

IDENTIFICATION DETAILS ON REPORT AND ISSUER

Preliminary annual report according to Article 61 of Law 24/2017

Financial year: 2017

Report date: **February 15, 2018**

Name of the Company: **Societatea Nationala de Gaze Naturale (SNGN) ROMGAZ SA**

Headquarters: **Medias, Constantin I. Motas Square, no.4, code 551130**

Telephone/fax number: **004-0269-201020 / 004-0269-846901**

Fiscal Code: **RO14056826**

LEI code: **2549009R7KJ38D9RW354**

Trade Registry No: **J32/392/2001**

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

Regulated markets where the issued securities are traded: **Bucharest Stock Exchange (BVB), London Stock Exchange (LSE)**

PRELIMINARY ANNUAL REPORT

**(issued based on unaudited individual financial statements prepared in compliance with the International Financial Reporting Standards)
ON THE ECONOMIC AND FINANCIAL ACTIVITY
OF SNGN ROMGAZ SA during 2017**

OVERVIEW

SNGN Romgaz SA is a Romanian natural gas producer and supplier, its core business segments being: gas exploration, gas production and supply, underground gas storage and electricity production.

The Company's operational and financial performance in the year ending December 31, 2017 increased significantly both in comparison with previous reporting periods and the programs established at the beginning of the year, 2017 being the best year Romgaz recorded since its listing on Bucharest Stock Exchange and London Stock Exchange.

The gas production was 5,158 million m³, by 939 million m³ higher than the production recorded during the previous year (+22.2%). The increase of production was stimulated by lower temperatures in the beginning of 2017 and the increase of gas demand for electricity generation.

The increase of electricity produced by Romgaz in 2017 by approximately 14.5% as compared to the previous similar reporting period is in close relationship with the low production generated by hydro and wind power plants, the prolonged heatwave, the repair and maintenance schedules of some thermal energy groups and the unavailability of thermal or nuclear production units.

Summary of the main indicators for the 4th Quarter (Q4) and for the full year 2017:

- ✦ **The Net Profit recorded in Q4 was RON 684.22 million, an increase by 120.10% as compared to the same period of the previous year (Q4 2016) and by 116.4% higher than the previous quarter (Q3 2017). A significant effect was the completion in**

Q4 2017 of a fiscal inspection regarding the excise duty, which led to recording an income and a receivable from the state budget in amount of RON 244.38 million.

The **Net Profit Margin** in T4 was **50.9%** and the **EBIT margin** was at **58.8%** much higher than the values recorded in Q4 2016 and Q3 2017;

- ↳ **2017 Net Profit** was by **82.4%** higher as compared to **2016**, by **56.4%** higher than in **2015** and by **32.5%** higher than the net profit of **2014**;
- ↳ **Trading gas from internal production** aimed at securing a balanced portfolio of customers, at reducing the risk related to payment defaults and at presence on the free market to ensure price flexibility;
- ↳ **Revenue from natural gas storage activities** have increased by **46.44%** being estimated at **RON 505.76 million** as a result of selling in 2017 from the storages a quantity of own gas higher by **56.4%**;
- ↳ **Revenue from electricity sales** was **RON 464.17 million**, increasing by **38.0%** as compared to 2016; according to Transelectrica, the electricity generation market share was **2.95%**;
- ↳ **The profitability margins follow in 2017 the ascending trend: Net Profit Margin** was **40.75%** and **EBIT Margin** was **47.43%** (as compared to **30.0%** and **36.9%** respectively for the previous year);
- ↳ Concurrently, **EBITDA** remains at a significant level of **59.4%** related to the revenue;
- ↳ In 2017, the Company invested **RON 781.77 million**, a **57.07%** increase as compared to the previous year level of investment;
- ↳ **Own gas supplies** were **32.7%** higher in 2017 as compared to the previous year.

PHYSICAL INDICATORS

The table below shows a comparison of the main indicators related to gas and condensate production, royalty, electricity production and invoiced UGS injection/withdrawal services:

Q3 2017	Q4 2017	Q4 2016	Δ Q4 (%)	Main Indicators	2017	2016	Δ 12 months (%)
1.192	1.406	1.185	18.7	Gross gas production (BCM)	5.158	4.219	22.2
1,191	1,393	1,023	36.2	Condensate production (tonnes)	5,742	5,864	-2.1
0.083	0.103	0.084	22.6	Petroleum royalty (BCM)	0.371	0.292	27.1
465.8	398.3	726.3	-45.2%	Electricity production (GWh)	1,863.8	1,628.3	14.5%
9.7	537.0	509.9	5.3%	Invoiced UGS withdrawal services (million m ³)	1,745.5	1,440.9	21.1%
774.3	121.8	65.0	87.4%	Invoiced UGS injection services (million m ³)	1,497.6	1,367.4	9.5%

The preliminary natural gas quantities produced, supplied, injected in/withdrawn from the underground storages (UGS) and gas quantities used for electricity production for January to December 2017 in comparison to 2015 and 2016 are described in the table below (million m³):

Item no.	Specification	2015	2016	2017	Indices
0	1	2	3	4	5=4/3x100
1	Total - gross production, out of which:	5,562.7	4,219.4	5,157.5	122.2%
1.1.	* Internal gas production	5,359.7	4,068.0	4,987.7	122.6%
1.2.	* Schlumberger partnership (100%)	203.1	151.3	169.8	112.2%
2	Technological consumption	78.5	54.5	74.5	136.7%
3	Net internal gas production (1.-1.2.-2.)	5,281.1	4,013.6	4,913.2	122.4%
4	Internal gas volumes injected in storages	738.4	414.7	253.5	61.1%
5	Internal gas volumes withdrawn from storages	409.5	462.6	723.5	156.4%
6	Differences resulting from GCV	16.1	4.5	2.7	
7	Volumes supplied from internal production (3.-4.+5.-6.)	4,936.1	4,057.0	5,380.5	132.6%
8.1	Gas sold in storages	-	79.2	0.0	-
8.2	Gas supplied to Iernut and Cojocna Power Plants from Romgaz gas	527.0	463.7	506.4	109.2%
9	Gas supplied from internal production to the market (7.+8.1.-8.2)	4,409.1	3,672.5	4,874.1	132.7%
10	Natural gas from partnerships - total, out of which:	168.9	149.0	175.5	117.8%
	*Schlumberger (50%)	101.5	75.7	84.9	112.2%
	*Raffles Energy (37.5%)	0.5	0.3	0.1	33.3%
	*Amromco (50%)	66.9	73.0	90.5	124.0%
11	Purchased internal gas volumes (imbalances included)	17.1	11.2	27.0	241.1%
12	Sold internal gas volumes (9.+10.+11.)	4,595.1	3,832.7	5,076.6	132.5%
13	Supplied internal gas volumes (8.2+12.)	5,122.1	4,296.4	5,583.0	129.9%
14	Supplied import volumes	3.0	6.8	33.0	485.3%
15	Gas supplied to Iernut and Cojocna Power Plants from other sources		4.8	40.3	839.6%
16	Total gas supplies (13.+14.+15.)	5,125.1	4,308.0	5,656.3	131.3%
*	Invoiced UGS withdrawal services	1,656.7	1,440.9	1,745.5	121.1%
*	Invoiced UGS injection services	1,673.1	1,367.4	1,497.6	109.5%

ECONOMIC-FINANCIAL INDICATORS

The economic-financial indicators are calculated based on unaudited individual preliminary financial statements and may be different from the actual audited results.

The Company's revenue is mainly generated by the sale of natural gas (domestic and import), by the underground gas storage services and by the electricity production.

Preliminary summary of unaudited individual comprehensive income for the year ended December 31, 2017

Description	Preliminary Q4 2017 (thousand lel)	Preliminary 2017 (thousand lel)	Actual Q4 2016 (thousand lel)	Actual 2016 (thousand lel)	Variation Q4 (%)	Variation 2017-2016 (%)
1	2	3	4	5	6= $\frac{(2/4)-1}{100}$	7= $\frac{(3/5)-1}{100}$
Revenue	1,343,540	4,585,189	1,010,348	3,411,868	32.98	34.39
Cost of commodities sold	(11,577)	(61,095)	(3,552)	(49,878)	225.93	22.49
Investment income	6,702	22,349	4,094	22,117	63.70	1.05
Other gains and losses	(31,705)	(120,335)	(60,630)	(468,218)	-47.71	-74.30
Changes in inventory	(86,009)	(186,651)	(52,564)	20,963	63.63	n/a
Raw materials and consumables used	(15,474)	(63,694)	(13,174)	(54,632)	17.46	16.59
Depreciation, amortization and impairment	(141,168)	(548,869)	45,412	(311,012)	n/a	76.48
Employee benefit expense	(162,648)	(562,883)	(141,731)	(498,114)	14.76	13.00
Finance cost	(5,339)	(18,624)	(4,544)	(18,275)	17.50	1.91
Exploration expense	(4,507)	(137,083)	(172,846)	(253,348)	-97.39	-45.89
Other expenses	(374,871)	(1,075,170)	(276,068)	(881,923)	35.79	21.91
Other income	279,558	364,169	27,397	361,147	920.40	0.84
Profit before tax	796,502	2,197,303	362,142	1,280,695	119.94	71.57
Income tax expense	(112,276)	(328,989)	(51,265)	(256,116)	119.01	28.45
Profit for the year	684,226	1,868,314	310,877	1,024,579	120.10	82.35
EBITDA	930,968	2,723,826	312,704	1,569,670	197.72	73.53
EBITDA margin (%)	69.29	59.4	31.0	46.0	123.52	29.13
Adjusted EBITDA *)	686,583	2,479,441	n/a	n/a	n/a	n/a
Adjusted EBITDA margin (%)	51.10	54.07	n/a	n/a	n/a	n/a
EBIT	789,800	2,174,957	358,116	1,258,658	120.54	72.80
EBIT margin (%)	58.78	47.43	35.4	36.9	66.05	28.54
EPS (lel)	1.78	4.85	0.81	2.66	119.75	82.33

*) Adjusted EBITDA is EBITDA adjusted by the income recorded as a result of the fiscal inspection in relation to the excise duty, given the singular nature of this income.

Revenue

In 2017, Romgaz estimates revenue of RON 4.59 billion compared to RON 3.41 billion achieved in 2016.

The increase resides from a 32.6% rise of income from gas sales both from Romgaz production and gas purchased to be resold and from partnerships, as well as further to the increase of income from electricity sales (38%) and underground storage activities (46.44%)

Cost of Commodities Sold

In 2017, cost of commodities sold increased by 22.49%, due to an increase by 172.81% of the cost of commodity gas sold, due to a quantity higher by 233% of commodity gas sold from import and from internal production. Costs generated by negative unbalances on the electricity balancing market decreased by 66.1%.

Other Gains and Losses

In 2017 the Company estimated a net loss of RON 120.33 million, lower by RON 348 million as compared to the same period of the previous year, due to net losses from allowances for doubtful debts with exceeded due date that are lower than in the previous year by RON 348.5 million. In 2017 there were recorded allowances for doubtful debts of RON 6 million.

Changes in Inventory

In 2017, Romgaz own gas quantities withdrawn from storages have been higher than the injected ones, generating an unfavourable change in inventories (loss).

Raw Materials and Consumables Used

The estimated cost of raw materials was higher in 2017 than in the previous year due to a higher technological consumption generated by the production increase.

Depreciation, Amortization and Impairment

Depreciation, amortization and impairment of non-current assets, tangible and intangible increased in 2017 by 76.48% compared to 2016 mainly due to impairment of fixed assets and of exploration assets. 2017 recorded a net loss from these adjustments of RON 5.5 million, as compared to a net gain of RON 216.9 million in 2016.

Employee benefit expense

The increase of employee benefit expenses by 13% as compared to 2016 is due both to the indexation of salaries to cover the inflation and granting incentive bonuses for remarkable results, according to the human resource policy, as well as to the expenses with employees participation to profit, awarded in compliance with the resolution of the general meeting of shareholders on the distribution of the profit for 2016; the expense recorded in 2017 was offset by releasing to income the provision set up in this respect at the end of 2016; the result of the current year was not influenced by this expense.

Exploration expense

Exploration expenses recorded a decrease of 45.89% as compared to the previous year due to a lower value of exploration projects that were relinquished in 2017.

Other expenses

In 2017, other expenses recorded an increase as compared to the previous year by 21.91% reaching RON 1,075.17 million, as compared to RON 881.92 million in 2016. The increase of this expense is mainly due to the increase of production and of gas quantities sold in the current year as compared to the previous year, leading to the increase of the windfall tax, a higher petroleum royalty and higher expenses with the transmission of the delivered gas. A positive effect on other expenses was the elimination of the tax on special constructions.

Other income

The fiscal inspection related to the excise on the technological consumption was finalised in 2017. The fiscal inspection team concluded that, with respect to the technological gas used for maintaining the production capacity, storage, transmission and gas distribution, the Company does not have to pay excises. S.N.G.N. Romgaz S.A. calculated, declared and paid excises worth RON 244 million for the technological consumption between 2010-2016, which is to be recovered by the Company. By the issue of this preliminary report for 2017 the Company recovered RON 113 million, by compensating debts with VAT and petroleum royalty, recorded on December 31, 2017.

Summary of Statement of Individual Financial Position as of December 31, 2017 (unaudited)

INDICATOR	Preliminary 31.12.2017 (RON thousand)	Actual 31.12.2016 (RON thousand)	Variation (%)
1	2	3	4=(2-3)/3x100
Non-current assets			
Tangible assets	5,842,366	5,789,262	0.92
Other intangible assets	412,284	397,864	3.62
Investments in subsidiaries	1,200	1,200	0.00
Investments in associates	120	120	0.00
Other financial investments	69,678	69,657	0.03
Deferred tax asset	1464	-	n/a
TOTAL NON-CURRENT ASSETS	6,327,112	6,258,103	1.10
Current assets			
Inventories	405,626	575,983	-29.58
Trade and other receivables	816,086	828,610	-1.51
Other financial assets	2,786,166	2,892,751	-3.68
Other assets	305,908	141,525	116.15
Cash and cash equivalents	227,165	280,526	-19.02
TOTAL CURRENT ASSETS	4,540,951	4,719,395	-3.78
TOTAL ASSETS	10,868,063	10,977,498	-1.00
Equity and Liabilities			
Capital and reserves			
Share capital	385,422	385,422	0.00
Reserves	2,312,532	3,020,152	-23.43
Retained earnings	6,626,488	6,270,587	5.68
TOTAL EQUITY	9,324,442	9,676,161	-3.63
Non-current liabilities			
Retirement benefit obligation	119,482	119,986	-0.42

INDICATOR	Preliminary 31.12.2017 (RON thousand)	Actual 31.12.2016 (RON thousand)	Variation (%)
1	2	3	4=(2-3)/3x100
Deferred tax liabilities	-	40,123	n/a
Provisions	280,601	194,048	44.60
TOTAL NON-CURRENT LIABILITIES	400,083	354,157	12.97
Current liabilities			
Trade payables	606,109	569,941	6.35
Current income tax liabilities	131,065	60,295	117.37
Deferred income	970	4,924	-80.30
Provisions	76,290	50,437	51.26
Other liabilities	329,104	261,583	25.81
TOTAL CURRENT LIABILITIES	1,143,538	947,180	20.73
TOTAL LIABILITIES	1,543,621	1,301,337	18.62
TOTAL EQUITY AND LIABILITIES	10,868,063	10,977,498	-1.00

NON-CURRENT ASSETS

Other intangible assets

Other intangible assets increased by 3.62% (RON 14.4 million) further to investments in 2D and 3D seismic and geochemistry due to the 5-year extension at the end of 2016 of the petroleum concession agreement for exploration-development-production for eight blocks.

Deferred income tax

Deferred income tax is based on the temporary differences between the accounting value and the fiscal value of balance sheet items. These temporary differences may be taxable, meaning they will result in taxable values when determining the taxable result of future periods, or deductible, meaning they will result in values that are deductible when determining the taxable result of future periods. As a consequence of the increase of deductible temporary differences generated by the increase of the decommissioning provision and asset write offs from the exploration activity, which according to the effective fiscal code, will generate deductions in the income tax calculation for the future periods, the Company recorded at the end of 2017 a receivable related to the deferred tax.

CURRENT ASSETS

Inventories

Inventories decreased at the end of 2017 as compared to 2016 by 29.58% because of a gas stock decrease due to higher gas volumes withdrawn from the storage as compared to the previous year by 56.4% and due to 38.9% lower gas volumes injected in storages.

Other assets

Other assets increased in 2017 as compared to 2016 by 116.15% especially due to recording the receivables for the excises on the technological consumption to be recovered from ANAF further to finalising the fiscal inspection.

Cash and cash equivalent. Other financial assets

On December 31, 2017, cash and cash equivalent and other financial assets (bank deposits and purchased state bonds) were of RON 3,013.33 million, as compared to RON 3,173.28 million at the end of 2016, the decrease being generated by distributing additional dividends in 2017, besides the dividends for 2016.

CAPITAL AND RESERVES

Company's equity decreased by 3.63% (RON 351.72 million) as compared to the end of 2016, due to distributing to shareholders as dividends the result of 2016 and part of the result of the previous years, in compliance with the resolution of the general meeting of shareholders. Additional dividends were distributed from Company reserves in 2017.

NON-CURRENT LIABILITIES

Provisions

Long-term provisions increased by 44.64% in 2017 as compared to 2016, as a result of increasing the provision for decommissioning wells that are going to be written off in the future. This increase is due to the rise of estimated costs for abandoning wells.

CURRENT LIABILITIES

Trade payables and other payables

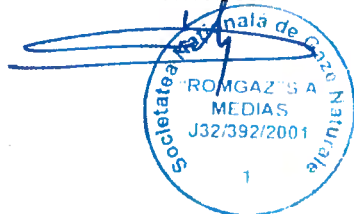
Trade payables and other payables increased on December 31, 2017 by 12.47% due to an increased gas production in the last quarter of 2017 as compared to the similar period of 2016, generating an increased petroleum royalty liability at the end of the year, and due to increase of delivered gas volumes and to the increased income from gas sales, that led to higher debts with the windfall tax obtained further to the price deregulation in the natural gas sector and higher VAT debts.

Provisions

Short term provisions increased on December 31, 2017 by 51.1% due to the increase of the well decommissioning provision, as stated above and of the provision for restoring land to its agricultural use after decommissioning non-productive wells.

DIRECTOR GENERAL,

Corin Emil Cindrea



CHIEF FINANCIAL OFFICER,

Andrei Bobar