

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

INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

PREPARED IN ACCORDANCE WITH

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

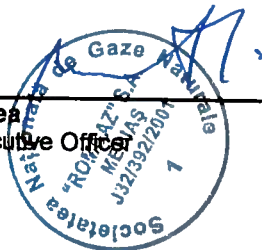
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STATEMENT OF INDIVIDUAL COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	Year ended December 31, 2016	Year ended December 31, 2015
		'000 RON	'000 RON
Revenue	3	3,411,868	4,052,684
Cost of commodities sold	5	(49,878)	(40,228)
Investment income	4	22,117	44,185
Other gains and losses	6	(468,218)	(318,903)
Changes in inventory of finished goods and work in progress		20,963	138,181
Raw materials and consumables used	5	(54,632)	(78,262)
Depreciation, amortization and impairment expenses	7	(311,012)	(793,598)
Employee benefit expense	8	(498,114)	(511,647)
Finance cost	9	(18,275)	(20,302)
Exploration expense		(253,348)	(42,395)
Other expenses	10	(881,923)	(1,040,670)
Other income	3	361,147	79,793
Profit before tax		1,280,695	1,468,838
Income tax expense	11	(256,116)	(274,553)
Profit for the year		1,024,579	1,194,285
Basic and diluted earnings per share		0.0027	0.0031
Total comprehensive income for the year		1,024,579	1,194,285

These individual financial statements were authorized for issue by the Board of Directors on March 23, 2017.

Virgil Metea
Chief Executive Officer



Andrei Bobar
Chief Financial Officer

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

STATEMENT OF INDIVIDUAL FINANCIAL POSITION AS OF DECEMBER 31, 2016

	Note	December 31, 2016	December 31, 2015
		'000 RON	'000 RON
ASSETS			
Non-current assets			
Property, plant and equipment	12	5,789,262	5,996,460
Other intangible assets	14	397,864	399,859
Investments in subsidiaries	24 a)	1,200	1,200
Investments in associates	24 b)	120	163
Other financial assets	28	-	29,300
Other financial investments	25	69,657	70,080
Total non-current assets		6,258,103	6,497,062
Current assets			
Inventories	15	575,983	559,784
Trade and other receivables	16 a)	828,610	601,065
Other financial assets	28	2,892,751	2,146,827
Other assets	16 b)	141,525	139,612
Cash and cash equivalents	27	280,526	740,352
Total current assets		4,719,395	4,187,640
Total assets		10,977,498	10,684,702
EQUITY AND LIABILITIES			
Equity			
Share capital	17	385,422	385,422
Reserves	18	3,020,152	2,581,853
Retained earnings		6,270,587	6,724,947
Total equity		9,676,161	9,692,222
Non-current liabilities			
Retirement benefit obligation	19	119,986	102,959
Deferred tax liabilities	11	40,123	62,589
Provisions	19	194,048	200,855
Total non-current liabilities		354,157	366,403

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STATEMENT OF INDIVIDUAL FINANCIAL POSITION AS OF DECEMBER 31, 2016

	<u>Note</u>	<u>December 31, 2016</u> '000 RON	<u>December 31, 2015</u> '000 RON
Current liabilities			
Trade and other payables	20	569,941	186,937
Current tax liabilities		60,295	90,838
Deferred revenue		4,924	-
Provisions	19	50,437	28,779
Other liabilities	20	261,583	319,523
Total current liabilities		947,180	626,077
Total liabilities		1,301,337	992,480
Total equity and liabilities		10,977,498	10,684,702

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Virgil Metea
 Chief Executive Officer


Andrei Bobar
 Chief Financial Officer

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STATEMENT OF INDIVIDUAL CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016

	Share capital '000 RON	Legal reserve '000 RON	Other reserves '000 RON	Retained Earnings **) '000 RON	Total '000 RON
Balance as of January 1, 2016	385,422	77,084	2,504,769	6,724,947	9,692,222
Allocation to dividends *)	-	-	-	(1,040,640)	(1,040,640)
Transfer to other reserves	-	-	355,042	(355,042)	-
Reinvested profit	-	-	83,257	(83,257)	-
Total comprehensive income for the year	-	-	-	1,024,579	1,024,579
Balance as of December 31, 2016	385,422	77,084	2,943,068	6,270,587	9,676,161
Balance as of January 1, 2015	385,422	77,084	2,065,263	7,184,249	9,712,018
Allocation to dividends *)	-	-	-	(1,214,081)	(1,214,081)
Transfer to other reserves	-	-	407,658	(407,658)	-
Reinvested profit	-	-	31,848	(31,848)	-
Total comprehensive income for the year	-	-	-	1,194,285	1,194,285
Balance as of December 31, 2015	385,422	77,084	2,504,769	6,724,947	9,692,222

*) In 2016, shareholders of the Company approved the allocation of RON 1,040,640 thousand to dividends for the year 2015 (2015: 1,214,081 thousand RON), the dividend per share being RON 2.70 (2015: 3.15 RON /share).

**) Retained earnings include the geological quota reserve set up in accordance with the provisions of Government Decision no. 168/1998 on the establishment of the expense quota for the development and modernization of oil and natural gas production, refining, transportation and oil distribution. Following the Company's transition to IFRS the reserve was no longer set up, the reserve existing as of December 31, 2012 being included in retained earnings. The reserve is allocated to shareholders based on the depreciation, respectively write-off of the assets financed using this source. As of December 31, 2016 the geological quota reserve, before profit allocation, is of RON 2,217,232 thousand (December 31, 2015: RON 2,431,376 thousand).

Retained earnings include the effect of restatements recorded on the transition of the Company to International Financial Reporting Standards (RON 3,112,032 thousand; December 31, 2015: RON 3,131,134 thousand); these amounts are not distributable. In 2016, the amount of RON 19,102 thousand was transferred in Other reserves. These individual financial statements were authorized for issue by the Board of Directors on March 23, 2017.

Virgil Măteia
Chief Executive Officer

Andrei Bobar
Chief Financial Officer

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STATEMENT OF INDIVIDUAL CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2016

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
Cash flows from operating activities		
Net profit	1,024,579	1,194,285
Adjustments for:		
Income tax expense (note 11)	256,116	274,553
Interest expense (note 9)	15	34
Unwinding of decommissioning provision (note 9, note 19)	18,260	20,268
Interest revenue (note 4)	(22,117)	(44,185)
Net loss on disposal of non-current assets (note 6)	108,057	23,084
Change in decommissioning provision recognized in profit or loss, other than unwinding (note 19)	(5,941)	(19,724)
Change in other provisions	18,919	21,852
Net impairment of exploration assets (note 12, note 14)	(173,701)	228,309
Exploration expense (note 12, note 14)	253,348	42,395
Net impairment of property, plant and equipment (note 12, note 14)	(43,228)	5,219
Depreciation and amortization (note 7)	527,941	560,070
Net impairment of investment in financial investments (note 6, note 24 b)	43	1,328
Net impairment of other financial investments (note 6, note 25)	(1,554)	6,809
Loss from disposal of other financial investments (nota 6)	1,577	-
Net receivable write-offs and movement in allowances for trade receivables and other assets (note 6)	354,321	292,146
Revenues from dismantling of assets	(1,287)	(2,232)
Net movement in write-down allowances for inventory (note 6)	5,714	(4,576)
	2,321,062	2,599,635
Movements in working capital:		
(Increase)/Decrease in inventory	(21,646)	(162,187)
(Increase)/Decrease in trade and other receivables	(583,600)	54,550
Increase/(Decrease) in trade and other liabilities	337,707	(15,202)
Cash generated from operations	2,053,523	2,476,796
Interest paid	(15)	(34)
Income taxes paid	(309,125)	(346,021)
Net cash generated by operating activities	1,744,383	2,130,741

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STATEMENT OF INDIVIDUAL CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2016

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
Cash flows from investing activities		
Acquisition of investments in associates	-	(753)
Investments in subsidiaries	-	(1,200)
(Increase)/Decrease in other financial assets	(720,480)	158,050
Interest received	25,178	53,872
Proceeds from sale of non-current assets	144	42
Loans granted to associates	-	(726)
Reimbursements of loans granted to associates	-	65
Dividends received	-	1,634
Sale of other financial investments (note 25)	400	-
Acquisition of non-current assets	(296,511)	(357,281)
Acquisition of exploration assets	(172,178)	(555,423)
Net cash used in investing activities	(1,163,447)	(701,720)
Cash flows from financing activities		
Dividends paid	(1,040,762)	(1,214,925)
Net cash used in financing activities	(1,040,762)	(1,214,925)
Net increase/(decrease) in cash and cash equivalents	(459,826)	214,096
Cash and cash equivalents at the beginning of the year	740,352	526,256
Cash and cash equivalents at the end of the year	280,526	740,352

These individual financial statements were authorized for issue by the Board of Directors on March 23, 2017.

Virgil Mitea
Chief Executive Officer



Andrei Bobar
Chief Financial Officer

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

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. Motaş 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 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 individual financial statements, the functional currency of the Company is deemed to be the Romanian Leu (RON). IFRS as adopted by the EU differ in certain respects from IFRS as issued by the International Accounting Standards Board (IASB), however, the differences have no material impact on the Company's individual financial statements for the years presented.

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

Basis of preparation

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

The Company prepared individual financial statements, as its subsidiary S.N.G.N. ROMGAZ S.A. – Filiala de Înmagazinare Gaze Naturale Depogaz Ploiești S.R.L., registered at the Trade Register on August 21, 2015 had no activity until December 31, 2016.

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

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

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

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

Associated entities

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

Joint arrangements

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Joint arrangements (continued)**Joint operations*

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

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

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

If the Company participates in, but does not have joint control of, a joint operation it accounts for its interest in the arrangement in accordance with 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 individual financial statements, the Company recognizes its interest in a joint venture as investment, at cost, if it has joint control.

Standards and interpretations effective in the current year

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

- amendments to IFRS 10, IFRS 12, IAS 28: Investment Entities – applying the consolidation exception, adopted by the EU on September 22, 2016 (effective for annual periods beginning on or after January 1, 2016);
- amendments to IAS 27: Equity method in separate financial statements, adopted by EU on December 18, 2015 (effective for annual periods beginning on or after January 1, 2016);
- amendments to IAS 1: Disclosure initiative, adopted by EU on December 18, 2015 (effective for annual periods beginning on or after January 1, 2016);
- annual improvements to IFRS – cycle 2012-2014, adopted by EU on December 15, 2015 (effective for annual periods beginning on or after January 1, 2016);
- amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortization, adopted by EU on December 2, 2015, (effective for annual periods beginning on or after January 1, 2016);
- amendments to IFRS 11: Accounting for acquisitions of interests in joint operations, adopted by EU on November 24, 2015 (effective for annual periods beginning on or after January 1, 2016);

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations effective in the current period (continued)

- amendments to IAS 16 and IAS 41: Bearer plants adopted by EU on November 23, 2015 (effective for annual periods beginning on or after January 1, 2016);
- annual improvements to IFRSs 2010 – 2012 Cycle, adopted by EU on December 17, 2014 (effective for annual periods beginning on or after February 1, 2015);
- amendments to IAS 19: Defined Benefit Plans: Employee Contributions, adopted by EU on December 17, 2014 (effective for annual periods beginning on or after February 1, 2015).

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

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

At the date of issue of the individual financial statements, the following standards 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).

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);

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)***Standards and interpretations issued by IASB but not yet adopted by the EU (continued)***

- 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.

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

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

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

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

Foreign currencies

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Benefits granted upon retirement

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

Based on the Collective Labor Agreement, the Company is liable to pay to its employees at retirement a number of gross salaries, according to the years worked in the gas industry/electrical industry, work conditions etc. To this purpose, the Company recorded a provision for benefits upon retirement. This provision is updated annually and computed according to actuarial 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).

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

Employee participation to profit

The Company records in its annual individual 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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of 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 individual financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)*Deferred tax (continued)*

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

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

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

Current and deferred tax for the period

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

Property, plant and equipment

(1) Cost

(i) Property, plant and equipment

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

(ii) Development expenditure

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)*(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.

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 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 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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 individual financial statements of an impairment loss in these situations:

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

Other intangible assets

(1) Cost

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

Intangible assets are not revalued.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**Other intangible assets (continued)****(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.

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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial assets and liabilities (continued)**

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.

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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial assets and liabilities (continued)***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:

- 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, 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.

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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates related to the decommissioning provision

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

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

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

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

3. REVENUE AND OTHER INCOME

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
Revenue from gas sold - domestic production	2,558,848	3,159,884
Revenue from gas sold - joint venture	108,543	131,373
Revenue from gas acquired for resale – import gas	10,885	4,169
Revenue from gas acquired for resale – domestic gas	9,332	14,545
Revenue from storage services-capacity reservation	278,909	266,025
Revenue from storage services-extraction	28,217	32,079
Revenue from storage services-injection	38,233	34,422
Revenue from electricity	336,349	356,778
Revenue from services	27,767	32,636
Revenue from sale of goods	7,661	13,876
Other revenues	7,124	6,897
Total revenue	3,411,868	4,052,684
Other operating revenues *)	361,147	79,793
Total revenue and other income	3,773,015	4,132,477

*) In 2016, other operating income amounted to RON 361,147 thousand included income from penalties charged to customers for late payment in the amount of RON 291,561 thousand (2015: RON 48,638 thousand).

4. INVESTMENT INCOME

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
Interest income	22,117	44,185
Total	22,117	44,185

5. COST OF COMMODITIES SOLD, RAW MATERIALS AND CONSUMABLES

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
Consumables used	51,087	73,988
Cost of gas acquired for resale, sold – import	10,173	4,027
Cost of gas acquired for resale, sold – domestic	8,124	12,639
Cost of electricity imbalance	30,158	22,673
Cost of other goods sold	1,423	888
Other consumables	3,545	4,275
Total	104,510	118,490

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

6. OTHER GAINS AND LOSSES

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
Forex gain	131	131
Forex loss	(191)	(243)
Net loss on disposal of non-current assets (note 7)	(108,057)	(23,084)
Net loss on disposal of other financial investments	(1,577)	-
Net receivable allowances (note 16 c)	(354,316)	(292,039)
Net impairment of financial investments (note 24 b, note 25)	1,511	(8,137)
Net write down allowances for inventory (note 15)	(5,714)	4,576
Losses from trade receivables	(5)	(107)
Total	(468,218)	(318,903)

7. DEPRECIATION, AMORTIZATION AND IMPAIRMENT EXPENSES

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
Depreciation	527,941	560,070
out of which:		
- depreciation of property, plant and equipment	516,208	541,874
- amortization of intangible assets	11,733	18,196
Net impairment of non-current assets *)	(216,929)	233,528
Total depreciation, amortization and impairment	311,012	793,598

*) Net impairment of non-current assets include income from decrease of impairments of RON 396,731 thousand from which RON 346,153 thousand relate to net loss on disposal of non-current assets (RON 108,057 thousand – note 6) and exploration expenses (RON 253,348 thousand), the effect being a net loss of RON 15,252 thousand. The difference between RON 396,731 thousand and RON 346,153 thousand relate to reactivated projects.

8. EMPLOYEE BENEFIT EXPENSE

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
Wages and salaries *)	441,840	454,732
Social security charges	109,797	108,828
Meal tickets	12,242	12,191
Other benefits according to collective labor contract	20,033	20,990
Private pension payments	10,739	10,775
Total employee benefit costs	594,651	607,516
Less, capitalised employee benefit costs	(96,537)	(95,869)
Total employee benefit expense	498,114	511,647

*) In 2015, in the amount of RON 454,732 thousand representing wages and salaries, is included the amount of RON 16,774 thousand related to the employee participation to profit. In 2016, this expense in the amount of RON 23,061 thousand is shown in net losses from provisions movement (note 10) and under other provisions (note 19). The year 2015 was not represented to reflect this change, due to immaterial amounts.

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

9. FINANCE COSTS

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
Interest expense	15	34
Unwinding of the decommissioning provision (note 19)	18,260	20,268
Total	18,275	20,302

10. OTHER EXPENSES

	Year ended December 31, 2016	Year ended December 31, 2015
	'000 RON	'000 RON
Energy and water expenses	16,964	18,472
Expenses for capacity booking and gas transmission services	37,449	40,574
Expenses with other taxes and duties	604,243	787,182
(Net gain)/Net loss from provisions movement	12,978	2,128
Other operating expenses	210,289	192,314
Total	881,923	1,040,670

In the year ended December 31, 2016, the major taxes and duties included in the amount of RON 604,243 thousand (year ended December 31, 2015: RON 787,182 thousand) for taxes and duties are:

- RON 285,619 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 (year ended December 31, 2015: RON 367,165 thousand);
- RON 70,916 thousand, including amounts related to joint ventures, represent tax on special construction according to Law 227/2015 regarding the Fiscal Code (year ended December 31, 2015: RON 64,988 thousand);
- RON 218,745 thousand, including amounts related to joint ventures, represent royalty on gas production and storage activity (year ended December 31, 2015: RON 304,671 thousand).

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

11. INCOME TAX EXPENSE

Income tax	Year ended	Year ended
	December 31, 2016	December 31, 2015
	'000 RON	'000 RON
Current tax expense	278,582	343,269
Deferred income tax (income)/expense	(22,466)	(68,716)
Income tax expense	256,116	274,553

The tax rate used for the reconciliations below for the year ended December 31, 2016, respectively year ended December 31, 2015 is 16% payable by corporate entities in Romania on taxable profits.

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

	Year ended	Year ended
	December 31, 2016	December 31, 2015
	'000 RON	'000 RON
Accounting profit before tax	1,280,695	1,468,838
Income tax expense calculated at 16%	204,911	235,014
Effect of income exempt of taxation	(71,067)	(48,705)
Effect of expenses that are not deductible in determining taxable profit	158,059	173,833
Tax incentives	(13,321)	(16,873)
Effect of temporary differences	(22,466)	(68,716)
Income tax expense	256,116	274,553

Components of deferred tax liability:

	December 31, 2016		December 31, 2015	
	Cumulative temporary differences	Deferred tax (asset)/liability	Cumulative temporary differences	Deferred tax (asset)/liability
	'000 RON	'000 RON	'000 RON	'000 RON
Provisions	(355,508)	(56,881)	(302,388)	(48,382)
Property, plant and equipment	766,715	122,674	844,937	135,190
Receivables and other assets	(160,438)	(25,670)	(151,367)	(24,219)
Total	250,769	40,123	391,182	62,589
Charged to income		(22,466)		(68,716)

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

12. PROPERTY, PLANT AND EQUIPMENT

	Land and land improvements '000 RON	Buildings '000 RON	Gas properties '000 RON	Plant, machinery and equipment '000 RON	Fixtures, fittings and office equipment '000 RON	Storage assets '000 RON	Tangible exploration assets '000 RON	Capital work in progress '000 RON	Total '000 RON
Cost									
As of January 1, 2016	106,399	831,437	5,633,432	704,856	87,955	1,601,802	657,862	800,625	10,424,368
Additions	460	-	14,653	-	2	-	165,951	320,680	501,746
Transfers	160	50,785	248,834	202,693	8,882	80,231	(161,780)	(429,785)	-
Disposals	(28)	(636)	(124,095)	(13,605)	(2,435)	(5,105)	(245,159)	(31,593)	(422,656)
As of December 31, 2016	106,991	881,566	5,772,824	893,944	94,404	1,676,928	416,874	659,927	10,503,458
Accumulated depreciation									
As of January 1, 2016	-	201,906	2,530,752	431,088	59,106	436,982	-	-	3,659,834
Charge *)	-	32,239	370,748	56,304	6,552	84,015	-	-	549,858
Disposals	-	(196)	(33,308)	(11,488)	(2,350)	(4,797)	-	-	(52,139)
As of December 31, 2016	-	233,949	2,868,192	475,904	63,308	516,200	-	-	4,157,553
Impairment									
As of January 1, 2016	3,180	15,535	185,440	23,903	420	3,889	444,885	90,822	768,074
Transfers	-	-	7,888	-	-	-	(65,899)	58,011	-
Charge	-	993	55,979	1,321	137	4,113	85,449	29,124	177,116
Release	-	(595)	(96,445)	(1,750)	(115)	(4,581)	(253,652)	(31,409)	(388,547)
As of December 31, 2016	3,180	15,933	152,862	23,474	442	3,421	210,783	146,548	556,643
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 December 31, 2016	103,811	631,664	2,751,770	394,566	30,654	1,157,307	206,091	513,379	5,789,262

*) The amounts include depreciation of tangible assets used in the production of other fixed assets, capitalized in their cost, amounting to RON 26,598 thousand.

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

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and land improvements '000 RON	Buildings '000 RON	Gas properties '000 RON	Plant, machinery and equipment '000 RON	Fixtures, fittings and office equipment '000 RON	Storage assets '000 RON	Tangible exploration assets '000 RON	Capital work in progress '000 RON	Total '000 RON
Cost									
As of January 1, 2015	104,058	457,028	4,872,197	1,096,588	157,645	1,604,301	852,508	548,085	9,692,410
Additions	1,762	695	15,724	111	49	-	464,325	361,249	843,915
Transfers	597	18,878	536,242	48,238	7,059	111,363	(616,576)	(105,801)	-
Disposals	(18)	(747)	(47,562)	(5,754)	(518)	(12,955)	(42,395)	(2,908)	(111,957)
Reclassification	-	355,583	256,831	(434,327)	(76,280)	(101,807)	-	-	-
As of December 31, 2015	106,399	831,437	5,633,432	704,856	87,955	1,601,802	657,862	800,625	10,424,368
Accumulated depreciation									
As of January 1, 2015	-	84,071	2,030,012	505,872	113,502	370,324	-	-	3,103,781
Charge *)	-	31,922	397,204	56,778	6,770	81,042	-	-	573,716
Disposals	-	(142)	(2,858)	(4,634)	(504)	(9,525)	-	-	(17,663)
Reclassification	-	86,055	106,394	(126,928)	(60,662)	(4,859)	-	-	-
As of December 31, 2015	-	201,906	2,530,752	431,088	59,106	436,982	-	-	3,659,834
Impairment									
As of January 1, 2015	3,180	15,176	174,085	24,881	298	6,253	339,084	62,953	625,910
Charge	-	337	59,778	4,777	131	2	216,017	27,361	308,403
Release	-	(786)	(51,547)	(5,351)	(67)	(4,290)	(81,259)	(22,937)	(166,239)
Transfers	-	-	3,110	-	-	2,402	(28,957)	23,445	-
Reclassification	-	810	14	(404)	58	(478)	-	-	-
As of December 31, 2015	3,180	15,535	185,440	23,903	420	3,889	444,885	90,822	768,074
Carrying value									
As of January 1, 2015	100,878	357,781	2,668,100	565,835	43,845	1,227,724	513,424	485,132	5,962,719
As of December 31, 2015	103,219	613,996	2,917,240	249,865	28,429	1,160,931	212,977	709,803	5,996,460

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

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

13. EXPLORATION AND APPRAISAL FOR NATURAL GAS RESOURCES

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

	<u>Year ended December 31, 2016</u>	<u>Year ended December 31, 2015</u>
	'000 RON	'000 RON
Exploration expenditure written off (note 12, note 14)	253,348	42,395
Net movement in exploration assets' impairment (note 12, note 14)	(173,701)	228,309
Net cash used in exploration investing activities	(172,178)	(555,423)
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Exploration assets (note 12, note 14)	589,364	592,715
Liabilities	(23,332)	(67,076)
Net assets	566,032	525,639

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

14. OTHER INTANGIBLE ASSETS

Cost	Other intangible assets '000 RON	Licenses '000 RON	Intangible exploration assets - WIP '000 RON	Intangible work in progress - other '000 RON	Total '000 RON
As of January 1, 2016	15,079	178,241	589,337	165	782,822
Additions	-	939	6,337	5,264	12,540
Transfers	-	5,395	-	(5,395)	-
Disposals	-	(13,654)	(8,300) ^{*)}	-	(21,954)
As of December 31, 2016	15,079	170,921	587,374	34	773,408
Accumulated amortization					
As of January 1, 2016	7,260	166,104	-	-	173,364
Charge	2,217	9,516	-	-	11,733
Disposals	-	(13,654)	-	-	(13,654)
As of December 31, 2016	9,477	161,966	-	-	171,443
Impairment					
As of January 1, 2016	-	-	209,599	-	209,599
Charge	-	-	2,686	-	2,686
Release	-	-	(8,184)	-	(8,184)
As of December 31, 2016	-	-	204,101	-	204,101
Carrying value					
As of January 1, 2016	7,819	12,137	379,738	165	399,859
As of December 31, 2016	5,602	8,955	383,273	34	397,864

^{*)} In the amount of RON 8,300 thousand representing disposals of exploration assets during the year, the amount of RON 8,189 thousand relates to exploration projects written off (exploration expense).

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

14. OTHER INTANGIBLE ASSETS (continued)

	Other intangible assets '000 RON	Licenses '000 RON	Intangible exploration assets - WIP '000 RON	Intangible work in progress - other '000 RON	Total '000 RON
Cost					
As of January 1, 2015	14,584	158,266	497,329	2,606	682,785
Additions	371	1,610	92,008	10,382	104,371
Transfers	2,311	10,390	-	(12,701)	-
Disposals	(2,187)	(2,025)	-	(122)	(4,334)
As of December 31, 2015	15,079	176,241	589,337	165	782,822
Accumulated amortization					
As of January 1, 2015	5,056	152,045	-	-	157,101
Charge	2,204	15,992	-	-	18,196
Disposals	-	(1,933)	-	-	(1,933)
As of December 31, 2015	7,260	166,104	-	-	173,364
Impairment					
As of January 1, 2015	-	-	116,048	2,187	118,235
Charge	-	-	167,733	-	167,733
Disposals	(2,187)	-	(74,182)	-	(76,369)
Transfers	2,187	-	-	(2,187)	-
As of December 31, 2015	-	-	209,599	-	209,599
Carrying value					
As of January 1, 2015	9,528	16,221	381,281	419	407,449
As of December 31, 2015	7,819	12,137	379,738	165	399,859

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

15. INVENTORIES

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Spare parts and materials	157,879	158,034
Work in progress	335	594
Finished goods (gas)	353,731	351,773
Residual products	123	86
Inventories at third parties	95,758	65,248
Goods for resale (gas)	171	10,344
Other inventories	90	95
Write-down allowance for spare parts and materials	(29,183)	(25,789)
Write-down allowance for residual products	(44)	(22)
Write-down allowance for inventories at third parties	(2,877)	(579)
Total	575,983	559,784

16. ACCOUNTS RECEIVABLE

a) Trade and other receivables

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Trade receivables	1,322,274	1,438,204
Bad debt allowances (note 16 c)	(1,192,029)	(856,676)
Accrued receivables	698,365	19,537
Total	828,610	601,065

b) Other assets

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Advances paid to suppliers	2,061	13,933
Joint venture receivables	4,838	5,113
Loans to associates (note 22 ii) *)	-	17,887
Interest on loan to associates (note 22 ii) *)	-	1,041
Bad debt allowance on loans to associates (note 16 c, note 22 ii) *)	-	(18,928)
Other receivables **)	27,225	5,499
Bad debt allowance for other receivables (note 16 c) **)	(19,192)	(549)
Other debtors *)	65,097	45,148
Bad debt allowances for other debtors (note 16 c) *)	(62,009)	(42,692)
Prepayments	101,550	84,481
VAT not yet due	21,955	28,679
Total	141,525	139,612

*) In February 2016, Romgaz notified its partners about its withdrawal as partner in the agreements with Energia Cybinka and Energia Torzym and its withdrawal as shareholder of the two entities effective March 31, 2016. Therefore, the Company's receivable from the two companies is presented in the individual financial statements as of December 31, 2016 in "Other debtors".

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

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.

In the financial statements at December 31, 2015, for the unpaid amounts in dispute on that date, the Company recorded a provision amounting RON 15,872 thousand (note 19). In 2016, the Company paid the amounts resulted from those controls. However, for the disputed amounts, in the financial statements at December 31, 2016, the Company recorded a receivable in amount of RON 18,852 thousand presented as other receivables, for which it recorded an equivalent allowance; the provision of RON 15,872 thousand was reversed by recording an income (the amount is contained in RON 12,978 thousand representing net loss from provisions movement - note 10). The allowance for the receivable of RON 18,852 thousand is included in net receivable allowance of RON 354,316 thousand – (note 6).

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

	<u>2016</u>	<u>2015</u>
	'000 RON	'000 RON
At January 1	918,845	626,625
Charge (note 6)	366,705	321,998
Forex on revaluation of foreign currency balances	69	181
Release (note 6)	(12,389)	(29,959)
At December 31	1,273,230	918,845

As of December 31, 2016, the Company recorded allowances for doubtful debts, of which Interagro RON 275,961 thousand (December 31, 2015: RON 273,229 thousand), GHCL Upsom of RON 60,371 thousand (December 31, 2015: RON 60,371 thousand), CET Iasi of RON 46,271 thousand (December 31, 2015: RON 46,271 thousand), Electrocentrale Galati with RON 211,370 thousand (December 31, 2015: RON 209,907 thousand), Electrocentrale Bucuresti with RON 570,274 thousand (December 31, 2015: RON 238,094 thousand) and G-ON EUROGAZ of RON 14,848 thousand (December 31, 2015: 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 INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

16. ACCOUNTS RECEIVABLE (continued)

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Current receivables but not impaired	113,050	559,927
Overdue receivables but not impaired		
less than 30 days overdue *)	17,070	7,186
30 to 90 days overdue	65	14,396
90 to 360 days overdue	60	19
Total overdue receivables but not impaired	<u>17,195</u>	<u>21,601</u>
Total trade receivables	<u>130,245</u>	<u>581,528</u>

*) The amount of RON 17,070 thousand representing overdue receivables at December 31, 2016 for which no impairment adjustments were recorded, was collected in 2017.

17. SHARE CAPITAL

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
385,422,400 fully paid ordinary shares	385,422	385,422
Total	<u>385,422</u>	<u>385,422</u>

The shareholding structure as at December 31, 2016 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	95,451,082	95,451	24.76
Physical persons	20,148,238	20,148	5.22
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 December 31, 2016. All shares carry equal voting rights and have a nominal value of RON 1/share (December 31, 2015: RON 1/share).

18. RESERVES

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Legal reserves	77,084	77,084
Other reserves, of which:	2,943,068	2,504,769
- Company's development fund	2,291,182	1,955,242
- Tax incentives	145,773	62,516
- Geological quota set up until 2004	486,388	486,388
- Other reserves	19,725	623
Total	<u>3,020,152</u>	<u>2,581,853</u>

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

19. PROVISIONS

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Decommissioning provision	194,048	184,983
Retirement benefit obligation	119,986	102,959
Litigation provision (note 16 b)	-	15,872
Total long term provisions	314,034	303,814
Decommissioning provision	16,523	12,629
Provisions for land restoration	8,963	14,253
Litigation provision	-	79
Other provisions (note 8, note 23)	24,951	1,818
Total short term provisions	50,437	28,779
Total provisions	364,471	332,593
Decommissioning provision		
<i>Decommissioning provision movement</i>		
	<u>2016</u>	<u>2015</u>
	'000 RON	'000 RON
At January 1	197,612	222,243
Additional provision recorded against non-current assets	14,444	3,883
Unwinding effect (note 9)	18,260	20,268
Recorded in profit or loss	(5,941)	(19,724)
Release against non-current assets	(13,804)	(29,058)
At December 31	210,571	197,612

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 as of December 31, 2016 of 8.9% (December 31, 2015: 9.3%). While the provision is based on the best estimate of future costs and the economic lives of the wells, there is uncertainty regarding both the amount and timing of these costs.

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

20. TRADE AND OTHER CURRENT LIABILITIES

	December 31, 2016	December 31, 2015
	'000 RON	'000 RON
Accruals	29,067	65,283
Trade payables	43,906	23,976
Payables to fixed assets suppliers	32,916	40,967
Advances from customers	464,052	56,711
Total trade payables	569,941	186,937
Payables related to employees	46,296	49,141
Royalties	62,430	81,711
Social security taxes	14,438	16,160
Other current liabilities	35,931	40,785
Joint venture payables	3,904	977
VAT	61,788	81,348
Dividends payable	1,384	1,506
Windfall tax	34,068	43,596
Other taxes	1,344	4,299
Total other current liabilities	261,683	319,523
Total trade and other current liabilities	831,624	506,460

21. FINANCIAL INSTRUMENTS

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, inflation risk, interest rate risk), credit risk, liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to 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 December 31, 2016, the official exchange rates were RON 4.3033 to USD 1 and RON 4.5411 to EUR 1 and (December 31, 2015: RON 4.1477 to USD 1 and RON 4.5245 to EUR 1).

(ii) Inflation risk

The official inflation rate in Romania, during the year ended December 31, 2016 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.

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

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 70% of trade receivable balance at December 31, 2016 (94% as of December 31, 2015). 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 December 31, 2016 the Company did not identify any indication of impairment of other financial investments, except for the impairment already recorded.

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

21. FINANCIAL INSTRUMENTS (continued)

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

December 31, 2016	Due in less than a month	Due in 1-3 months	Due in 3 months to 1 year	Due in 1-5 years	Due in over 5 years	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Trade receivables	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

December 31, 2015	Due in less than a month	Due in 1-3 months	Due in 3 months to 1 year	Due in 1-5 years	Due in over 5 years	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Trade receivables	329,707	251,770	51	-	-	581,528
Bank deposits	23,750	395,100	913,710	29,300	-	1,361,860
Treasury bonds	-	400,430	410,440	-	-	810,870
Total	353,457	1,047,300	1,324,201	29,300	-	2,754,258
Trade payables	(52,787)	(12,155)	(1)	-	-	(64,943)
Total	(52,787)	(12,155)	(1)	-	-	(64,943)
Net	300,670	1,035,145	1,324,200	29,300	-	2,689,315

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 INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

22. RELATED PARTY TRANSACTIONS AND BALANCES

(i) Sales of goods and services

	<u>Year ended December 31, 2016</u>	<u>Year ended December 31, 2015</u>
	'000 RON	
Romgaz's associates	19,284	23,736
Total	19,284	23,736

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 year ended December 31, 2016 respectively December 31, 2015, 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) Loans granted to associates

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Romgaz's associates (note 16 b)	-	18,928
Bad debt allowance (note 16 b)	-	(18,928)
Total	-	-

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

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

As a result of the Company's withdrawal from the shareholding of the two entities, on December 2016, they are no longer considered related parties.

iii) Trade receivables

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Romgaz's associates	827	-
Total	827	-

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

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

The remuneration of executives and directors

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

During the year ended December 31, 2016 and December 31, 2015, 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>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Salaries paid to directors	11,453	11,407
Salaries paid to administrators	1,137	1,213
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Salaries payable to directors	353	486
Salaries payable to administrators	36	126

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 December 31, 2016 of RON 1,891 thousand (December 31, 2015: RON 1,818 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.

As of the date of the individual financial statements for the year ended December 31, 2016 were authorized for issue, the storage activity is being further carried by the Company. The Regulatory Authority for Energy (Autoritatea Nationala de Reglementare in Domeniul Energiei – ANRE), by Presidential decision no. 2588/December 30, 2015, had changed license no. 1942 regarding the operations of the underground gas storage facilities granted to Romgaz by ANRE presidential decision no. 151/January 22, 2014 in the sense of changing the licence holder with S.N.G.N Romgaz S.A. – Filiala de Inmagazinare Gaze Naturale Depogaz Ploiesti S.R.L. The modified license was granted starting April 1, 2016 to September 13, 2016. Subsequently, ANRE decision no. 446 issued on March 23, 2016 has changed ANRE decision nr. 2588/2015, the effective date of the licence being, April 1, 2017.

The Company did not prepare consolidated financial statements as of December 31, 2016 given the fact that the subsidiary did not carry out any activity since incorporation.

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

24. INVESTMENT IN SUBSIDIARIES AND ASSOCIATES (continued)

b) Investment in associates

Name of associate	Main activity	Place of incorporation and operation	Proportion of ownership interest and voting power held (%)			
			December 31, 2016	December 31, 2015		
SC Amgaz SA Medias	Gas production	Romania				
SC Depormures SA Tg.Mures	Storage of natural gas	Romania	35	35		
Energia Torzym	Gas production	Poland	40	40		
Energia Cybinka	Gas production	Poland	-	30		
SC Agri LNG Project Company SRL	Feasibility projects	Romania	25	30		
				25		
Name of associate	Value as of December 31, 2016	Impairment as of December 31, 2016	Carrying value as of December 31, 2016	Value as of December 31, 2015	Impairment as of December 31, 2015	Carrying value as of December 31, 2015
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
SC Amgaz SA Medias	9,214	(9,214)	-	9,214	(9,214)	-
SC Depormures 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	(790)	43
Total	13,559	(13,439)	120	13,559	(13,396)	163

*) 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 December 31, 2016, 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 individual financial statements for the year ended December 31, 2016. However, the Company no longer has rights regarding Energia Torzym and Energia Cybinka.

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

25. OTHER FINANCIAL INVESTMENTS

Company	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held (%)			
			December 31, 2016	December 31, 2015		
Electrocentrale București S.A.	Electricity and thermal power producer	Romania	2.49	2.49		
Electrocentrale Titan S.A.*)	Electricity and thermal power producer	Romania	-	0.74		
Patria Bank S.A.**)	Other activities – financial intermediations	Romania	0.03	0.04		
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 December 31, 2016	Impairment as of December 31, 2016	Carrying value as of December 31, 2016	Value as of December 31, 2015	Impairment as of December 31, 2015	Carrying value as of December 31, 2015
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Electrocentrale București S.A.	64,310	-	64,310	64,310	-	64,310
Electrocentrale Titan S.A.*)	-	-	-	1,977	(1,577)	400
Patria Bank S.A.**)	840	(780)	60	840	(757)	83
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	94,741	(24,661)	70,080

*) In November 2015, Electrocentrale Titan S.A.'s shareholders approved its merger by absorption by S.C. Electrocentrale Grup S.A. In the shareholders' meeting, the Company voted against the merger. As a result of the vote, Romgaz exercised its right to withdraw as a shareholder, by selling its shares in S.C. Electrocentrale Titan S.A., according to legal provisions. Following the disposal of its holding in the share capital of S.C. Electrocentrale Titan S.A., the Company received the amount of RON 400 thousand.

**) MKB Romexterra changed its name to Patria Bank S.A. Also, following the shareholders' meeting of Patria Bank S.A., the share capital was increased without Romgaz's participation, which conducted to a lower proportion of ownership interest in the bank's share capital. Also, in 2016, the Company decided to withdraw as a shareholder, as a result of the merger process involving Patria Bank.

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

25. OTHER FINANCIAL INVESTMENTS (continued)

The shares held in the share capital of the companies above are not quoted in an active market and their fair value cannot be reliably measured, therefore they are measured at cost. At each period end, the Company makes an assessment to determine whether there are any indications of impairment. As of December 31, 2016 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 December 31, 2016, in Bratislava branch are recorded exploration assets in amount of RON 19,962 thousand (December 31, 2015: RON 18,122 thousand).

b) Segment assets and liabilities

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

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

26. SEGMENT INFORMATION (continued)

b) Segment assets and liabilities (continued)

December 31, 2016	<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	-	-	-	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
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	4,040,574	1,565,895	57,607	332,384	5,996,460
Other intangible assets	392,675	731	261	6,192	399,859
Investments in subsidiaries	-	-	-	1,200	1,200
Investments in associates	-	-	-	163	163
Other financial investments	-	-	-	70,080	70,080
Other financial assets	42	410,548	-	1,765,537	2,176,127
Inventories	435,822	98,206	4,808	20,948	559,784
Trade and other receivables	549,138	26,356	8,214	17,357	601,065
Other assets	12,812	13,080	8,006	105,714	139,612
Cash and cash equivalents	80,089	4,275	262	655,726	740,352
Total assets	5,511,152	2,119,091	79,158	2,975,301	10,684,702
Retirement benefit obligation	-	-	-	102,959	102,959
Deferred tax liabilities	-	-	-	62,589	62,589
Provisions	194,651	17,294	-	17,689	229,634
Trade and other payables	148,627	2,294	2,044	33,972	186,937
Current tax liabilities	-	-	-	90,838	90,838
Other liabilities	184,499	3,593	2,694	128,737	319,523
Total liabilities	527,777	23,181	4,738	436,784	992,480

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

26. SEGMENT INFORMATION (continued)

c) Segment revenues, results and other segment information

Year ended December 31, 2016	Upstream	Storage	Electricity	Other	Adjustment and eliminations	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Revenue	2,857,683	358,568	399,042	239,230	(442,655)	3,411,868
Less: revenue between segments	(136,481)	(12,426)	(62,612)	(231,136)	442,655	-
Third party revenue	2,721,202	346,142	336,430	8,094	-	3,411,868
Interest income	844	3,949	40	17,284	-	22,117
Interest expense	(15)	-	-	-	-	(15)
Depreciation, amortization and impairment	(185,959)	(95,784)	(6,940)	(22,329)	-	(311,012)
Segment result before tax profit/(loss)	1,031,812	133,168	74,222	41,493	-	1,280,696

Year ended December 31, 2015	Upstream	Storage	Electricity	Other	Adjustment and eliminations	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
Revenue	3,511,385	332,639	443,164	254,867	(489,171)	4,052,884
Less: revenue between segments	(157,064)	-	(86,544)	(245,563)	489,171	-
Third party revenue	3,354,321	332,639	356,620	9,104	-	4,052,884
Interest income	1,681	5,593	1	36,910	-	44,185
Interest expense	(34)	-	-	-	-	(34)
Depreciation, amortization and impairment	(673,420)	(88,262)	(4,790)	(27,126)	-	(793,598)
Segment result before tax profit/(loss)	1,195,534	116,884	105,051	51,569	-	1,468,838

In the year ended December 31, 2016, the Company's three largest clients each individually represents more than 10% of revenue, sales to these clients being of RON 935,113 thousand, RON 735,945 thousand, respectively RON 468,150 thousand (in the year ended December 31, 2015 the Company's three largest customers represented individually, over 10% of revenue, sales to these clients being of RON 1,182,742 thousand, RON 1,116,151 thousand, respectively RON 750,645 thousand), together totaling 63% of total revenue (year ended 31 December 2015: 75%). Of the total revenue generated by those three clients, 5.94% are shown in the "Storage" segment and 93.19% in the "Upstream" segment (in the year ended December 31, 2015: 4.6% in the "Storage" segment, 95.3% in the "Upstream" segment).

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

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>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Current bank accounts in RON *)	180,573	86,532
Current bank accounts in foreign currency	41	92
Petty cash	20	30
Term deposits	99,880	653,686
Amounts under settlement	12	12
Total	280,526	740,352

*) 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>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Bank deposits	-	29,300
Total other long-term financial assets	-	29,300
Treasury bonds	974,262	802,302
Bank deposits	1,910,380	1,332,560
Accrued interest receivable	2,551	3,397
Accrued interest on bonds	5,558	8,568
Total other short-term financial assets	2,892,751	2,146,827
Total other financial assets	2,892,751	2,176,127

29. COMMITMENTS UNDERTAKEN

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Endorsements and collaterals granted	62,982	41,044
Total	62,982	41,044

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 during March, 2016, until March 22, 2017. On December 31, 2016 are still available for use USD 7,664 thousand (December 31, 2015: USD 4,700 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 December 31, 2016 are still available for use USD 12,198 thousand.

As of December 31, 2016, the Company's contractual commitments for the acquisition of non-current assets are of RON 298,424 thousand (December 31, 2015: RON 308,325 thousand).

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

30. COMMITMENTS RECEIVED

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	'000 RON	'000 RON
Endorsements and collaterals received	1,041,197	1,135,697
Total	1,041,197	1,135,697

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 individual 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 INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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. Until the authorization of the individual financial statements for the year ended 2016, resumption date of the inspection has not been notified, and no communication has been received regarding the result of the inspection. 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 any provisions at December 31, 2016, 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 December 31, 2016 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 210,571 thousand (December 31, 2015: RON 197,612 thousand), representing the decommissioning liability, and a provision for land restoration of RON 8,963 thousand (December 31, 2015: RON 14,253 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 549,763 greenhouse gas certificates (EUA) for 2016.

As of December 31, 2016, 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;
- 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;

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

31. CONTINGENCIES (continued)

(c) *Environmental contingencies (continued)*

- 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, Romgaz SPEE Iernut posted a deficit of 133,397 CO₂ certificates necessary to comply with CO₂ emissions. These certificates will be acquired in 2017. The individual financial statements for the year ended December 31, 2016 include a liability in this respect of RON 3,296 thousand, presented in Trade and other payables.

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	982,085	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.

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

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.

(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 individual financial statements as of December 31, 2016 do not include adjustments about these matters.

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

32. JOINT ARRANGEMENTS

On December 31, 2016, 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 INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

32. JOINT ARRANGEMENTS (continued)

- f) In July 2012, Romgaz signed the amendments to the joint operations agreements with Lukoil Overseas Atash BV and Panatlantic (originally Vanco International Ltd), the three companies being holders of petroleum agreements. The agreement is for exploration, development and operation of offshore blocks EX-29 Est Rapsodia and EX-30 Trident of the Black Sea continental shelf. The participation shares are: Lukoil 72%, Panatlantic 18% and Romgaz 10%. Regarding Rapsodia block, in 2016, a decision to terminate the petroleum agreement has been issued by ANRM, the decision being published in the Official Gazette. 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 phase of exploration with another year and a half for the execution of additional works.

33. EVENTS AFTER THE BALANCE SHEET DATE

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In 2017, the Ministry of Energy approved the application for funds financed from the National Investment Plan for the investment "Combined cycle CCGT power plant". The agreement was not signed until the authorization of the individual financial statements for the year ended 2016.

34. AUDITOR'S FEES

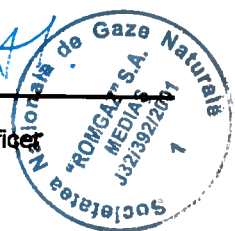
The fee charged by the Company's statutory auditor, S.C. Deloitte Audit S.R.L. for the audit of 2016 financial statements is RON 129 thousand.

The fees charged by the Company's statutory auditor for assurance services, other than audit services, provided in 2016 or related to 2016 are RON 467 thousand.

35. APPROVAL OF INDIVIDUAL FINANCIAL STATEMENTS

These individual financial statements were authorized for issue by the Board of Directors on March 23, 2017.


Virgil Metea
Chief Executive Officer




Andrei Bobar
Chief Financial Officer