royalty.

Other Income

The increase of other income by 15.79% as compared to Q1 2016, namely by 87.92% compared to the previous quarter is due mainly to the increased income from gas transmission services, re-invoiced to Company's customers. Considering that the Company does not act as agent of the national transmission company, the amounts re-invoiced for such services are recorded in the financial statements as income.

The table below shows the breakdown of the summary of interim global result for January-March 2017 as compared to January – March 2016:

thousand RON

| Description | Gas production and sales | Storage | Electricity | Other activities | Adjustments and removal | TOTAL |
|--|--------------------------|----------|-------------|------------------|-------------------------|-----------|
| <i>Revenue</i> | | | | | | |
| *Jan.-March 2016 | 1,160,939 | 159,680 | 84,537 | 56,189 | (97,840) | 1,363,505 |
| *Jan.-March 2017 | 1,208,836 | 184,719 | 191,806 | 71,956 | (159,779) | 1,497,538 |
| <i>Cost of Commodities Sold</i> | | | | | | |
| * Jan.-March 2016 | (13,498) | (8) | (7,554) | (159) | - | (21,219) |
| * Jan.-March 2017 | (30,120) | (1) | (1,719) | (169) | - | (32,009) |
| <i>Investment income</i> | | | | | | |
| * Jan.-March 2016 | 175 | 1,233 | 14 | 6,026 | - | 7,448 |
| * Jan.-March 2017 | 115 | 678 | 5 | 4,165 | - | 4,963 |
| <i>Other gains and losses</i> | | | | | | |
| * Jan.-March 2016 | (137,453) | (466) | (291) | (166) | - | (138,376) |
| * Jan.-March 2017 | (2,741) | (1,095) | (337) | (435) | - | (4,608) |
| <i>Changes in inventory of finished goods and work in progress</i> | | | | | | |
| * Jan.-March 2016 | (73,773) | (26,660) | 53 | 808 | - | (99,572) |
| * Jan.-March 2017 | (132,906) | (31,441) | 56 | 481 | - | (163,810) |
| <i>Raw materials and consumables used</i> | | | | | | |
| * Jan.-March 2016 | (11,806) | (3,205) | (460) | (2,895) | 581 | (17,785) |
| * Jan.-March 2017 | (11,572) | (2,482) | (295) | (2,864) | 731 | (16,482) |
| <i>Depreciation, amortization and impairment</i> | | | | | | |
| * Jan.-March 2016 | (88,746) | (23,604) | (1,692) | (6,201) | - | (120,243) |
| * Jan.-March 2017 | (196,228) | (25,859) | (1,952) | (3,961) | - | (228,000) |
| <i>Employee benefit expenses</i> | | | | | | |
| * Jan.-March 2016 | (70,942) | (10,809) | (6,601) | (23,274) | - | (111,626) |
| * Jan.-March 2017 | (72,763) | (10,772) | (7,068) | (23,640) | - | (114,243) |
| <i>Financial cost</i> | | | | | | |
| * Jan.-March 2016 | (4,190) | (400) | - | - | - | (4,590) |
| * Jan.-March 2017 | (4,423) | (464) | - | - | - | (4,887) |
| <i>Other expenses</i> | | | | | | |
| * Jan.-March 2016 | (309,481) | (19,054) | (51,221) | (9,845) | 97,619 | (291,982) |
| * Jan.-March 2017 | (314,013) | (12,476) | (138,462) | (9,978) | 159,199 | (315,730) |
| <i>Other income</i> | | | | | | |
| * Jan.-March 2016 | 44,097 | 557 | 23 | 148 | (360) | 44,465 |
| * Jan.-March 2017 | 51,467 | 25 | 20 | 123 | (151) | 51,484 |
| <i>Profit before tax</i> | | | | | | |
| * Jan.-March 2016 | 495,322 | 77,264 | 16,808 | 20,631 | - | 610,025 |
| * Jan.-March 2017 | 495,652 | 100,832 | 42,054 | 35,678 | - | 674,216 |
| <i>Income tax expense</i> | | | | | | |
| * Jan.-March 2016 | - | - | - | (120,705) | - | (120,705) |
| * Jan.-March 2017 | - | - | - | (108,329) | - | (108,329) |
| <i>Net profit</i> | | | | | | |

| Description | Gas production and sales | Storage | Electricity | Other activities | Adjustments and removal | TOTAL |
|-------------------|--------------------------|---------|-------------|------------------|-------------------------|---------|
| * Jan.-March 2016 | 495,322 | 77,264 | 16,808 | (100,074) | - | 489,320 |
| * Jan.-March 2017 | 495,652 | 100,832 | 42,054 | (72,651) | - | 565,887 |

Statement of Cash Flow

Statements of cash flows recorded during January – March 2017 and in the similar period of 2016 are as follows:

| INDICATOR | Q1 2016 (thousand RON) | Q1 2017 (thousand RON) | Variation (%) |
|---|---------------------------|---------------------------|---------------|
| 1 | 2 | 3 | 4=(3-2)/2x100 |
| Cash flow from operating activities | | | |
| Net Profit for the period | 489,320 | 565,887 | 15.6 |
| <i>Adjustments for:</i> | | | |
| Income tax expense | 120,705 | 108,329 | -10.2 |
| Interest expense | 5 | 1 | -80.0 |
| Unwinding of decommissioning provision | 4,585 | 4,886 | 6.6 |
| Interest revenue | (7,448) | (4,963) | -33.4 |
| Loss on disposal of non-current assets | 48,452 | 781 | -98.4 |
| Change in decommissioning provision recognized in result for the period, other than unwinding | (493) | (709) | 43.8 |
| Change in other provisions | (2,055) | (2,472) | 20.3 |
| Expenses for impairment of exploration assets | 7,685 | 3,736 | -51.4 |
| Impairment of property, plant and equipment | (42,461) | 80,793 | n/a |
| Depreciation and amortization | 155,019 | 143,471 | -7.4 |
| Impairment of other financial investments | (1,577) | - | n/a |
| (Gains)/Losses from disposal of other financial investments | 1,577 | - | n/a |
| Losses from trade and other receivables | 88,227 | 1,055 | -98.8 |
| Write-down allowance of inventory | 1,711 | 2,480 | 44.9 |
| Cash generated from operations, before movements in working capital | 863,252 | 903,275 | 4.6 |
| Movements in working capital | | | |
| (Increase)/Decrease in inventory | 119,355 | 168,854 | 41.5 |
| (Increase)/Decrease in trade and other receivables | (471,060) | (272,452) | -42.2 |
| Increase/(Decrease) in trade and other liabilities | 179,090 | (380,006) | n/a |
| Cash generated from operations | 690,637 | 419,671 | -39.2 |
| Interest paid | (5) | (1) | -80.0 |
| Income tax paid | (90,838) | (60,295) | -33.6 |
| Net cash generated from operations | 599,794 | 359,375 | -40.1 |
| Cash flows from investing activities | | | |
| (Increase)/Decrease in other financial assets | (972,896) | (69,382) | -92.9 |
| Interest received | 7,275 | 3,223 | -55.7 |
| Proceeds from sale of non-current assets | - | 19 | 100.0 |
| Collections from disposal of other financial assets | 400 | - | n/a |

| INDICATOR | Q1 2016 (thousand RON) | Q1 2017 (thousand RON) | Variation (%) |
|---|------------------------------|------------------------------|------------------|
| 1 | 2 | 3 | 4=(3-2)/2x100 |
| Acquisition of non-current assets | (71,456) | (48,520) | -32.1 |
| Acquisition of exploration assets | (29,433) | (35,820) | 21.7 |
| Net cash used in investing activities | (1,066,110) | (150,480) | -85.9 |
| Cash flows from financing activities | | | |
| Dividends paid | (95) | (25) | -73.7 |
| Net cash used in financing activities | (95) | (25) | -73.7 |
| Net Increase/(Decrease) in cash and cash equivalents | (466,411) | 208,870 | n/a |
| Cash and cash equivalents at the beginning of the year | 740,352 | 280,526 | -62.1 |
| Cash and cash equivalents as of March 31 | 273,941 | 489,396 | -78.7 |

Indicators

Company's financial performance is also reflected by the evolution of indicators as shown in the table below:

| Indicators | Calculation formula | M.U. | Q1 2016 | Q1 2017 |
|--|--|----------------|---------|---------|
| 1 | 2 | 3 | 4 | 5 |
| Working Capital (WC) | $C_{lt}-A_f = E+L_{nc} + Pr+S_i-A_f$ | million RON | 4,124 | 4,471 |
| Working Capital Requirements (WCR) | $(A_c-L+Pp)-(L_{crt}-C_{r_{st}}+I_{df})$ | million RON | 3,850 | 3,982 |
| Net Cash Flow | $WC-WCR = L-C_{r_{st}}$ | million RON | 274 | 489 |
| Economic Rate of Return | $P_g/C_{lt} \times 100$ | % | 5.78 | 6.37 |
| Return on Equity | $P_n/C_{lt} \times 100$ | % | 4.81 | 5.53 |
| Return on Sales | $P_g/R \times 100$ | % | 44.74 | 45.02 |
| Return on Assets | $P_n/A \times 100$ | % | 4.30 | 5.05 |
| EBIT | $P_g+Exi-I_r$ | million RON | 603 | 669 |
| EBITDA | $EBIT+Am$ | million RON | 723 | 897 |
| ROCE | $EBIT/C_{emp} \times 100$ | % | 5.71 | 6.32 |
| Asset Solvency | $E/L \times 100$ | % | 89.47 | 91.35 |
| Current Liquidity | A_{crt}/L_{crt} | - | 5.94 | 8.13 |
| Gearing Ratio | $Lc/E \times 100$ | % | 0.00 | 0.00 |
| Accounts Receivables Turnover (days) | $Aar/R \times 90$ | - | 51.45 | 58.60 |
| Property, Plant and Equipment Turnover | R/PPE | - | 0.21 | 0.24 |

where:

| | | | |
|---------------------|--------------------------|-----------|--|
| C_{lt} | long-term capital; | I_{df} | deferred income |
| A_f | non-current 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 income |
| L | liquidity position; | Am | depreciation, amortization and impairment; |
| Pp | Prepayments; | C_{emp} | capital employed (total assets–current liabilities); |
| L_{crt} | current liabilities; | | |
| Cr_{st} | short-term credit; | L | total liabilities |
| Lc | Loan capital; | Aar | Average Accounts Receivables |

PERFORMANCE OF DIRECTORS' AGREEMENTS/ CONTRACT OF MANDATE

The timeline of the directors' agreements, the contract of mandate, the Governing 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 Director Agreement to be concluded with the members of the Board of Directors;
- ✎ *September 25, 2013* – the GSM Resolution no 16 approves the 2013-2017 Governing Plan prepared and presented by the Board of Directors;
- ✎ *December 16, 2013* – the Board's Resolution no 29 approves the Contract of mandate 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 of Romgaz's Director General over the contract of mandate's term i.e. 2013-2017*".

Performance Criteria and Objectives

The *Management Plan* encloses *Director General's* vision for the fulfilment of the company's strategic objectives as provided in the Governing Plan and the fulfilment of performance criteria and objectives set in the Director's Agreements.

The Director General's performance criteria and objectives are the same with the performance criteria and objectives provided in the Director's Agreements.

The main *performance objective* provided in the Director's Agreements and the Management Contract may be summarized as follows:

- ✎ Increasing the company's gas resources and gas reserves portfolio by discovering new resources and by developing and improving the recovery degree of already discovered resources;
- ✎ Consolidating the company's position on the electricity supply market;
- ✎ Optimizing, developing and diversifying the underground storage activity by reconsidering its importance for ensuring safety, continuity and flexibility in supplying natural gas;
- ✎ Increasing the company's performance;
- ✎ Identifying of new growth and diversification opportunities;
- ✎ Improving the company's organization structure, including the reorganization of the internal audit function.

Besides the specific measures taken for fulfilling each objective, Romgaz committed to implement general measures supporting the fulfilment of the company's strategic objectives. Such measures target the following activity segments:

- Human resources management;
- Corporate governance and social responsibility;
- Optimization of budgeting and control process;
- Improving the company's image;
- Implementation legal provisions related to the legal unbundling of the UGS activity;
- Developing the role of the company's risk management.

Considering that the Management Plan was approved only in January 2014, the reporting of measures and actions undertaken to fulfil the company's strategic objectives began only in Q1 2014.

The measures and actions for the fulfilment of strategic objectives, as set in the Governing Plan, are monitored periodically, quarterly and annually, by the following *indicators and performance 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 | % | keeping stable | 1.5%/ year | 0.15 |
| 7. | Outstanding payments | thousand RON | keeping stable | 0 | 0.10 |

For the purpose of mitigating the pronounced fluctuations of the indicators due to external factors beyond the company's management control, the indicators are calculated by means of relating the value achieved over the reporting period to the arithmetic means of the indicators' values achieved in the past three time periods previous to the reporting period.

Results 2014-2016

The value of main indicators achieved in the first three months of years 2014 to 2016 are shown in the table below (thousand RON):

| Indicators | Q1 2014 | Q1 2015 | Q1 2016 |
|---------------------------------|-----------|-----------|-----------|
| 1 | 2 | 3 | 4 |
| Revenue | 1,449,297 | 1,365,477 | 1,363,505 |
| Operating income ^{*)} | 1,403,494 | 1,337,745 | 1,351,384 |
| Operating expense ^{*)} | 690,310 | 648,566 | 657,089 |

| | | | |
|--|---------|---------|---------|
| Gross profit | 732,638 | 679,062 | 610,027 |
| Net profit | 608,385 | 563,041 | 489,321 |
| EBITDA | 875,833 | 881,564 | 822,664 |
| Operating expenses to 1000 RON operating income (RON) | 491.9 | 484.8 | 486.2 |
| Average number of employees | 6,272 | 6,181 | 6,116 |
| Labour productivity (revenue RON thousand /employee) | 231.1 | 220.9 | 222.9 |
| Gas production (million m ³) | 1,463.8 | 1,436.1 | 1,374.4 |
| Volume of geological resources (million m ³) | 250 | 980 | 580 |
| Outstanding payments | 0 | 0 | 0 |

¹⁾ – excluding impairment and provisions.

Results January - March 2017

The table below shows the results of the indicators and performance criteria for Q1 2017:

| | Weighting factor | Indicator | Average values 2014 - 2016 | Target values | Achieved values | Achievement rate | Weight |
|----------------------------------|------------------|-----------|----------------------------|---------------|-----------------|------------------|--------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7=6/5x100 | 8=2x7 |
| EBITDA | 0.25 | +4.5% | 860,020.5 | 898,721.4 | 908,520.5 | 101.1 | 25.28 |
| CA | 0.20 | +6% | 1,392,759.5 | 1,476,325.1 | 1,497,537.8 | 101.4 | 20.28 |
| W | 0.10 | +6% | 225.0 | 238.5 | 247.2 | 103.7 | 10.37 |
| $C_{\text{expl}}/V_{\text{exp}}$ | 0.10 | -0.6% | 487.7 | 484.8 | 527.3 | 91.9 | 9.19 |
| RES | 0.10 | +1% | 603.3 | 609.4 | 276.0 | 45.3 | 4.53 |
| d_Q | 0.15 | -1.5% | 1,432.6 ³ | 1,411.1 | 1,333.0 | 94.5 | 14.18 |
| P_{res} | 0.10 | 0 | 0 | 0 | 0 | 110.0 | 11.00 |
| Total | 1.00 | - | - | - | - | - | 94.83 |

- EBITDA – (RON thousand);
CA – revenue (RON thousand);
W – labour productivity (RON thousand/employee);
 $C_{\text{expl}}/V_{\text{exp}}$ – operating expenses to 1000 RON operating income;
RES – volume of geological resources (million m³);
 d_Q – gas production decline (%);
 P_{res} – outstanding payments (thousand RON).

³ Represents the production for 2012, corrected with 1.5% target decline, year 2012 considered as “base year”.

The performance criteria and objectives achievement degree is **94.83%**.

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

- *EBITDA* – higher than the target by RON 9.8 million (+1.1%);
- *Revenue* – higher than the target by RON 21.2 million (+1.4%);
- *Labour productivity* – higher than the target by RON 8.7 million/employee (+3.7%)
- *Outstanding payments*

The following indicators were not fully achieved:

- *Operating expenses to 1000 RON operating income* – higher by RON 42.5 (+8.8%) as compared to the target value;
- *Volume of geological resources* – lower by 333.4 million m³ (-54.7%);
- *Natural gas production* – lower by 78.1 million m³.

Please find attached the unaudited Individual Interim Financial Statements for the three-month period ended on March 31, 2017, prepared in compliance with the International Financial Reporting Standards (IFRS).

SIGNATURES

Chairman of the Board of Directors,

DUMITRU CHISALITA

.....

Director General,

MARIUS VIRGIL METEA

Chief Financial Officer,

ANDREI BOBAR



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

INDIVIDUAL INTERIM FINANCIAL STATEMENTS (NOT AUDITED)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2017

PREPARED IN ACCORDANCE WITH

**INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION**

AND

MINISTRY OF FINANCE ORDER 2844/2016

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STATEMENT OF INDIVIDUAL INTERIM COMPREHENSIVE INCOME FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2017 (NOT AUDITED)

| | Note | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|---|------|--------------------------------------|--------------------------------------|
| | | '000 RON | '000 RON |
| Revenue | 3 | 1,497,538 | 1,363,505 |
| Cost of commodities sold | 5 | (32,009) | (21,219) |
| Investment income | 4 | 4,963 | 7,448 |
| Other gains and losses | 6 | (4,608) | (138,376) |
| Changes in inventory of finished goods and work in progress | | (163,810) | (99,572) |
| Raw materials and consumables used | 5 | (16,482) | (17,785) |
| Depreciation, amortization and impairment expenses | 7 | (228,000) | (120,243) |
| Employee benefit expense | 8 | (114,243) | (111,626) |
| Finance cost | 9 | (4,887) | (4,590) |
| Other expenses | 10 | (315,730) | (291,982) |
| Other income | 3 | 51,484 | 44,465 |
| Profit before tax | | 674,216 | 610,025 |
| Income tax expense | 11 | (108,329) | (120,705) |
| Profit for the period | | 565,887 | 489,320 |
| Basic and diluted earnings per share | | 0.0015 | 0.0013 |
| Total comprehensive income for the period | | 565,887 | 489,320 |

These financial statements were authorized for issue by the Board of Directors on May 10, 2017.

Virgil Mitea
Chief Executive Officer



Andrei Bobar
Chief Financial Officer

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

STATEMENT OF INDIVIDUAL INTERIM FINANCIAL POSITION AS OF MARCH 31, 2017 (NOT AUDITED)

| | Note | March 31, 2017 '000 RON | December 31, 2016 '000 RON |
|--------------------------------------|-------|----------------------------|-------------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 5,644,186 | 5,789,262 |
| Other intangible assets | 14 | 398,551 | 397,864 |
| Investments in subsidiaries | 24 a) | 1,200 | 1,200 |
| Investments in associates | 24 b) | 120 | 120 |
| Other financial investments | 25 | 69,657 | 69,657 |
| Total non-current assets | | 6,113,714 | 6,268,103 |
| Current assets | | | |
| Inventories | 15 | 404,673 | 575,983 |
| Trade and other receivables | 16 a) | 1,121,541 | 828,610 |
| Other financial assets | 28 | 2,962,949 | 2,892,751 |
| Other assets | 16 b) | 119,991 | 141,525 |
| Cash and cash equivalents | 27 | 489,396 | 280,526 |
| Total current assets | | 5,098,550 | 4,719,395 |
| Total assets | | 11,212,264 | 10,977,498 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 17 | 385,422 | 385,422 |
| Reserves | 18 | 3,020,152 | 3,020,152 |
| Retained earnings | | 6,836,474 | 6,270,587 |
| Total equity | | 10,242,048 | 9,676,161 |
| Non-current liabilities | | | |
| Retirement benefit obligation | 19 | 118,195 | 119,986 |
| Deferred tax liabilities | 11 | 27,670 | 40,123 |
| Provisions | 19 | 197,196 | 194,048 |
| Total non-current liabilities | | 343,061 | 354,157 |

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

STATEMENT OF INDIVIDUAL INTERIM FINANCIAL POSITION AS OF MARCH 31, 2017 (NOT AUDITED)

| | Note | March 31, 2017 '000 RON | December 31, 2016 '000 RON |
|-------------------------------------|------|----------------------------|-------------------------------|
| Current liabilities | | | |
| Trade and other payables | 20 | 224,817 | 569,941 |
| Current tax liabilities | | 120,782 | 60,295 |
| Deferred revenue | | 2,842 | 4,924 |
| Provisions | 19 | 49,969 | 50,437 |
| Other liabilities | 20 | 228,745 | 261,583 |
| Total current liabilities | | 627,155 | 947,180 |
| Total liabilities | | 970,216 | 1,301,337 |
| Total equity and liabilities | | 11,212,264 | 10,977,498 |

These financial statements were authorized for issue by the Board of Directors on May 10, 2017.


 Virgil Metea
 Chief Executive Officer




 Andrei Bobar
 Chief Financial Officer

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

STATEMENT OF INDIVIDUAL INTERIM CHANGES IN EQUITY FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2017

| | Share capital | Legal reserve | Other reserves | Retained Earnings **) | Total |
|---|------------------|------------------|-------------------|--------------------------|-------------------|
| | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON |
| Balance as of January 1, 2017 | 385,422 | 77,084 | 2,943,068 | 6,270,587 | 9,676,161 |
| Total comprehensive income for the period | - | - | - | 565,887 | 565,887 |
| Balance as of March 31, 2017 | 385,422 | 77,084 | 2,943,068 | 6,836,474 | 10,242,048 |
| Balance as of January 1, 2016 | 385,422 | 77,084 | 2,504,769 | 6,724,947 | 9,692,222 |
| Transfer to other reserves | - | - | 612 | (612) | - |
| Total comprehensive income for the period | - | - | - | 489,320 | 489,320 |
| Balance as of March 31, 2016 | 385,422 | 77,084 | 2,505,381 | 7,213,655 | 10,181,542 |

*) 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, based on decision of General Meeting of Shareholders. As of March 31, 2017 the geological quota reserve, before profit allocation, is of RON 2,217,232 thousand (December 31, 2016: RON 2,217,232 thousand).

These financial statements were authorized for issue by the Board of Directors on May 10, 2017.

Virgil Metea
Chief Executive Officer



Andrei Bobar
Chief Financial Officer

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

STATEMENT OF INDIVIDUAL INTERIM CASH FLOW FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2017 (NOT AUDITED)

| | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|---|--------------------------------------|--------------------------------------|
| | '000 RON | '000 RON |
| Cash flows from operating activities | | |
| Net profit | 565,887 | 489,320 |
| Adjustments for: | | |
| Income tax expense (note 11) | 108,329 | 120,705 |
| Interest expense (note 9) | 1 | 5 |
| Unwinding of decommissioning provision (note 9, note 19) | 4,886 | 4,585 |
| Interest revenue (note 4) | (4,963) | (7,448) |
| Net loss on disposal of non-current assets (note 6) | 781 | 48,452 |
| Change in decommissioning provision recognized in profit or loss, other than unwinding (note 19) | (709) | (493) |
| Change in other provisions | (2,472) | (2,055) |
| Net impairment of exploration assets (note 12, note 14) | 3,736 | 7,685 |
| Net impairment of property, plant and equipment (note 12, note 14) | 80,793 | (42,461) |
| Depreciation and amortization (note 7) | 143,471 | 155,019 |
| Net impairment of other financial investments (note 6, note 25) | - | (1,577) |
| Loss from disposal of other financial investments (note 6) | - | 1,577 |
| Net receivable write-offs and movement in allowances for trade receivables and other assets (note 6, note 16 c) | 1,055 | 88,227 |
| Net movement in write-down allowances for inventory (note 6) | 2,480 | 1,711 |
| | 903,275 | 863,252 |
| Movements in working capital: | | |
| (Increase)/Decrease in inventory | 168,854 | 119,355 |
| (Increase)/Decrease in trade and other receivables | (272,452) | (471,060) |
| Increase/(Decrease) in trade and other liabilities | (380,006) | 179,090 |
| Cash generated from operations | 419,671 | 690,637 |
| Interest paid | (1) | (5) |
| Income taxes paid | (60,295) | (90,838) |
| Net cash generated by operating activities | 359,375 | 599,794 |

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

STATEMENT OF INDIVIDUAL INTERIM CASH FLOW FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2017 (NOT AUDITED)

| | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|---|--------------------------------------|--------------------------------------|
| | '000 RON | '000 RON |
| Cash flows from investing activities | | |
| (Increase)/Decrease in other financial assets | (69,382) | (972,896) |
| Interest received | 3,223 | 7,275 |
| Proceeds from sale of non-current assets | 19 | - |
| Sale of other financial investments | - | 400 |
| Acquisition of non-current assets | (48,520) | (71,456) |
| Acquisition of exploration assets | (35,820) | (29,433) |
| Net cash used in investing activities | (150,480) | (1,066,110) |
| Cash flows from financing activities | | |
| Dividends paid | (25) | (95) |
| Net cash used in financing activities | (25) | (95) |
| Net increase/(decrease) in cash and cash equivalents | 208,870 | (466,411) |
| Cash and cash equivalents at the beginning of the period | 280,526 | 740,352 |
| Cash and cash equivalents at the end of the period | 489,396 | 273,941 |

These financial statements were authorized for issue by the Board of Directors on May 10, 2017.


Virgil Metea
Chief Executive Officer




Andrei Bobar
Chief Financial Officer

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

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 Mediaş, 4 Constantin I. Moţaş Square, 551130, Sibiu County.

The Romanian State, through the Ministry of Energy, 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. operation, production and usage, including trading, of mineral resources;
3. natural gas production for:
 - ensuring the storage flow continuity;
 - technological consumption;
 - delivery in the transportation system.
4. 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 and distribution.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

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

Basis of preparation

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

The financial statements are unaudited and, in the opinion of management, include all adjustments necessary for a fair presentation of the results for each period. All such adjustments are of a normal recurring nature.

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 March 31, 2017.

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.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint arrangements (continued)

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

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

Joint operations

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

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

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

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

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

Joint ventures

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

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

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

- IFRS 9 Financial Instruments, adopted by EU on November 22, 2016 (effective for annual periods beginning on or after January 1, 2018);
- IFRS 15 Revenue from Contracts with Customers, including amendments to IFRS 15: Effective date of IFRS 15, issued by IASB and adopted by the EU on September 22, 2016 (effective for annual periods beginning on or after January 1, 2018).

**NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 14 Regulatory deferral accounts (effective for annual periods beginning on or after January 1, 2016);
- IFRS 16 Leases (effective for annual periods beginning on or after January 1, 2019);
- 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);
- clarifications to IFRS 15: Revenue from Contracts with Customers (effective for annual periods beginning on or after January 1, 2018);
- amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2018);
- amendments to IFRS 4: Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after January 1, 2018);
- annual improvements to IFRS Standards 2014 – 2016 Cycle (effective for annual periods beginning on or after January 1, 2018);
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after January 1, 2018);
- amendments to IAS 40: Transfers of Investment Property (effective for annual periods beginning on or after January 1, 2018).

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.

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.

This is a free translation from the original Romanian version.

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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 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 retranslated.

Employee benefits

Benefits granted upon retirement

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee participation to profit

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

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

Provisions

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

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. The weighted average cost of capital is updated annually.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the 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 individual interim comprehensive income. Deferred tax for the period is recognized as an expense or income in the statement of individual interim comprehensive income, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where it arises from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

(2) Depreciation (continued)

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

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

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

For items of tangible fixed assets that are retired from use, an impairment adjustment is recorded for the carrying value at the time of retirement.

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.

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

(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;

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and appraisal assets (continued)

(2) Impairment (continued)

- 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 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)****2. SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets and liabilities (continued)**

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.

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 period.

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 period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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, after the Board of Directors' approval, 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.

Reserves

Reserves include (note 18):

- legal reserves, which are used annually to transfer to reserves up to 5% of the statutory profit, but not more than 20% of the 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 and Fiscal Code. The amount of profit that benefited from tax exemption under the above Ordinance less the legal reserve, is distributed at the end of the year by setting up the reserve;
- development quota reserve, non-distributable, set up until 2004. Development quota reserve set up after 2004 is distributable and presented in retained earnings. Development quota set up after 2004 is distributed with retained earnings, with the approval of General Meeting of Shareholders, based on depreciation, respectively write-off of the assets financed using the development quota;
- other non-distributable reserves, set up from retained earnings representing translation differences recorded at transition to IFRS. These reserves are set up in accordance with MOF 2844/2016.

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 period. According to this method, the value of each production well is depreciated according to the ratio of the natural gas quantity extracted during the period compared to the gas reserve certified at the beginning of the period. The gas reserves are updated annually based on internal assessment approved by ANRM.

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.

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

Estimates related to the retirement benefit obligation

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

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

3. REVENUE AND OTHER INCOME

| | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|--|--------------------------------------|--------------------------------------|
| | '000 RON | '000 RON |
| Revenue from gas sold - domestic production | 1,087,979 | 1,079,996 |
| Revenue from gas sold - joint venture | 28,780 | 32,858 |
| Revenue from gas acquired for resale – import gas | 22,404 | 10,885 |
| Revenue from gas acquired for resale – domestic gas | 16,531 | 3,716 |
| Revenue from storage services-capacity reservation | 111,560 | 132,731 |
| Revenue from storage services-extraction | 19,882 | 18,582 |
| Revenue from storage services-injection | 9,855 | 8,351 |
| Revenue from electricity | 191,843 | 69,206 |
| Revenue from services | 4,310 | 3,714 |
| Revenue from sale of goods | 2,748 | 1,755 |
| Other revenues | 1,646 | 1,711 |
| Total revenue | 1,497,538 | 1,363,505 |
| Other operating revenues | 51,484 | 44,465 |
| Total revenue and other income | 1,549,022 | 1,407,970 |

4. INVESTMENT INCOME

| | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|-----------------|--------------------------------------|--------------------------------------|
| | '000 RON | '000 RON |
| Interest income | 4,963 | 7,448 |
| Total | 4,963 | 7,448 |

5. COST OF COMMODITIES SOLD, RAW MATERIALS AND CONSUMABLES

| | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|--|--------------------------------------|--------------------------------------|
| | '000 RON | '000 RON |
| Consumables used | 15,563 | 16,632 |
| Cost of gas acquired for resale, sold – import | 15,825 | 10,173 |
| Cost of gas acquired for resale, sold – domestic | 14,274 | 3,231 |
| Cost of electricity imbalance | 1,704 | 7,554 |
| Cost of other goods sold | 205 | 261 |
| Other consumables | 920 | 1,153 |
| Total | 48,491 | 39,004 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

6. OTHER GAINS AND LOSSES

| | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|---|--------------------------------------|--------------------------------------|
| | '000 RON | '000 RON |
| Forex gain | 95 | 46 |
| Forex loss | (387) | (32) |
| Net loss on disposal of non-current assets | (781) | (48,452) |
| Net loss on disposal of other financial investments | - | (1,577) |
| Net receivable allowances (note 16 c) | (1,055) | (88,227) |
| Net impairment of financial investments | - | 1,577 |
| Net write down allowances for inventory | (2,480) | (1,711) |
| Total | (4,608) | (138,376) |

7. DEPRECIATION, AMORTIZATION AND IMPAIRMENT EXPENSES

| | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|--|--------------------------------------|--------------------------------------|
| | '000 RON | '000 RON |
| Depreciation | 143,471 | 155,019 |
| out of which: | | |
| - depreciation of property, plant and equipment | 141,146 | 151,544 |
| - amortization of intangible assets | 2,325 | 3,475 |
| Net impairment of non-current assets | 84,529 | (34,776) |
| Total depreciation, amortization and impairment | 228,000 | 120,243 |

8. EMPLOYEE BENEFIT EXPENSE

| | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|---|--------------------------------------|--------------------------------------|
| | '000 RON | '000 RON |
| Wages and salaries | 102,772 | 101,483 |
| Social security charges | 24,580 | 24,287 |
| Meal tickets | 3,270 | 3,316 |
| Other benefits according to collective labor contract | 1,931 | 1,978 |
| Private pension payments | 2,925 | 2,936 |
| Private health insurance | 1,676 | - |
| Total employee benefit costs | 137,154 | 134,000 |
| Less, capitalised employee benefit costs | (22,911) | (22,374) |
| Total employee benefit expense | 114,243 | 111,626 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

9. FINANCE COSTS

| | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|---|--------------------------------------|--------------------------------------|
| | '000 RON | '000 RON |
| Interest expense | 1 | 5 |
| Unwinding of the decommissioning provision (note 19) | 4,886 | 4,585 |
| Total | 4,887 | 4,590 |

10. OTHER EXPENSES

| | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|--|--------------------------------------|--------------------------------------|
| | '000 RON | '000 RON |
| Energy and water expenses | 4,854 | 3,591 |
| Expenses for capacity booking and gas transmission services | 14,624 | 8,412 |
| Expenses with other taxes and duties | 204,413 | 230,852 |
| (Net gain)/Net loss from provisions movement | (3,181) | (2,548) |
| Other operating expenses | 95,020 | 51,675 |
| Total | 315,730 | 291,982 |

In the three months ended March 31, 2017, the major taxes and duties included in the amount of 204,413 RON thousand (three months ended March 31, 2016: RON 230,852 thousand) for taxes and duties are:

- RON 128,516 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 with the subsequent amendments for the implementation of the windfall tax following the deregulation of prices in the natural gas sector (three months ended March 31, 2016: RON 123,430 thousand);
- Starting 2017, the tax on special construction is no longer required to be paid. In the three months ended March 31, 2016, the tax on special construction was RON 17,555 thousand.
- RON 74,313 thousand, including amounts related to joint ventures, represent royalty on gas production and storage activity (three months ended March 31, 2016: RON 78,995 thousand).

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

11. INCOME TAX EXPENSE

| Income tax | Three months ended | Three months ended |
|--------------------------------------|--------------------|--------------------|
| | March 31, 2017 | March 31, 2016 |
| | '000 RON | '000 RON |
| Current tax expense | 120,782 | 117,545 |
| Deferred income tax (income)/expense | (12,453) | 3,160 |
| Income tax expense | 108,329 | 120,705 |

The tax rate used for the reconciliations below for the three month period ended March 31, 2017, respectively three month period ended March 31, 2016 is 16% payable by corporate entities in Romania on taxable profits.

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

| | Three months ended | Three months ended |
|--|--------------------|--------------------|
| | March 31, 2017 | March 31, 2016 |
| | '000 RON | '000 RON |
| Accounting profit before tax | 674,216 | 610,025 |
| (Profit)/loss activities not subject to income tax | 386 | - |
| Accounting profit subject to income tax | 674,602 | 610,025 |
| Income tax expense calculated at 16% | 107,936 | 97,604 |
| Effect of income exempt of taxation | (1,866) | (9,979) |
| Effect of expenses that are not deductible in determining taxable profit | 15,011 | 31,242 |
| Tax incentives | (299) | (1,322) |
| Effect of temporary differences | (12,453) | 3,160 |
| Income tax expense | 108,329 | 120,705 |

Components of deferred tax liability:

| | March 31, 2017 | | December 31, 2016 | |
|-------------------------------|----------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | Cumulative temporary differences | Deferred tax (asset)/ liability | Cumulative temporary differences | Deferred tax (asset)/ liability |
| | '000 RON | '000 RON | '000 RON | '000 RON |
| Provisions | (356,956) | (57,113) | (355,508) | (56,881) |
| Property, plant and equipment | 690,332 | 110,453 | 766,715 | 122,674 |
| Receivables and other assets | (160,439) | (25,670) | (160,438) | (25,670) |
| Total | 172,937 | 27,670 | 250,769 | 40,123 |
| Charged to income | | (12,453) | | (22,466) |

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017 (NOT AUDITED)

12. PROPERTY, PLANT AND EQUIPMENT

| | Land and land improvements | Buildings | Gas properties | Plant, machinery and equipment | Fixtures, fittings and office equipment | Storage assets | Tangible exploration assets | Capital work in progress | Total |
|---------------------------------|----------------------------------|-----------|-------------------|---|--|-------------------|-----------------------------------|--------------------------------|------------|
| | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON |
| Cost | | | | | | | | | |
| As of January 1, 2017 | 106,991 | 881,566 | 5,772,824 | 893,944 | 94,404 | 1,676,928 | 416,874 | 659,927 | 10,503,458 |
| Additions | 445 | 3 | 351 | 1 | 12 | - | 35,408 | 53,290 | 89,510 |
| Transfers | 30 | 300 | 16,566 | 5,873 | 1,269 | 8,159 | - | (32,197) | - |
| Disposals | - | (50) | (987) | (703) | (52) | (1,365) | - | (26) | (3,183) |
| As of March 31, 2017 | 107,466 | 881,819 | 5,788,754 | 899,115 | 95,633 | 1,683,722 | 452,282 | 680,994 | 10,589,785 |
| Accumulated depreciation | | | | | | | | | |
| As of January 1, 2017 | - | 233,949 | 2,868,192 | 475,904 | 63,308 | 516,200 | - | - | 4,157,553 |
| Charge *) | - | 8,273 | 100,981 | 16,919 | 1,671 | 20,104 | - | - | 147,948 |
| Transfers | - | - | 759 | - | - | (759) | - | - | - |
| Disposals | - | (9) | - | (602) | (48) | (604) | - | - | (1,263) |
| As of March 31, 2017 | - | 242,213 | 2,969,932 | 492,221 | 64,931 | 534,941 | - | - | 4,304,238 |
| Impairment | | | | | | | | | |
| As of January 1, 2017 | 3,180 | 15,933 | 152,862 | 23,474 | 442 | 3,421 | 210,783 | 146,548 | 556,643 |
| Charge | - | 24 | 77,153 | 238 | - | - | 3,925 | 10,435 | 91,775 |
| Transfers | - | - | 96 | - | - | - | - | (96) | - |
| Release | - | (171) | (5,595) | (85) | (41) | (888) | - | (277) | (7,057) |
| As of March 31, 2017 | 3,180 | 15,786 | 224,516 | 23,627 | 401 | 2,533 | 214,708 | 156,610 | 641,361 |
| Carrying value | | | | | | | | | |
| As of January 1, 2017 | 103,811 | 631,684 | 2,751,770 | 394,566 | 30,654 | 1,157,307 | 206,091 | 513,379 | 5,789,262 |
| As of March 31, 2017 | 104,286 | 623,820 | 2,594,306 | 383,267 | 30,301 | 1,146,248 | 237,574 | 524,384 | 5,644,186 |

*) The amounts include depreciation of tangible assets used in the production of other fixed assets, capitalized in their cost, amounting to RON 5,890 thousand.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017 (NOT AUDITED)

12. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Land and land improvements | Buildings | Gas properties | Plant, machinery and equipment | Fixtures, fittings and office equipment | Storage assets | Tangible exploration assets | Capital work in progress | Total |
|---------------------------------|----------------------------------|----------------|-------------------|---|--|-------------------|-----------------------------------|--------------------------------|-------------------|
| | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON |
| Cost | | | | | | | | | |
| As of January 1, 2016 | 106,399 | 831,437 | 5,633,432 | 704,856 | 87,955 | 1,601,802 | 657,862 | 800,625 | 10,424,368 |
| Additions | - | 28 | 3,350 | - | 23 | - | 28,636 | 72,107 | 104,144 |
| Transfers | 70 | 1,464 | 54,640 | 15,175 | 1,906 | 727 | - | (73,982) | - |
| Disposals | - | (5) | (54,189) | (81) | (1,510) | - | - | (574) | (56,359) |
| As of March 31, 2016 | 106,469 | 832,924 | 5,637,233 | 719,950 | 88,374 | 1,602,529 | 686,498 | 798,176 | 10,472,153 |
| Accumulated depreciation | | | | | | | | | |
| As of January 1, 2016 | - | 201,906 | 2,530,752 | 431,088 | 59,106 | 436,982 | - | - | 3,659,834 |
| Charge *) | - | 8,080 | 114,438 | 14,090 | 1,582 | 22,405 | - | - | 160,595 |
| Disposals | - | (1) | (4,769) | (52) | (1,496) | - | - | - | (6,318) |
| As of March 31, 2016 | - | 209,985 | 2,640,421 | 445,126 | 59,192 | 459,387 | - | - | 3,814,111 |
| Impairment | | | | | | | | | |
| As of January 1, 2016 | 3,180 | 15,535 | 185,440 | 23,903 | 420 | 3,889 | 444,885 | 90,822 | 768,074 |
| Charge | - | 21 | 5,823 | 72 | 2 | - | 7,339 | 7,718 | 20,975 |
| Release | - | (18) | (52,924) | (235) | (17) | (2,031) | (165) | (872) | (56,262) |
| Transfers | - | - | 2,024 | - | - | - | - | (2,024) | - |
| As of March 31, 2016 | 3,180 | 15,538 | 140,363 | 23,740 | 405 | 1,858 | 452,059 | 95,644 | 732,787 |
| Carrying value | | | | | | | | | |
| As of January 1, 2016 | 103,219 | 613,996 | 2,917,240 | 249,865 | 28,429 | 1,160,931 | 212,977 | 709,803 | 5,996,460 |
| As of March 31, 2016 | 103,289 | 607,401 | 2,856,449 | 251,084 | 28,777 | 1,141,284 | 234,439 | 702,532 | 5,925,255 |

*) The amounts include depreciation of tangible assets used in the production of other fixed assets, capitalized in their cost, amounting to RON 6,751 thousand.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

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>Three months ended March 31, 2017</u> | <u>Three months ended March 31, 2016</u> |
|--|--|--|
| | '000 RON | '000 RON |
| Net movement in exploration assets' impairment (note 12, note 14) | 3,736 | 7,685 |
| Net cash used in exploration investing activities | (35,820) | (29,433) |

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|---------------------------------------|-----------------------|--------------------------|
| | '000 RON | '000 RON |
| Exploration assets (note 12, note 14) | 621,448 | 589,364 |
| Liabilities | (13,891) | (23,332) |
| Net assets | 607,557 | 566,032 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017 (NOT AUDITED)

14. OTHER INTANGIBLE ASSETS

| | <u>Other intangible assets</u> | <u>Licenses</u> | <u>Intangible exploration assets - WIP</u> | <u>Intangible work in progress - other</u> | <u>Total</u> |
|---------------------------------|--------------------------------|-----------------|--|--|--------------|
| | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON |
| Cost | | | | | |
| As of January 1, 2017 | 15,079 | 170,921 | 587,374 | 34 | 773,408 |
| Additions | - | 217 | 412 | 2,194 | 2,823 |
| Transfers | - | 2,228 | - | (2,228) | - |
| Disposals | - | (2,434) | - | - | (2,434) |
| As of March 31, 2017 | 15,079 | 170,932 | 587,786 | - | 773,797 |
| Accumulated amortization | | | | | |
| As of January 1, 2017 | 9,477 | 161,966 | - | - | 171,443 |
| Charge | 554 | 1,771 | - | - | 2,325 |
| Disposals | - | (2,434) | - | - | (2,434) |
| As of March 31, 2017 | 10,031 | 161,303 | - | - | 171,334 |
| Impairment | | | | | |
| As of January 1, 2017 | - | - | 204,101 | - | 204,101 |
| Charge | - | - | 1,559 | - | 1,559 |
| Release | - | - | (1,748) | - | (1,748) |
| As of March 31, 2017 | - | - | 203,912 | - | 203,912 |
| Carrying value | | | | | |
| As of January 1, 2017 | 5,602 | 8,955 | 383,273 | 34 | 397,864 |
| As of March 31, 2017 | 5,048 | 9,629 | 383,874 | - | 398,551 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017 (NOT AUDITED)

14. OTHER INTANGIBLE ASSETS (continued)

| | <u>Other intangible assets</u> <u>'000 RON</u> | <u>Licenses</u> <u>'000 RON</u> | <u>Intangible exploration</u> <u>assets - WIP</u> <u>'000 RON</u> | <u>Intangible work in</u> <u>progress - other</u> <u>'000 RON</u> | <u>Total</u> <u>'000 RON</u> |
|---------------------------------|---|------------------------------------|---|---|---------------------------------|
| Cost | | | | | |
| As of January 1, 2016 | 15,079 | 178,241 | 589,337 | 165 | 782,822 |
| Additions | - | 787 | 797 | 2,573 | 4,157 |
| Transfers | - | 2,637 | - | (2,637) | - |
| Disposals | - | (10,893) | - | - | (10,893) |
| As of March 31, 2016 | 15,079 | 170,772 | 590,134 | 101 | 776,086 |
| Accumulated amortization | | | | | |
| As of January 1, 2016 | 7,260 | 166,104 | - | - | 173,364 |
| Charge | 554 | 2,921 | - | - | 3,475 |
| Disposals | - | (10,893) | - | - | (10,893) |
| As of March 31, 2016 | 7,814 | 158,132 | - | - | 165,946 |
| Impairment | | | | | |
| As of January 1, 2016 | - | - | 209,599 | - | 209,599 |
| Charge | - | - | 511 | - | 511 |
| As of March 31, 2016 | - | - | 210,110 | - | 210,110 |
| Carrying value | | | | | |
| As of January 1, 2016 | 7,819 | 12,137 | 379,738 | 165 | 399,859 |
| As of March 31, 2016 | 7,265 | 12,640 | 380,024 | 101 | 400,030 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

15. INVENTORIES

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|---|-----------------------|--------------------------|
| | '000 RON | '000 RON |
| Spare parts and materials | 158,074 | 157,879 |
| Work in progress | 408 | 335 |
| Finished goods (gas) | 182,960 | 353,731 |
| Residual products | 122 | 123 |
| Inventories at third parties | 92,132 | 95,758 |
| Goods for resale (gas) | 5,479 | 171 |
| Other inventories | 82 | 90 |
| Write-down allowance for spare parts and materials | (31,194) | (29,183) |
| Write-down allowance for residual products | (44) | (44) |
| Write-down allowance for inventories at third parties | (3,346) | (2,877) |
| Total | 404,673 | 575,983 |

16. ACCOUNTS RECEIVABLE

a) Trade and other receivables

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|---------------------------------|-----------------------|--------------------------|
| | '000 RON | '000 RON |
| Trade receivables | 1,867,629 | 1,322,274 |
| Bad debt allowances (note 16 c) | (1,193,078) | (1,192,029) |
| Accrued receivables | 446,990 | 698,365 |
| Total | 1,121,541 | 828,610 |

b) Other assets

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|---|-----------------------|--------------------------|
| | '000 RON | '000 RON |
| Advances paid to suppliers | 1 | 2,061 |
| Joint venture receivables | 9,215 | 4,838 |
| Other receivables *) | 27,818 | 27,225 |
| Bad debt allowance for other receivables (note 16 c) *) | (19,192) | (19,192) |
| Other debtors | 65,135 | 65,097 |
| Bad debt allowances for other debtors (note 16 c) | (62,058) | (62,009) |
| Prepayments | 84,800 | 101,550 |
| VAT not yet due | 14,272 | 21,955 |
| Total | 119,991 | 141,525 |

**NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)**

16. ACCOUNTS RECEIVABLE (continued)

b) Other assets (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.

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

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

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

| | <u>2017</u> | <u>2016</u> |
|--|------------------|------------------|
| | '000 RON | '000 RON |
| At January 1 | 1,273,230 | 918,845 |
| Charge (note 6) | 1,092 | 90,585 |
| Forex on revaluation of foreign currency balances | 43 | (212) |
| Release (note 6) | (37) | (2,358) |
| At March 31 | 1,274,328 | 1,006,860 |

As of March 31, 2017, the Company recorded allowances for doubtful debts, of which Interagro RON 275,961 thousand (December 31, 2016: RON 275,961 thousand), GHCL Upsom of RON 60,371 thousand (December 31, 2016: RON 60,371 thousand), CET Iasi of RON 46,271 thousand (December 31, 2016: RON 46,271 thousand), Electrocentrale Galati with RON 212,429 thousand (December 31, 2016: RON 211,370 thousand), Electrocentrale Bucuresti with RON 570,274 thousand (December 31, 2016: RON 570,274 thousand) and G-ON EUROGAZ of RON 14,848 thousand (December 31, 2016: RON 14,848 thousand), due to existing financial conditions of these clients as well as ongoing litigating cases related to these receivables or exceeding payment terms.

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

16. ACCOUNTS RECEIVABLE (continued)

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|---|-----------------------|--------------------------|
| | '000 RON | '000 RON |
| Current receivables but not impaired | 659,901 | 113,050 |
| Overdue receivables but not impaired | | |
| less than 30 days overdue | 9,045 | 17,070 |
| 30 to 90 days overdue | 5,554 | 65 |
| 90 to 360 days overdue | 51 | 60 |
| Total overdue receivables but not impaired | <u>14,650</u> | <u>17,195</u> |
| Total trade receivables | <u>674,551</u> | <u>130,245</u> |

17. SHARE CAPITAL

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|--|-----------------------|--------------------------|
| | '000 RON | '000 RON |
| 385,422,400 fully paid ordinary shares | <u>385,422</u> | <u>385,422</u> |
| Total | <u>385,422</u> | <u>385,422</u> |

The shareholding structure as at March 31, 2017 is as follows:

| | <u>No. of shares</u> | <u>Value</u> | <u>Percentage (%)</u> |
|---|----------------------|----------------|-----------------------|
| | | '000 RON | |
| The Romanian State through the Ministry of Energy | 269,823,080 | 269,823 | 70.01 |
| Legal persons | 96,896,464 | 96,896 | 25.14 |
| Physical persons | 18,702,856 | 18,703 | 4.85 |
| Total | <u>385,422,400</u> | <u>385,422</u> | <u>100</u> |

All shares are ordinary and were subscribed and fully paid as at March 31, 2017. All shares carry equal voting rights and have a nominal value of RON 1/share (December 31, 2016: RON 1/share).

18. RESERVES

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|--------------------------------------|-----------------------|--------------------------|
| | '000 RON | '000 RON |
| Legal reserves | 77,084 | 77,084 |
| Other reserves, of which: | <u>2,943,068</u> | <u>2,943,068</u> |
| - Company's development fund | 2,291,181 | 2,291,182 |
| - Tax incentives | 145,773 | 145,773 |
| - Geological quota set up until 2004 | 486,388 | 486,388 |
| - Other reserves | 19,726 | 19,725 |
| Total | <u>3,020,152</u> | <u>3,020,152</u> |

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
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19. PROVISIONS

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|--|-----------------------|--------------------------|
| | '000 RON | '000 RON |
| Decommissioning provision | 197,196 | 194,048 |
| Retirement benefit obligation | 118,195 | 119,986 |
| Total long term provisions | 315,391 | 314,034 |
| Decommissioning provision | 16,736 | 16,523 |
| Provisions for land restoration | 8,404 | 8,963 |
| Other provisions | 24,829 | 24,951 |
| Total short term provisions | 49,969 | 50,437 |
| Total provisions | 365,360 | 364,471 |
| Decommissioning provision | | |
| <i>Decommissioning provision movement</i> | <u>2017</u> | <u>2016</u> |
| | '000 RON | '000 RON |
| At January 1 | 210,571 | 197,612 |
| Additional provision recorded against non-current assets | 171 | 80 |
| Unwinding effect (note 9) | 4,886 | 4,585 |
| Recorded in profit or loss | (709) | (493) |
| Release against non-current assets | (987) | (998) |
| At March 31 | 213,932 | 200,786 |

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 8.9% (December 31, 2016: 8.9%). 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 FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

20. TRADE AND OTHER CURRENT LIABILITIES

| | March 31, 2017 | December 31, 2016 |
|--|----------------|-------------------|
| | '000 RON | '000 RON |
| Accruals | 23,181 | 29,067 |
| Trade payables | 33,047 | 43,906 |
| Payables to fixed assets suppliers | 20,248 | 32,916 |
| Advances from customers | 148,341 | 464,052 |
| Total trade payables | 224,817 | 569,941 |
| Payables related to employees | 25,737 | 46,296 |
| Royalties | 75,145 | 62,430 |
| Social security taxes | 15,737 | 14,438 |
| Other current liabilities | 32,921 | 35,931 |
| Joint venture payables | 3,614 | 3,904 |
| VAT | 31,203 | 61,788 |
| Dividends payable | 1,359 | 1,384 |
| Windfall tax | 40,442 | 34,068 |
| Other taxes | 2,587 | 1,344 |
| Total other current liabilities | 228,745 | 261,583 |
| Total trade and other current liabilities | 453,562 | 831,524 |

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 program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance within certain limits. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements. The Company does not use derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Company is 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 March 31, 2017, the official exchange rates were RON 4.2615 to USD 1 and RON 4.5511 to EUR 1 and (December 31, 2016: RON 4.3033 to USD 1 and RON 4.5411 to EUR 1).

(ii) Inflation risk

The official inflation rate in Romania, during the three-month period ended March 31, 2017 was under 10% as provided by the National Commission for Statistics of Romania. The cumulative inflation rate for the last 3 years was under 100%. This factor, among others, led to the conclusion that Romania is not a hyperinflationary economy.

(iii) Interest rate risk

The Company is not exposed to interest rate risk.

Bank deposits and treasury bills bear a fixed interest rate.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
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21. FINANCIAL INSTRUMENTS (continued)

(b) Credit risk

Financial assets, which potentially subject the Company to credit risk, consist principally of trade receivables and loans. The Company has policies in place to ensure that sales are made to customers with low credit risk. Also, sales have to be secured, either through advance payments, either through bank letters of guarantee. The carrying amount of accounts receivable, net of bad debt allowances, 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 91.27% of net trade receivable balance at March 31, 2017 (70% as of March 31, 2016). Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the bad debt allowance already recorded.

(c) Capital risk management

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

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

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

(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 period end, the Company makes an assessment to determine whether there is any indication of impairment. As of March 31, 2017 the Company did not identify any indication of impairment of other financial investments, except for the impairment already recorded.

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
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21. FINANCIAL INSTRUMENTS (continued)

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

| March 31, 2017 | 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 | 673,614 | 892 | 45 | - | - | 674,551 |
| Bank deposits | 498,585 | 525,995 | 955,640 | - | - | 1,980,220 |
| Treasury bonds | - | 271,610 | 707,990 | - | - | 979,600 |
| Total | 1,172,199 | 798,497 | 1,663,675 | - | - | 3,634,371 |
| Trade payables | (50,815) | (2,429) | (51) | - | - | (53,295) |
| Total | (50,815) | (2,429) | (51) | - | - | (53,295) |
| Net | 1,121,384 | 796,068 | 1,663,624 | - | - | 3,581,076 |

| 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 | 129,264 | 935 | 46 | - | - | 130,245 |
| Bank deposits | 399,200 | 761,500 | 749,680 | - | - | 1,910,380 |
| Treasury bonds | 100,530 | 105,220 | 774,070 | - | - | 979,820 |
| Total | 628,994 | 867,655 | 1,523,796 | - | - | 3,020,445 |
| Trade payables | (61,862) | (14,894) | (66) | - | - | (76,822) |
| Total | (61,862) | (14,894) | (66) | - | - | (76,822) |
| Net | 567,132 | 852,761 | 1,523,730 | - | - | 2,943,623 |

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
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22. RELATED PARTY TRANSACTIONS AND BALANCES

(i) Sales of goods and services

| | <u>Three months ended March 31, 2017</u> '000 RON | <u>Three months ended March 31, 2016</u> |
|---------------------|--|--|
| Romgaz's associates | 2,479 | 1,594 |
| Total | 2,479 | 1,594 |

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 three-month periods ended March 31, 2017 respectively March 31, 2016, 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.

ii) Trade receivables

| | <u>March 31, 2017</u> '000 RON | <u>December 31, 2016</u> '000 RON |
|---------------------|-----------------------------------|--------------------------------------|
| Romgaz's associates | 602 | 827 |
| Total | 602 | 827 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

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 three-month periods ended March 31, 2017 and March 31, 2016, 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>March 31, 2017</u> | <u>March 31, 2016</u> |
|---------------------------------|-----------------------|-----------------------|
| | '000 RON | '000 RON |
| Salaries paid to directors | 2,688 | 2,481 |
| Salaries paid to administrators | 132 | 96 |

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|------------------------------------|-----------------------|--------------------------|
| | '000 RON | '000 RON |
| Salaries payable to directors | 353 | 353 |
| Salaries payable to administrators | 31 | 36 |

Beside the amounts mentioned above, for the remuneration related to directors on mandate contract and members of the Board of Directors, the Company set up a provision as of March 31, 2017 of RON 1,768 thousand (December 31, 2016: RON 1,891 thousand).

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.

At the date of publication of the financial statements for the three-month period ended March 31, 2017, 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, 2016. Through ANRE decisions no. 446 issued on March 23, 2016 and 474 issued on March 30, 2017, the effective date of the license was postponed until April 1, 2018.

The Company did not prepare consolidated interim financial statements as of March 31, 2017 given the fact that the subsidiary did not carry out any activity since incorporation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017 (NOT AUDITED)

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 (%) | |
|---------------------------------|------------------------|--------------------------------------|--|-------------------|
| | | | March 31, 2017 | December 31, 2016 |
| SC Amgaz SA Medias | Gas production | Romania | 35 | 35 |
| SC Depomures SA Tg.Mures | Storage of natural gas | Romania | 40 | 40 |
| Energia Torzym | Gas production | Poland | - | - |
| Energia Cybinka | Gas production | Poland | - | - |
| SC Agri LNG Project Company SRL | Feasibility projects | Romania | 25 | 25 |

| Name of associate | Value as of March 31, 2017 '000 RON | Impairment as of March 31, 2017 '000 RON | Carrying value as of March 31, 2017 '000 RON | Value as of December 31, 2016 '000 RON | Impairment as of December 31, 2016 '000 RON | Carrying value as of December 31, 2016 '000 RON |
|---------------------------------|--|---|---|---|--|--|
| SC Amgaz SA Medias | 9,214 | (9,214) | - | 9,214 | (9,214) | - |
| 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 | (833) | - | 833 | (833) | - |
| Total | 13,559 | (13,439) | 120 | 13,559 | (13,439) | 120 |

*) In 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. Given the fact that until March 31, 2017, changes in the shareholding structure of the two companies have not been made in the official documents, the Company has not eliminated the investment in share capital of these companies in the financial statements as of March 31, 2017. However, the Company no longer has rights regarding Energia Torzym and Energia Cybinka.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017 (NOT AUDITED)

25. OTHER FINANCIAL INVESTMENTS

| Company | Principal activity | Place of incorporation and operation | Proportion of ownership interest and voting power held (%) | |
|--|--|--------------------------------------|--|-------------------|
| | | | March 31, 2017 | December 31, 2016 |
| Electrocentrale București S.A. | Electricity and thermal power producer | Romania | 2.49 | 2.49 |
| Patria Bank S.A.*) | Other activities – financial intermediations | Romania | 0.03 | 0.03 |
| Mi Petrogas Services S.A. | Services related to oil and natural gas extraction, excluding prospections | Romania | 10 | 10 |
| GHCL Upsom Pan Atlantic and Lukoil association (note 32) | Manufacture of other chemical, anorganic base products | Romania | 4.21 | 4.21 |
| | Petroleum exploration operations | Romania | 10 | 10 |

| Company | Value as of March 31, 2017 '000 RON | Impairment as of March 31, 2017 '000 RON | Carrying value as of March 31, 2017 '000 RON | Value as of December 31, 2016 '000 RON | Impairment as of December 31, 2016 '000 RON | Carrying value as of December 31, 2016 '000 RON |
|--|--|---|---|---|--|--|
| Electrocentrale București S.A. | 64,310 | - | 64,310 | 64,310 | - | 64,310 |
| Patria Bank S.A.*) | 840 | (780) | 60 | 840 | (780) | 60 |
| Mi Petrogas Services S.A. | 60 | - | 60 | 60 | - | 60 |
| GHCL Upsom Pan Atlantic and Lukoil association | 17,100 | (17,100) | - | 17,100 | (17,100) | - |
| | 10,454 | (5,227) | 5,227 | 10,454 | (5,227) | 5,227 |
| Total | 92,764 | (23,107) | 69,657 | 92,764 | (23,107) | 69,657 |

*) In 2016, the Company's shareholders decided to withdraw from the bank's shareholding, as a result of the merger process involving Patria Bank. At March 31, 2017 the merger process and the withdrawal from the bank's shareholding were not completed.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
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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 period end, the Company makes an assessment to determine whether there are any indications of impairment. As of March 31, 2017 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, electricity production and distribution and others, including headquarter activities. The Directors of the Company have chosen to organize the Company around differences in activities performed.

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;
- electricity production and distribution activities, performed by the Iernut branch;
- other activities, such as technological transport, well operations and corporate activities.

Except for Bratislava branch, all operations are in Romania. As of March 31, 2017, in Bratislava branch are recorded exploration assets in amount of RON 20,322 thousand (December 31, 2016: RON 19,962 thousand).

b) Segment assets and liabilities

| March 31, 2017 | <u>Upstream</u> | <u>Storage</u> | <u>Electricity</u> | <u>Other</u> | <u>Total</u> |
|-------------------------------|------------------|------------------|--------------------|------------------|-------------------|
| | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON |
| Property, plant and equipment | 3,747,597 | 1,522,778 | 62,469 | 311,342 | 5,644,186 |
| Other intangible assets | 393,066 | 691 | 16 | 4,778 | 398,551 |
| Investments in subsidiaries | - | - | - | 1,200 | 1,200 |
| Investments in associates | - | - | - | 120 | 120 |
| Other financial investments | - | - | - | 69,657 | 69,657 |
| Other financial assets | 51,079 | 374,561 | 3,204 | 2,534,105 | 2,962,949 |
| Inventories | 304,099 | 77,139 | 3,951 | 19,484 | 404,673 |
| Trade and other receivables | 1,072,108 | 33,422 | 15,945 | 66 | 1,121,541 |
| Other assets | 24,436 | 2,373 | 1,668 | 91,514 | 119,991 |
| Cash and cash equivalents | 44,124 | 47,537 | 4,104 | 393,631 | 489,396 |
| Total assets | 5,636,509 | 2,058,501 | 91,357 | 3,425,897 | 11,212,264 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
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26. SEGMENT INFORMATION (continued)

b) Segment assets and liabilities (continued)

| March 31, 2017 | <u>Upstream</u> | <u>Storage</u> | <u>Electricity</u> | <u>Other</u> | <u>Total</u> |
|-------------------------------|------------------|------------------|--------------------|------------------|-------------------|
| | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON |
| Retirement benefit obligation | - | - | - | 118,195 | 118,195 |
| Deferred tax liabilities | - | - | - | 27,670 | 27,670 |
| Provisions | 214,156 | 22,218 | 1,346 | 9,445 | 247,165 |
| Trade and other payables | 197,362 | 656 | 19,081 | 7,718 | 224,817 |
| Current tax liabilities | - | - | - | 120,782 | 120,782 |
| Deferred revenue | - | - | - | 2,842 | 2,842 |
| Other liabilities | 163,641 | 2,289 | 2,004 | 60,811 | 228,745 |
| Total liabilities | 575,159 | 25,163 | 22,431 | 347,463 | 970,216 |
| | | | | | |
| December 31, 2016 | <u>Upstream</u> | <u>Storage</u> | <u>Electricity</u> | <u>Other</u> | <u>Total</u> |
| | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON |
| Property, plant and equipment | 3,859,686 | 1,549,707 | 62,172 | 317,697 | 5,789,262 |
| Other intangible assets | 393,218 | 721 | 37 | 3,888 | 397,864 |
| Investments in subsidiaries | - | - | - | 1,200 | 1,200 |
| Investments in associates | - | - | - | 120 | 120 |
| Other financial investments | - | - | - | 69,657 | 69,657 |
| Other financial assets | 67,070 | 461,618 | 2,206 | 2,361,857 | 2,892,751 |
| Inventories | 442,937 | 109,189 | 4,158 | 19,699 | 575,983 |
| Trade and other receivables | 695,155 | 59,284 | 73,214 | 957 | 828,610 |
| Other assets | 16,294 | 480 | 1,857 | 122,894 | 141,525 |
| Cash and cash equivalents | 69,241 | 44,262 | 329 | 166,694 | 280,526 |
| Total assets | 5,543,601 | 2,225,261 | 143,973 | 3,064,663 | 10,977,498 |
| | | | | | |
| Retirement benefit obligation | - | - | - | 119,986 | 119,986 |
| Deferred tax liabilities | - | - | - | 40,123 | 40,123 |
| Provisions | 211,569 | 22,003 | 1,346 | 9,567 | 244,485 |
| Trade and other payables | 542,675 | 1,912 | 14,846 | 10,508 | 569,941 |
| Current tax liabilities | - | - | - | 60,295 | 60,295 |
| Deferred revenue | 1,155 | - | - | 3,769 | 4,924 |
| Other liabilities | 154,132 | 3,699 | 3,013 | 100,739 | 261,583 |
| Total liabilities | 909,531 | 27,614 | 19,205 | 344,987 | 1,301,337 |

This is a free translation from the original Romanian version.

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
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26. SEGMENT INFORMATION (continued)

c) Segment revenues, results and other segment information

| Three months ended March 31, 2017 | Upstream | Storage | Electricity | Other | Adjustment and eliminations | Total |
|--|----------------|----------------|---------------|---------------|--------------------------------|----------------|
| | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON |
| Revenue | 1,208,836 | 184,719 | 191,806 | 71,956 | (159,779) | 1,497,538 |
| Less: revenue between segments | (46,622) | (43,413) | (14,705) | (55,039) | 159,779 | - |
| Third party revenue | 1,162,214 | 141,306 | 177,101 | 16,917 | - | 1,497,538 |
| Interest income | 115 | 678 | 5 | 4,165 | - | 4,963 |
| Interest expense | (1) | - | - | - | - | (1) |
| Depreciation, amortization and impairment | (196,228) | (25,859) | (1,952) | (3,961) | - | (228,000) |
| Segment profit before tax profit/(loss) | 495,652 | 100,832 | 42,054 | 35,678 | - | 674,216 |
| | | | | | | |
| Three months ended March 31, 2016 | Upstream | Storage | Electricity | Other | Adjustment and eliminations | Total |
| | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON |
| Revenue | 1,160,939 | 159,680 | 84,537 | 56,189 | (97,840) | 1,363,505 |
| Less: revenue between segments | (27,562) | - | - | (70,278) | 97,840 | - |
| Third party revenue | 1,133,377 | 159,680 | 84,537 | (14,089) | - | 1,363,505 |
| Interest income | 175 | 1,233 | 14 | 6,026 | - | 7,448 |
| Interest expense | (5) | - | - | - | - | (5) |
| Depreciation, amortization and impairment | (88,746) | (23,604) | (1,692) | (6,201) | - | (120,243) |
| Segment profit before tax profit/(loss) | 495,322 | 77,264 | 16,808 | 20,631 | - | 610,025 |

In the three-month period ended March 31, 2017, the Company's three largest clients each individually represents more than 10% of revenue, sales to these clients being of RON 555,733 thousand, RON 150,953 thousand, respectively RON 161,889 thousand (in the period ended March 31, 2016 the Company's three largest customers represented individually, over 10% of revenue, sales to these clients being of RON 333,194 thousand, RON 258,335 thousand, respectively RON 269,389 thousand), together totaling 58% of total revenue (three months ended March 31, 2016: 63%). Of the total revenue generated by those three clients, 2.96% are shown in the "Storage" segment and 97.04% in the "Upstream" segment (three months ended March 31, 2016: 3% in the "Storage" segment, 95.7% in the "Upstream" segment).

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

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 from the acquisition date.

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|---|-----------------------|--------------------------|
| | '000 RON | '000 RON |
| Current bank accounts in RON *) | 94,500 | 180,573 |
| Current bank accounts in foreign currency | 61 | 41 |
| Petty cash | 39 | 20 |
| Term deposits | 394,792 | 99,880 |
| Amounts under settlement | 4 | 12 |
| Total | 489,396 | 280,526 |

*) 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, from acquisition date.

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|-------------------------------------|-----------------------|--------------------------|
| | '000 RON | '000 RON |
| Treasury bonds | 973,805 | 974,262 |
| Bank deposits | 1,980,220 | 1,910,380 |
| Accrued interest receivable | 3,129 | 2,551 |
| Accrued interest on bonds | 5,795 | 5,558 |
| Total other financial assets | 2,962,949 | 2,892,751 |

29. COMMITMENTS UNDERTAKEN

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|--------------------------------------|-----------------------|--------------------------|
| | '000 RON | '000 RON |
| Endorsements and collaterals granted | 61,834 | 62,982 |
| Total | 61,834 | 62,982 |

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, validity extended until December 31, 2017. On March 31, 2017 are still available for use USD 7,914 thousand (December 31, 2016: USD 7,664 thousand).

In 2016, a credit agreement has been signed with BRD-Groupe Societe Generale, representing a facility for issuing letters of guarantee, and opening letters of credit for a maximum amount of USD 20,000 thousand, valid for one year. On March 31, 2017 are still available for use USD 12,109 thousand (December 31, 2016: USD 12,198 thousand).

As of March 31, 2017, the Company's contractual commitments for the acquisition of non-current assets are of RON 1,670,578 thousand (December 31, 2016: RON 298,424 thousand), of which, the contract for CET Iernut development represents RON 1,223,501 thousand.

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
(NOT AUDITED)

30. COMMITMENTS RECEIVED

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|---------------------------------------|-----------------------|--------------------------|
| | '000 RON | '000 RON |
| Endorsements and collaterals received | 1,107,856 | 1,041,197 |
| Total | 1,107,856 | 1,041,197 |

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.

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

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

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

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

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

(b) *Taxation*

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
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31. CONTINGENCIES (continued)

(b) *Taxation (continued)*

- (i) In 2016, The Company was subject to a fiscal inspection related to gas royalties for the period January 2011 - December 2015. In January 2017, the Company was notified of the suspension of inspection, in order to clarify certain legal provisions on how royalties owed by holders of petroleum agreements for gas extraction activities in Romania, were calculated and established. During May 2017, the Company received a notification from the Ministry of Public Finance regarding the resumption of the inspection, without any information on conclusions. The Company considers it complied with the legal requirements adopted by the relevant regulatory authorities, therefore it is not probable that an outflow of resources embodying economic benefits will be required. Given the above, the Company has not recorded in the financial statements any provisions regarding this matter.
- (ii) Since 2007, Romgaz calculated, declared and paid excise duties for technological consumption of natural gas. According to legal regulations, such excise duties were not chargeable, interpretation confirmed by the tax authorities in the documents exchanged with the Company; therefore, since no amounts were owed, the Company requested the repayment of these amounts. In this regard, the Company requested a fiscal inspection in order to clarify fiscal obligations regarding excise duties related to technological consumption of natural gas. Currently there is an ongoing fiscal inspection for the period January 2010 – March 2013, inspection initiated in 2013, but not completed. Completion of this inspection will result in providing a solution to the Company's request to clarify the fiscal treatment regarding excise duties for technological consumption of natural gas.

(c) *Environmental contingencies*

Environmental regulations are developing in Romania and the Company has not recorded any liability at March 31, 2017 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 213,932 thousand (December 31, 2016: RON 210,517 thousand), representing the decommissioning liability, and a provision for land restoration of RON 8.404 thousand (December 31, 2016: RON 8,963 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", ending in 2016 (according to Government Decision no. 151/2015 amending and supplementing GD no. 1096/2013, including the National Investment Plan).

According to Annex no. 1 of the same decision, S.N.G.N. Romgaz S.A. was allocated for CTE Iernut 412,322 greenhouse gas certificates (EUA) for 2017.

As of March 31, 2017, Romgaz holds in the Greenhouse Gas Emissions Unique Registry 762,416 CO2 certificates, as follows:

- a total of 984,053 certificates were used for emission compliance for the year 2015;
- a number of 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;

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
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31. CONTINGENCIES (continued)

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

- 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;
- 549,763 certificates related to 2016.

In 2016 the Company recorded a deficit of CO2 certificates necessary to comply with CO2 emissions of 133,419 certificates that need to be purchased during 2017.

According to EU Regulation No. 1123/2013 of November 8, 2013 regarding the establishment of the rights to international credits, pursuant to Directive 2003/87/EC of the European Parliament and of the Council, the Protocol to the Framework-Convention of the United Nations on Climate Change (Kyoto Protocol) sets up two mechanisms for the creation of international credits that Companies can use to reduce emissions. Joint Implementation provides for the creation of emission reduction units (ERU), while the Clean Development Mechanism (CDM) provides for the creation of certified emission reductions (CER). Industries that fall under the European Trading System of atmosphere emissions (EU ETS) can use these credits to offset their obligations on emissions of greenhouse gas. In this respect, 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 ₂ /year) | | | | | | | |
|--------------------------|---------------------------------------|--|---------|---------|---------|---------|---------|---------|------|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| SNGN Romgaz - S.A. | SNGN Romgaz - S.A. - CTE Iernut | 962,085 | 824,645 | 687,204 | 549,763 | 412,322 | 274,882 | 137,441 | - |

(d) *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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
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31. CONTINGENCIES (continued)

(d) *CET Iernut (continued)*

According to current environmental protection legislation, CTE Iernut energy groups are allowed to function until June 30, 2020. By implementing measures to reduce NOx emissions to levels lower than 100 mg/m³, the operation of the plant would still be possible after this date, but the investments required to meet these emission levels would require a high volume of resources. These investments will not add any improvement to efficiency, nor will they increase the reliability of these groups.

One of the main strategic directions of Romgaz, detailed in the 2015-2025 Development strategy, is to consolidate its position on the energy market. Related to energy production, Romgaz planned to increase efficiency by investing to increase the yield of the Iernut power plant to a minimum of 55%, to comply with environmental requirements (NOx, CO2 emissions) and to increase safety in operation. Thus, the Board of Directors approved the refurbishment of CTE Iernut by constructing a new power plant based on gas turbine combined cycle system for an installed power of maximum 430 MW and gross electrical efficiency at a rated load of minimum 56%. In this respect, in 2016, an agreement for the development of CTE Iernut has been signed by the Company, in amount of EUR 268.8 million. This agreement will become effective after the approval of application for funds for the investments financed from the National Investment Plan.

In 2017, the Ministry of Energy approved the application for funds from the National Investment Plan for the investment "Combined cycle CCGT power plant". The finance agreement was not signed by the authorization date of the financial statements as of March 31, 2017.

(e) *Controls by The Romanian Court of Accounts and the European Commission*

In year ended 2016, the Company came under scrutiny from the Romanian Court of Accounts, the European Commission and the Romanian Competition Council.

- (i) One of the Romanian Court of Accounts' findings is that during 2013-2015 Romgaz delivered gas on the regulated market over the quantities it was legally allowed to, according to the existing legislation. The price on the regulated market being lower than the one on the free market, The Romanian Court of Accounts issued Decision number 26/01.06.2016 and ordered Romgaz to determine and to recover the prejudice as a price difference on gas quantities delivered on the regulated market over its legal obligation. The alleged prejudice estimated by the Court of Accounts is over RON 160 million. Romgaz appealed the decision, but the Court of Accounts dismissed the appeal. Subsequently, the Company started legal proceedings against the Court of Accounts' decision no. 26/01.06.2016.
- (ii) According to European Commission decision, Romgaz is suspected of entering into anti-competitive deals with other Romanian companies active in the gas market, deals by which Romgaz supposedly committed not to export natural gas, or blocked or delayed the measures necessary for the creation of the legal and technical framework by which gas exports could be achieved. During September 2016, a meeting between Romgaz and the European Commission was held at the EC's headquarters, regarding the control, in which the Company's opinion was presented. From that date, Romgaz has not received any request concerning the control.

The Company's management does not agree with the conclusions of the control done by the Romanian Court of Accounts. The final conclusions of the controls of the European Commission are not known and cannot be anticipated. Therefore the financial statements as of March 31, 2017 do not include adjustments about these matters.

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
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32. JOINT ARRANGEMENTS

On March 31, 2017, 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 Vlădeni. For the base production, Romgaz holds a share of 100% and for the additional production, Romgaz owns a share of 50% and Amromco Energy SRL - 50%. As the agreement was signed to execute rehabilitation operations to obtain additional production, the mandatory work program is in accordance with the studies approved by ANRM. Accordingly, the annual work program, which includes both works provided in the studies and other works necessary and proposed by the partners, is approved annually by the Board of the joint arrangement before the start of each year. The duration of the joint arrangement is in line with the time frame of each individual concession agreements of the 11 perimeters stated above, which differs for each block.
- 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, only two wells produced gas this year. Beside the revenue obtained from this structure, revenue is also obtained from processing natural gas from Suceava block.

Romgaz's share in the Brodina Exploration Area is 50% and the share of Aurelian Petroleum SRL, operator, is 50%. In the scope of evaluating the Voitinel discovery, drilling operations began at Voitinel 2 well but due to negative results obtained by the drilling operations, the gas well was abandoned. A new production program for this structure will be decided by the joint operation's management only after positive production test results from Voitinel 1 well.
- 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%. Proceeds from this perimeter stem from natural gas produced by Lilieci 1 well that is then transformed into electric energy via a generator. The concession agreement is in development-exploitation phase.
- d) In September 2003, Romgaz has concluded an operation agreement with Schlumberger for the rehabilitation of the Laslău 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 share 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, appraisal, 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 2016 the operator obtained part of drilling clearances for three wells.

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTH-PERIOD ENDED MARCH 31, 2017
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32. JOINT ARRANGEMENTS (continued)

- f) In July 2012, Romgaz signed the amendments to the joint operations agreement 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 block EX-30 Trident of the Black Sea continental shelf. The participation shares are: Lukoil 72%, Panatlantic 18% and Romgaz 10%. During 2015, two wells were drilled in the Trident block, one of which was abandoned, while the other generated positive results, leading to gas discoveries. In October 2016, ANRM approved the extension of the second exploration phase with another year and a half for the execution of additional works.

33. EVENTS AFTER THE BALANCE SHEET DATE

Loans granted to Energia Cybinka and Energia Torzym

In April 2017, the Board of Directors approved the concession of rights and obligations under loan agreements concluded with the two companies for EUR 1. The loans and related interest, in amount of EUR 4,223 thousand, are fully impaired, therefore the result of 2017 will not be affected.

Romanian natural gas market

Starting April 2017, the purchase price of natural gas from domestic production was liberalized.

S.N.G.N. ROMGAZ S.A. – Filiala de Înmagazinare Gaze Naturale Depogaz Ploiești S.R.L activity

In April 2017, the sole shareholder of the subsidiary decided to suspend its activity until April 1, 2018. The storage activity continues to be carried on by the Company, according to ANRE decision (note 24 a).

Tax inspection regarding gas royalties

As mentioned in Note 31 b) i), during 2016, the Company was subject to a fiscal inspection related to gas royalties for the period January 2011 - December 2015, suspended in January 2017. During May 2017, the Company received a notification from the Ministry of Public Finance regarding the resumption of the inspection, without any information on possible conclusions.

34. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were authorized for issue by the Board of Directors on May 10, 2017.


Virgil Mefea
Chief Executive Officer


Andrei Bobar
Chief Financial Officer