



Societatea Națională de Gaze Naturale “ROMGAZ” SA

IST HALF YEAR REPORT
ON ECONOMIC- FINANCIAL ACTIVITY OF
ROMGAZ AS OF JUNE 30, 2016
(JANUARY 1, 2016 - JUNE 30, 2016)





SUMMARY

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IDENTIFICATION DETAILS ON REPORT AND ISSUER

Report based on	Article 227 of Law no. 297/2004 on capital market and Annex no. 31 of CNVM Regulation no. 1/2006 for the six-month period ended as of June 30, 2016 (H1 of the Financial Year 2016)
Report Date	August 12, 2016
Name of the Company	Societatea Națională de Gaze Naturale “ROMGAZ” SA
Headquarter	Mediaș, 4 Piața Constantin I. Moțaș, code 551130, County Sibiu
Telephone/fax number	0040 269 201020/0040 269 846901
Web/E-mail	www.romgaz.ro/ secretariat@romgaz.ro
Fiscal Code	14056826
Trade Registry No	J32/392/2001
Subscribed and paid in share capital	385,422,400 RON
Number of shares	385,422,400, each having a nominal value of RON 1
Regulated markets where the issued securities are traded:	Bucharest Stock Exchange BVB (shares), London Stock Exchange (GDRs)

I. 1ST HALF YEAR 2016 OVERVIEW

1.1. Company performances

Compared to the similar period of the last year, the Company's operational and financial performances for H1 2016 have been influenced mainly by the decrease of natural gas demand on the Romanian market by approx. 6%.

Net profit, in amount of RON 615.3 million, is in line with the budget forecast (+0.65%) although lower than in the similar period of 2015(-19.74%).

The intensive exploration activities carried out deep onshore lead to **the largest hydrocarbon discovery** of the latest 30 years of about 25-27 billion m³.

The financial indicators have been maintained at a very good margin EBIT (40.1%) and EBITDA (54.8%).

Gas sales were significantly influenced by weather conditions, by the decreased gas demand in the key sectors, by the uncertain regulatory framework related to minimum gas stocks.

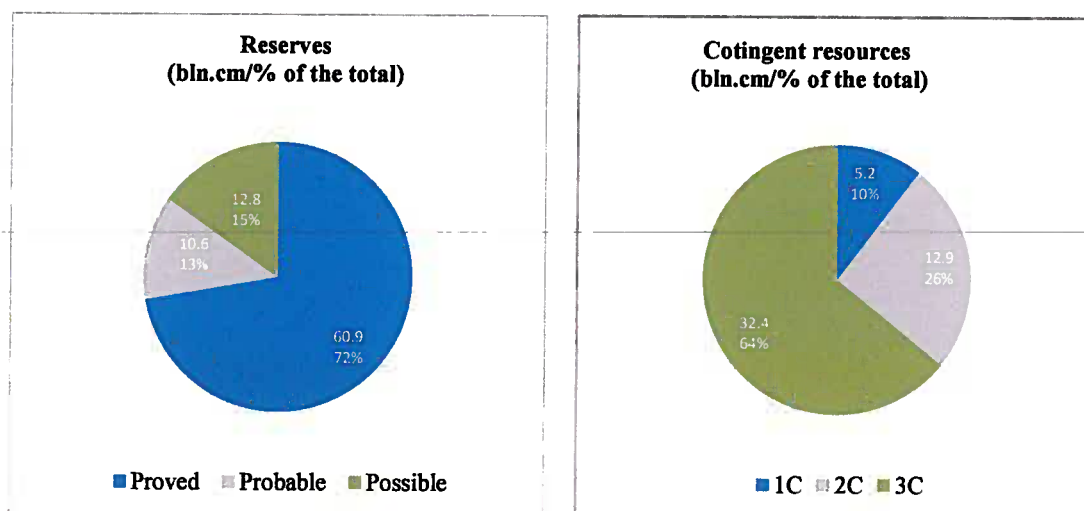
Revenue from electricity production has increased by 56.9%, namely RON 45 million.

Other operating income, inclusive late payment penalties increased by RON 42 million.

The objective to have "0" new overdue accounts receivables is fulfilled – as a result of the company's trading policy there were no overdue accounts receivables during H1 of 2016 related to deliveries, that influenced costs and implicitly the company's profit.

The **external audit of Romgaz natural gas reserves and contingent resources** has been performed in the 1st half of 2016 by the American company DeGolyer&MacNaughton, resulting in a final Report sent to Romgaz on June 30, 2016.

The results included in the Report confirm the evaluation of natural gas resources and reserves made by Romgaz as of December 31, 2015 and concurrently confirm the annual reserves replacement ratio during 2013-2015 of an average 83%, higher than the target of 70%.



Relevant Financial Result

million RON

Q2 2015	Q1 2016	Q2 2016	Δ Q2 (%)	Main Indicators	H1 2015	H1 2016	Δ H1 (%)
869.6	1,363.5	486.4	-44.07	Revenue	2,235.1	1,849.9	-17.23
941.6	1,316.3	594.1	-36.91	Income	2,241.2	1,910.4	-14.76
668.6	706.3	449.1	-32.83	Expenses	1,289.1	1,155.4	-10.37
273.1	610.0	145.0	-46.91	Gross Profit	952.1	755.0	-20.70
69.5	120.7	19.0	-72.62	Profit Tax	185.5	139.7	-24.69
203.6	489.3	125.9	-38.14	Net Profit	766.6	615.3	-19.74
261.4	602.6	138.8	-46.91	EBIT	926.8	741.4	-20.01
381.8	722.8	291.5	-23.64	EBITDA	1,223.7	1,014.3	-17.11
0.5	1.3	0.3	-38.34	Earnings per share (RON)	1.99	1.60	-19.78
23.4	35.9	25.9	10.61	Net Profit Rate (% from Revenue)	34.3	33.26	-3.03
30.0	44.2	28.5	-5.04	EBIT Ratio (% from Revenue)	41.5	40.1	-3.36
43.9	53.0	59.9	36.50	EBITDA Ratio (% from Revenue)	54.8	54.8	0.15
6,332	6,313	6,282	-0.79	Number of employees at the end of the period	6,332	6,282	-0.79

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

Revenue, profit and the other indicators calculated on their basis were set based on the estimated equivalent value of the natural gas quantities delivered in May and June, because the gas balance hasn't been finalised due to the lack of clear regulations on gas deliveries to household and assimilated consumers.

Summary of main indicators:

- ↳ *Total Income*, lower by RON 330.8 million, recorded a decrease by 14.8%, while total expenses were reduced by 10.4%. The evolution shows the warm weather, the decrease of natural gas demand in key sectors especially in the chemical fertiliser sector, the decrease of the gas demand for the minimum gas stocks for winter 2016-2017 as a result of an uncertain and uncoherent regulatory framework and the increased competition of import gas caused by the significant gas price drop in Europe.
- ↳ Although the net profit, EBIT and EBITDA are lower as compared to H1 2015, the financial indicator ratios as compared to revenue do not record significant deviations and are highly favourable: 33.3%, 40.1% and 54.8% (as compared to 34.3%, 41.5% and 54.80%, respectively during H1 of 2015), confirming the high profitability of the company;
- ↳ *EPS* (earnings per share) is RON 1.60/share.

Operational Results

Q2 2015	Q1 2016	Q2 2016	Δ Q2 (%)	Main Indicators	H1 2015	H1 2016	Δ H1 (%)
1,341	1,374	823	-38.6	Gas Produced (million m ³)	2,777	2,197	-20.9
97	100	54	-44.9	Petroleum Royalty (million m ³)	202	153	-23.9
3,600	2,051	1,590	-55.8	Condensate Production (tonnes)	5,512	3,641	-33.9
222.6	318.7	191.8	-13.9	Electricity delivered (GWh)	389.6	510.5	+31.0
38.9	931.0	0.0	-	UGS gas withdrawn services (million m ³)	1,190.1	931.0	-21.8
438.9	308.9	373.6	-14.9	UGS gas injection services (million m ³)	731.1	682.5	-6.6

Gas production was in the parameters expected when preparing the program for 2016, the achieved level representing 90.32% of the planned one.

Romgaz produced 2,197 million m³ of natural gas during the first half of 2016, 580 million m³ (20.9%) less than the gas produced in the same period of the previous year.

The production recorded in the analysed period is lower due to the challenges the company had to face, namely:

- ↳ the gentle winter leading to a lower natural gas consumption during the first quarter;
- ↳ the decrease of demand in the key sectors, caused by the international price drop (especially in the chemical fertiliser sector where the gas consumption has dropped by 49% as compared to last year) and the strong competition in the electricity generation sector;
- ↳ the decrease of gas demand for the minimum gas stocks for winter 2016-2017 as a result of the uncertain and uncoherent regulatory framework. Therefore, third parties injected in Romgaz storages in H1 2016 489 million m³; by 103 million m³ lower than in H1 2015, namely approx. 17% less;
- ↳ a relatively large gas stock belonging to Romgaz at the end of winter 2015-2016. The storage stock was of 795.8 million m³ out of which Romgaz stock was 723 million m³ representing 92%;
- ↳ the high competition of the import gas caused by the significant gas price drop in Europe. Therefore, as compared to H1 2015, the gas import increased in H1 2016 by 230%, namely by 179 million m³.

The increase of *electricity quantities* is strictly related to the high temperatures recorded during the cold season, therefore the 200 MW energy unit operated during Q1 2016.

	2015	2016	Ratio
1	2	3	4=3/2x100
Q 1	167,007.91	318,720.48	190.84%
Q 2	222,680.04	191,846.53	86.15%
H 1	389,687.95	510,567.01	131.02%

1.2. Highlights

Romgaz made a new important hydrocarbon discovery in Romania.

The production tests performed at two exploration wells confirm an important hydrocarbon accumulation. The results of the drill stem tests (DST) predict daily productions between 1400 and 2200 BOE/well. The contingent resource, evaluated based on drilling data, including well geophysics, mechanical cores and fluid tests and also further to sizing the trap by 3D seismic data, is estimated to be between 150 and 170 million BOE.

January 27, 2016

Government Ordinance no.11 has been adopted on amending and supplementing Government Ordinance no.26/2013 on strengthening the financial discipline of economic operators where the state or the territorial administrative units are sole or major shareholders or hold, directly or indirectly, a major interest share. The most important amendment having an impact on Romgaz activity stipulated that the income and expenditure budget does not have to be approved by a resolution of the Romanian Government before its approval by the company's shareholders.

February 22, 2016

Mrs. Baciu Sorana resigned as director, Mr. Tcaciuc Sebastian-Gabriel has been appointed on the vacant position as temporary director starting with February 23, 2016.

March 23, 2016

ANRE issued *Order no.9/2016 on extending the application period of Order no.58/2015 of the President of the Regulatory Authority for Energy regarding the establishment of regulated tariff for the provision of natural gas underground storage services by Societatea Națională de Gaze Naturale "ROMGAZ" – S.A. Medias.*

March 25, 2016

In compliance with the Resolution of the Ordinary General Meeting of Shareholders no.2 of March 18, 2015 the director mandate held by Mr. Dorcioman Dragos terminated.

By Resolution no.3 of the Ordinary General Meeting of Shareholders Mr. Jude Aristotel-Marius has been appointed director on the vacancy further to the termination of Mr. Dorcioman Dragos mandate. The same OGMS Resolution approved the appointment of Mr. Tcaciuc Sebastian-Gabriel as director.

May 27, 2016

Law 111/2016 has been adopted for approving Government Emergency Ordinance no.109/2011 regarding corporate governance of public enterprises, substantially amending the approved Ordinance.

June 16, 2016

The 2016 Income and Expenditure Budget was approved by *Resolution of the Ordinary General Meeting of Shareholders no.5/2016.*

June 28, 2016

The Government issued GD no. 461/2016 amending the annex of GD no. 488/2015 on setting the acquisition price of gas from domestic production for households and thermal energy producers for the amount of natural gas used to produce thermal energy in cogeneration power plants and in thermal power plants meant for the consumption of the population; the Romanian Government approved to maintain the domestic gas price at RON 60.00 MWh for the period July 1, 2016 – March 31, 2017.

According to GD no.488 of July 1, 2015 on setting the acquisition price of gas from domestic production for households and thermal energy producers, only for the amount of natural gas used to produce thermal energy in cogeneration power plants and in thermal power plants meant for the consumption of the population, during July 1st 2015 – June 30th 2021, the price had to increase to RON 66.00 MWh starting with July 1, 2016.

II. COMPANY OVERVIEW

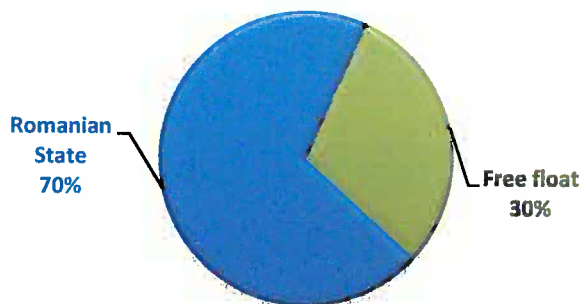
The company undertakes business in the following segments:

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

Shareholder structure

As of June 30, 2016, the shareholder structure is as follows:

	Number of shares	%
The Romanian State ¹	269,823,080	70.0071
Free float – total, out of which:	115,599,320	29.9929
*legal persons	94,283,518	24.4624
*natural persons	21,315,802	5.5305
Total	385,422,400	100.0000



Company Organization

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

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

- Medias Production Branch
- Târgu Mureş Production Branch
- Ploiesti Storage Branch
- SIRCOSS – Branch for Well Workover, Recompletions and Special Well Operations
- STTM – Technological Transport and Maintenance Branch

¹ The Romanian State through the Ministry of Energy

- SPEE – Iernut Power Generation Branch
- Bratislava Branch

Company Management

The company is governed by a **Board of Directors** composed of 7 members, having on June 30, 2016 the following structure:

Item no.	Name	Institution of employment	Position in the Board
1	Negrut Aurora	Ministry of Energy	Chairperson
2	Popescu Ecaterina	SC "Chimforex" SA	Member
3	Metea Virgil Marius	SNGN "Romgaz" SA	Member
4	Jansen Petrus Antonius Maria	Associate Lecturer London School of Business and Finance	Member
5	Chisalita Dumitru	Transilvania University Brasov	Member
6	Tcaciuc Sebastian Gabriel	Auris Capital	Member
7	Jude Aristotel	Ministry of Energy	Member

The *directors CVs* can be found on the company webpage at: <https://www.romgaz.ro/en/ca>

On June 30, 2016, the only director *holding shares of the company* (5,513 shares purchased in the IPO, representing 0.00143038% of the share capital) was Mr. Metea Virgil Marius.

Virgil Marius Metea - Director General (CEO)

The Board of Directors appointed Mr. Virgil Marius Metea by Resolution no. 8 of June 12, 2013, as Director General and delegated him responsibilities and duties related to internal management and representation.

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

Name	Position
ROMGAZ - Headquarters	
Rotar Dumitru Gheorghe	Deputy Director General
Dobrescu Dumitru	Deputy Director General
Ionascu Lucia	Economic Director
Cindrea Corin Emil	QHSE Director
Ciolpan Vasile	Energy Trade Director
Terciu Iulian Emil	Human Resource Management Director
Stancu Lucian Adrian	Corporate Management Director
Bodogae Horea Sorin	Procurement Director
Pavlovschi Vlad	Business Development Director
Balasz Bela Attila	Energy Management Director
Morariu Dan Nicolae	Information Technology and Telecommunication Director
Birsan Mircea Lucian	Technical Director



Chertes Viorel Lucian	Management Support Director
Medias Branch	
Man Ioan Mihai	Director
Achimet Teodora Magdalena	Economic Director
Sutoiu Florinel	Production Director
Seician Daniel	Technical Director
Targu Mures Branch	
Stefanescu Dan Paul	Director
Caraivan Viorica	Economic Director
Rusu Gratian	Production Director
Baciu Marius Tiberiu	Technical Director
Ploiesti Branch	
Carstea Vasile	Director
Ionescu Viorica Maria	Economic Director
Vecerdea Dan Adrian	Storage Director
Iernut Branch	
Bircea Angela	Director
Vlassa Susana Ramona	Economic Director
Oprea Maria Aurica	Commercial Director
David Stefan	Technical Director
SIRCOSS	
Dinca Ispasian Ioan	Director
Bordeu Viorica	Economic Director
Gheorghiu Sorin	Technical Director
STTM	
Pop Traian	Director
Ilinca Cristian Alexandru	Economic Director
Cioban Cristian Augustin	Operation-Development Director

The following changes have been made as of August 1, 2016:

Name	Position
ROMGAZ - headquarters	
Ștefănescu Dan Paul	Exploration Production Director
Țirgu Mureș Branch	
Dincă Ispasian Ioan	Director

The table below shows the number of shares held by the executive management as of June 30, 2016:

Item no.	Name	Number of shares	Share in the share capital (%)
0	1	2	3
1	Rotar Dumitru Gheorghe	10.611	0.00275308
2	Cârstea Vasile	412	0.00010690

3	Morariu Dan Nicolae	52	0.00001349
4	Dincă Ispasian Ioan	48	0.00001245
5	Vecerdea Dan Adrian	45	0.00001168
6	Balasz Bela Atila	38	0.00000986

Human Resources

On June 30, 2016 the company had a number of 6282 employees.

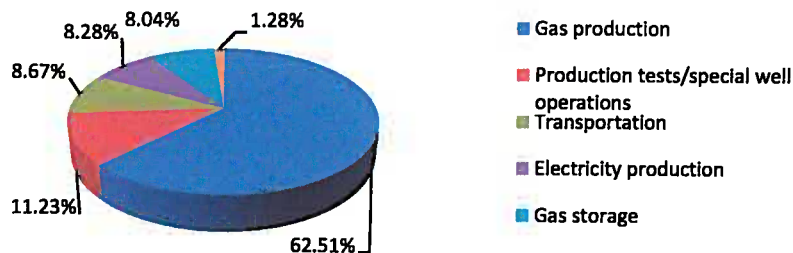
The table below shows the evolution of the employees' number between January 1, 2013 – June 30, 2016:

Description	2013	2014	2015	H1 2016
1	2	3	4	5
Employees at the beginning of the period	5921	6472	6344	6356
Newly hired employees	681 ^{*)}	92	159	45
Employees who terminated their labour relationship with the company	130	220	147	119
Employees at the end of the period	6472	6344	6356	6282

^{*)} the increase is due to the takeover of CTE Iernut

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

a) by activities



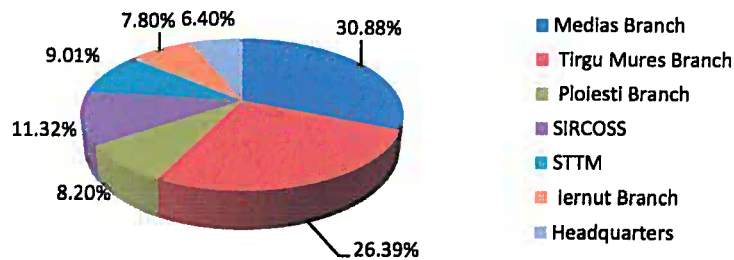
b) by level of education

- University 23.19%;
- Secondary school 26.07%;
- Foreman school 3.88%;
- Vocational school 34.50%;
- Middle school 12.36%;

c) by age

- below 30 years 3.68%;
- 30-40 years 16.19%;
- 40-50 years 40.58%;
- 50-60 years 30.95%;
- above 60 years 8.60%;

d) by headquarters and branches



e) by categories

Entity	Workers	Foremen	Office	Total
1	2	3	4	5
Headquarters	31		371	402
Mediaş Branch	1,504	91	345	1,940
Tirgu-Mureş Branch	1,329	51	278	1,658
Ploieşti Branch	329	29	157	515
SIRCOSS	514	50	147	711
STTM	435	18	113	566
Iernut Branch	330	46	114	490
TOTAL	4,472	285	1,525	6,282

Romgaz on the stock exchange

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

	June 30, 2014	June 30, 2015	June 30, 2016
Number of shares	385,422,400	385,422,400	385,422,400
Closing price (RON)	34.70	36.40	25.10
Market capitalization			
*mil. RON	13,374	14,029	9,674
*mil. Euro	3,048	3,136	2,140

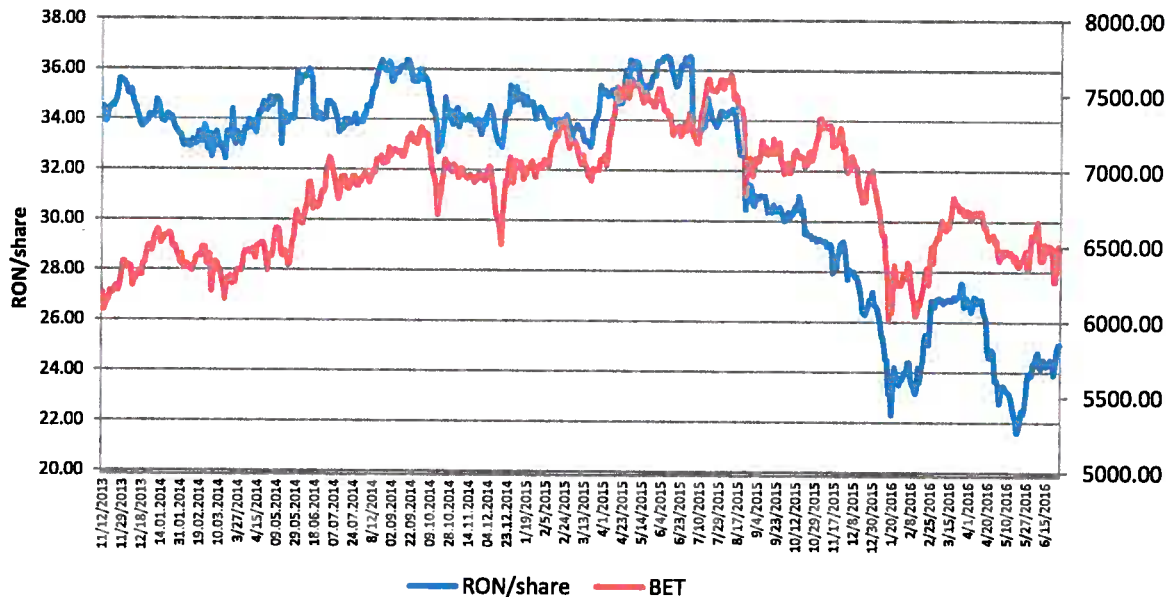
At the end of H1 2016 Romgaz shares were quoted at RON 25.1, being 31% below the closing price on June 30, 2015.

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

- 2nd place by market capitalization in the top of local issuers on BVB main segment. Having a market capitalization of RON 9,674.2 million, namely Euro 2,139.8 million on June 30, 2016, Romgaz is the second largest company listed in Romania, after OMV Petrom with a capitalization of RON 13,594.6 million, namely Euro 3,007.0 million;

- 2nd place by trading value in H1 2016 in the top of local issuers on BVB main segment (RON 988.35 million), after Banca Transilvania; the high trading value is due to the sale by Fondul Proprietatea of 5.26% Romgaz share capital (20,286,910 shares), filed on April 21, 2016, in amount of RON 486.9 million;
- According to the latest quarterly adjustments: 11.20% and 10.36% weight in the BET index (top 10 issuers) and namely in the BET-XT (BET Extended), 22.92% in the BET-NG index (energy and utilities), 11.87% in the BET-TR index (BET Total Return), 6.87% in the ROTX index (Romanian Traded Index);
- the issuer Romgaz is also included in the global indices allocated for Romania, for example FTSE (Financial Times Stock Exchange), MSCI (Morgan Stanley Capital International), S&P (Standard & Poor's), STOXX (oriented mainly on European markets), Russel Frontier.

Performance of Romgaz shares compared to the BET index, from listing until June 30, 2016 is shown below:



III. REVIEW OF THE COMPANY'S BUSINESS

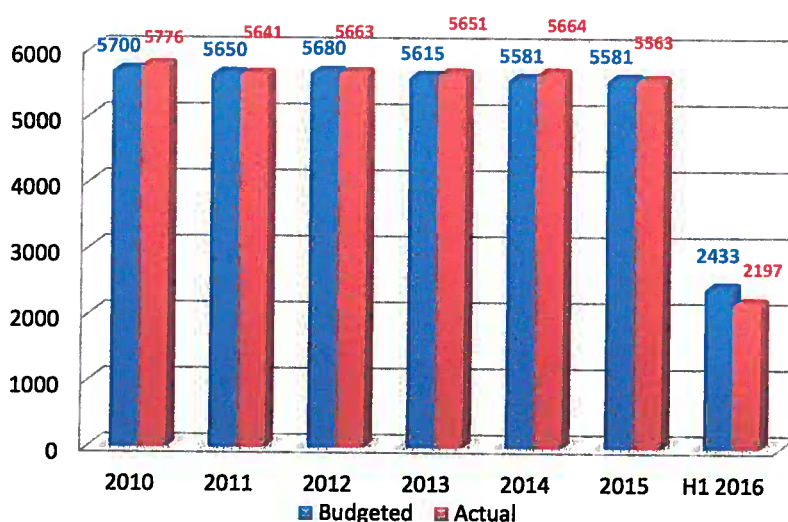
3.1. Operational Results

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

A retrospective analysis on the natural gas volumes produced between 2010- 2016 is shown below:

Specifications	2010	2011	2012	2013	2014	2015	H1 2016	
1	2	3	4	5	6		7	
Budgeted (mil.m ³)	5,700	5,650	5,680	5,615	5,581	5,581	2,433	
Actual (mil.m ³)	5,776	5,641	5,663	5,651	5,664	5,563	2,197	
Differences (Actual-Budgeted)	mil.m ³	+76	-9	-17	+36	+23	-18	-235
Actual	[%]	101.3	99.8	99.7	100.7	100.8	99.7	90.32

The figure below shows the evolution of gas volumes produced between 2010 - 2015 and in *H1 2016*, budgeted vs actual:



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

Further to restructuring and modernisations performed in the last five years, the company has strengthened its activities by:

- ↳ Sustained investments for modernising the surface facilities;
- ↳ Modernising the infrastructure of compressor stations (overhaul or new stations), reducing gas gathering pressure by installing booster compressors (currently 17 booster compressors and 7 mobile booster compressors are operating).

During this period the following compressor stations were modernised and equipped with new, performant units: Delenii, Cristur, Filitelnic, Balda, Sânmărtin and Grebeniş;

- ↳ All commercial gas delivery points were equipped with flow computers that enable the remote monitoring of the main parameters (pressure, temperature, gas flow);
- ↳ Gas quality increased after modernising the existing gas dehydration stations and installing new stations with state of the art technology and higher efficiency (currently 71 silica gel, glycol and deliquescent salt dehydration stations are operating). Dehydration capacity of the gas delivered by Romgaz is 99%.

The table below shows the gas quantities produced, delivered, injected/withdrawn in/from the underground storage during January – June 2016 compared to the similar period of years 2014 and 2015 (million m³):

Item no.	Specifications	H1 2014	H1 2015	H1 2016	Ratios
0	1	2	3	4	5=4/3x100
1.	Gross productions – total, out of which:	2,865.6	2,776.7	2,197.4	79.1%
1.1.	*own gas	2,772.6	2,675.6	2,123.1	79.4%
1.2.	*Schlumberger joint venture (100%)	93.0	101.1	74.4	73.6%
2.	Technological consumption	40.3	39.5	26.6	67.3%
3.	Net own gas production (1.-1.2.-2.)	2,732.3	2,636.1	2,096.4	79.5%
4.	Own gas stored in UGS	75.8	143.2	210.4	146.9%
5.	Own gas withdrawn from UGS	450.5	293.3	308.9	105.3%
6.	Difference from conversion to Gross Calorific Value	0.4	3.1	0.0	
7.	Delivered own gas (3.-4.+5.-6.)	3,106.6	2,783.1	2,194.9	78.9%
8.	Gas delivered to CTE Iernut and Cojocna	188.2	118.3	152.2	128.7%
9.	Own gas delivered to the market (7.-8.)	2,918.4	2,664.8	2,042.7	76.7%
10.	Gas from joint ventures^{*)} – total, out of which:	89.8	85.9	75.8	88.2%
	*Schlumberger (50%)	46.5	50.5	37.2	73.7%
	*Raffles Energy (37.5%)	0.5	0.2	0.2	100.0%
	*Amromco (50%)	42.8	35.2	38.4	109.1%
11.	Gas acquisition from domestic production	9.1	8.1	7.0	86.4%
12.	Traded domestic gas (9.+10.+11.)	3,017.3	2,758.8	2,125.5	77.0%
13.	Gas delivered from domestic production (8.+12.)	3,205.5	2,877.1	2,277.7	79.2%
14.	Delivered import gas	69.9	2.2	6.8	309.1%
15.	Total delivered (13.+14.)	3,275.4	2,879.3	2,284.5	79.3%
*	Invoiced UGS gas withdrawal services	1,169.4	1,190.1	931.0	78.2%
*	Invoiced UGS gas injection services	609.6	731.1	682.5	93.4%

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

3.2. Financial results

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

RON thousand

Item no.	Specifications	HI 2015	HI 2016	Ratios (2016/2015)
0	1	2	3	4=3/2x100
1	Income – total, out of which:	2,241,217	1,910,392	85.2%
	*operating income	2,215,524	1,896,307	85.6%
	*financial income	25,693	14,085	54.8%
2	Revenue	2,235,108	1,849,903	82.8%
3	Expenses – total, out of which:	1,289,077	1,155,388	89.6%
	*operating expenses	1,278,354	1,145,483	89.6%
	*financial expenses	10,723	9,905	92.4%
4	Gross profit	952,140	755,004	79.3%
5	Income tax	185,531	139,737	75.3%
6	Profit net	766,609	615,267	80.3%

The total income for H1 2016 was lower than the income for the similar period of 2015 by 14.8%.

Financial results

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

Description	H1 2015	H1 2016	Ratios (2016/2015)
1	2	3	4=3/2x100
Operating result	937,170	750,824	80.1%
Financial result	14,970	4,180	27.9%
Gross result	952,140	755,004	79.3%
Income Tax	(185,531)	(139,737)	75.3%
Net result	766,609	615,267	80.3%

Gross result achieved in H1 2016 is RON **755,004 thousand**, lower by 20.7% than the achieved result in the similar period of 2015.

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

Indicators	Calculation formula	M.U.	H1 2015	H1 2016
1	2	3	4	5
Working Capital (WC)	$C_{lt}-A_f = E+L_{nc}+Pr+S_i-A_f$	mil.RON	3,073	3,233
Working Capital Requirement (WCR)	$(A_c-L+P_p) - (L_{crt}+Cr_{st}+I_{df})$	mil.RON	443	2,081
Net Cash Flow	$WC-WCR = D-Cr_{ts}$	mil.RON	2,630	1,152
Economic Rate of Return	$P_g/C_{lt} \times 100$	%	9.83	7.84
Return on Equity (ROE)	$P_n/Ex \times 100$	%	8.27	6.64
Return on Sales	$P_g/R \times 100$	%	42.60	40.81
Return on Assets	$P_n/A \times 100$	%	6.74	5.55
EBIT	$P_g+Ex_i-I_r$	mil.RON	927	741
EBITDA	$EBIT+Am$	mil.RON	1,224	1,014
ROCE	$EBIT/C_{emp} \times 100$	%	9.56	7.70
Current Liquidity	A_{crt}/L_{crt}	-	2.82	3.22
Asset Solvency	$E/L \times 100$	%	81.41	83.63

where:

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

3.3. Prices and tariffs

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

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

- intended for household consumption, irrespective of their option to be eligible or regulated customers;
 - supply of last resort of natural gas to final consumers at regulated price and under frame contracts;
 - administration of centralised markets;
 - natural gas transmission;
 - natural gas transmission through upstream supply pipelines, in accordance with the provisions of license validity conditions;
 - underground gas storage;
 - natural gas storage in pipelines;
 - natural gas, bio-gas and bio-methane distribution;
 - related activities performed by licensed operators;
- ✎ prices and tariffs on the regulated market are set by ANRE, based on methodologies approved and published by the authority, after informing and consulting all interested parties;
- ✎ the calendar for gradual deregulation of prices for the final customers is set by the Government in compliance with the schedule of producer price progress proposed by ANRE and ANRM, taking into account possible adverse effects of price deregulation, in order to mitigate the consequences for customers;
- ✎ ANRE will annually monitor the results of the gradual price deregulation calendar and, as the case may be, submit to the Government the proposal to trade domestic gas production on the domestic market until fulfilment of the approved calendar.

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

Underground gas storage

The storage tariffs applied during the two compared periods:

- ✎ *For the period January 1 - March 31, 2015* the tariffs are those approved by the ANRE Order no.29 of April 9, 2014; and
- ✎ *For the period April 1, 2015 – June 30, 2016* the tariffs are those approved by the ANRE Order no.58 of March 27, 2015.

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

The storage tariffs applied during the two compared periods are shown in the table below:

Tariff Component	Unit	Tariffs (01.01.2015- 31.03.2015)	Tariffs (01.04.2015- 30.06.2016)
Volumetric component related to gas injection	RON/MWh	2.53	2.37
Fixed component related to storage capacity booking	RON/MWh storage cycle	13.14	13.68
Volumetric component related to gas withdrawal	RON/MWh	1.80	1.87

Natural Gas Distribution

Distribution tariffs applied during H1 2016 were approved by Order 133/2015 on establishing the regulated tariffs for distribution services, and approving the prices for the regulated gas supply performed by Societatea Nationala de Gaze Naturale "Romgaz" - S.A. Medias.

The final regulated prices applied during H1 2016 are specified in ANRE Order 133/2015.

3.4. Investments

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

During 2013 - June 30, 2016 the company made investments in amount of approx. RON 3.10 billion. A yearly split is shown below:

Period	2013	2014	2015	H1 2016	Total
Value (thousand RON)	848,247	1,085,500	937,916	228,191	3,099,854

For 2016, Romgaz scheduled investments of RON 1,020.00 million. For H1 2016, the scheduled investments were RON 444.0 million and the level of actual investments was RON 228.19 million; the investment schedule has a 51.39% degree of fulfilment.

Investments were financed exclusively from own sources.

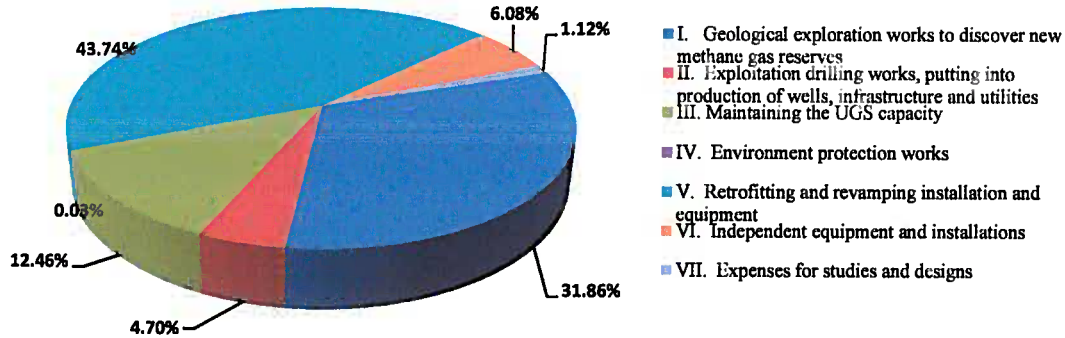
In terms of value, S1 2016 investments are smaller as compared to S1 2015, due to the following:

- there is no exploration activity scheduled for 2016 due to the company's fulfilment of this mandatory ANRM requirement by December 31, 2015. Investments made in S1 2015 for this activity amounted RON 76 million;
- In comparison with the allocated amounts and upon physical completion of scheduled works, savings were recorded for well reactivation/recompletion works and capitalizable repairs;
- Unclear legislative context relating to the liability (of contract beneficiaries or of the Road Administration Authority) for performing works on public roads providing access to well locations.

The table below shows a comparison between H1 2015 and H1 2016 split onto main investment categories:

Investment Categories	*thousand RON*		
	H1 2015	H1 2016	%
	1	2	3 4=3/2x100
I. Geological exploration works to discover new methane gas reserves	306,838	72,704	23.69
II. Exploitation drilling works, putting into production of wells, infrastructure and utilities	25,053	10,730	42.83
III. Maintaining the UGS capacity	12,907	28,442	220.36
IV. Environment protection works	4,014	66	1.64
V. Retrofitting and revamping of installation and equipment	100,491	99,818	99.33
VI. Independent equipment and installations	24,056	13,879	57.69
VII. Expenses related to studies and projects	6,543	2,552	39.00

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



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

Item No.	Main physical objectives	Planned	Results
1.	Exploratory drilling	31 wells	- completed: 6 wells - in progress: 4 wells - procurement in progress: 5 wells - drafting tender documentation: 12 wells
2.	Drilling design	40 wells	3 well – completion of designs
3.	Production drilling	3 wells	designs are in progress
4.	Construction of surface facilities – gas wells	30 wells	- completed: 14 wells - designs in progress: 9 - permits and approvals are pending: 18
5.	Sustaining the storage capacity	Sarmasel UGS: - compressor station - drilling 4 wells Urziceni UGS - drilling 3 wells	100%, organizing final acceptance - completed: 1 well - in progress: 3 wells Completion of designs Permits and approvals are pending
6.	Well modernization	71 wells, schedule correlated with the annual plan agreed with ANRM	- completed: 57 wells - in progress: 20 wells
7.	Well capitalizable repairs and modernization (recompletion/reactivation)	168 wells, correlated with the annual plan agreed with ANRM	- completed: 80 wells - in progress: 20 wells
8.	Electric power production	Procurement of refurbishment works	Initiation of procurement procedure
9.	Partnerships	Aurelian Petroleum - drilling 1 well	completed

Lukoil: - drilling 1 well in the Black Sea offshore	Ongoing studies and data interpretation to substantiate the continuance of exploration
Schlumberger: - drilling works and surface facilities at 1 well	in progress
Amromco: - drilling 3 wells - repairs at 3 wells	- completed: 1 well - in progress: 2 wells - repairs completed at 2 wells
Slovakia: - drilling 3 wells - G&G studies	in progress completed

During the reviewed period, investments in amount of RON 126,193 thousand were commissioned.

At the end of H1 2016, approx. 65% of the annual investment budget, i.e. RON 1,020 million, was contracted.

Development of CTE Iernut

One of Romgaz main strategic directions specified in the *2015-2025 Development Strategy* is to consolidate the company's position on the energy supply markets. In the field of power generation, Romgaz planned to "make the activity more efficient by making investments aiming to increase Iernut power plant conversion efficiency at minimum 55%, to comply with environmental requirements (NOX, CO₂ emissions) and to increase operational safety".

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

- comparing electricity generation efficiency (specific fuel consumption) of existing groups with international performance of installations based on a combined gas-steam cycle (conversion efficiency of 55-59%) indicates a 15-20% difference in terms of conversion efficiency in favour of combined-cycle installations;
- by using a combined-cycle concept, operating flexibility of the groups and reduction of emissions (CO₂, NOX etc.) are added to the increase of conversion efficiency;
- the current need to reduce electricity generation costs correlated with hydrocarbon consumption reduction outlines the requirement to use efficient technology with specific minimum consumption.

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

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

- develop and operate CTE Iernut without concluding an association in participation contract with legal or natural persons;

- finance the investment to develop CTE Iernut from own sources and by accessing funds under PNI (National Investment Plan);
- conclude, as soon as possible, a contract for works with the scope of developing CTE Iernut by building a new power plant under a constructive concept, a combined-cycle gas turbine (CCGT) with an installed power of maximum 430 MW and gross electric efficiency at nominal load of minimum 55%.

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

The tender documentation for the contract “*Development of CTE Iernut by means of constructing a new thermal power plant with combined-cycle gas turbine with a nominal capacity ranging between 380-430 MW*” was drafted and transmitted for validation and publishing on SEAP (Electronic Public Procurement System).

3.5. Litigations

The summarized statement of litigations involving Romgaz shows the following:

- ☐ Total number of litigations is 113 (excluding labour-related litigations, specific performance obligations etc.):
 - ☒ 68 cases where Romgaz is plaintiff;
 - ☒ 40 cases where Romgaz is defendant;
 - ☒ 5 cases where Romgaz is plaintiff claiming damages/injured party
- ☐ The total value of the files where Romgaz is plaintiff amounts to RON 1,301,781,299.97;
- ☐ the total value of the files where Romgaz is defendant amounts to RON 11,985,956.66.

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

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

Item no	Contracting Party	Contract Number/Date	Scope of contract	Value, VAT excluded (RON)
1	SC CET Govora SA	6/30.06.2016	sale-purchase of natural gas	18,638,928.00
2	SC Electrocentrale București SA ^{*)}	7/30.06.2016	sale-purchase of natural gas	1,915,657.50
		34/16.11.2015 extended and amended by effect of Addendums 4,5,6/2016	sale-purchase of natural gas	567,051,843.08
3	SC Electrocentrale Galați SA ^{*)}	32/18.11.2016 extended and amended by effect of Addendums 3,4,5/2016	sale-purchase of natural gas	17,403,887.95
4	SC Electrocentrale Galați SA ^{*)}	33/18.11.2016 extended and amended by effect of Addendums	sale-purchase of natural gas	22,683,516.97



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Item no	Contracting Party	Contract Number/Date	Scope of contract	Value, VAT excluded (RON)
5	SC Electrocentrale Oradea SA	4,5,6/2016 2/22.01.2016	sale-purchase of natural gas	3,585,899.23
6	SNTGN Transgaz SA	Protocols 2,4/2016 12.211/2016	sale-purchase of natural gas supply of UGS services	629,581.08 6,279,168.96

^{*)} –estimated value of the contracts is updated with the addendums concluded for H1 2016

IV. FINANCIAL-ACCOUNTING INFORMATION

4.1. Statement of Interim Financial Position

The table below presents a summary of the statement of the individual financial position as of June 30, 2016 and as compared to December 31, 2015:

INDICATOR	December 31, 2015 (thousand RON)	June 30, 2016 (thousand RON)	Variation (%)
1	2	3	4=(3-2)/2x100
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	5,996,460	5,884,415	-1.87%
Other intangible assets	399,859	398,668	-0.30%
Investments in subsidiaries	1,200	1,200	0.00%
Investments in associates	163	125	-23.31%
Other financial assets	29,300	39,400	34.47%
Other financial investments	70,080	69,657	-0.60%
TOTAL NON-CURRENT ASSETS	6,497,062	6,393,465	-1.59%
<i>Current assets</i>			
Inventories	559,784	526,026	-6.03%
Trade and other receivables	601,065	414,488	-31.04%
Other financial assets	2,146,827	2,438,225	13.57%
Other assets	139,612	156,382	12.01%
Cash and cash equivalents	740,352	1,152,293	55.64%
TOTAL CURRENT ASSETS	4,187,640	4,687,414	11.93%
TOTAL ASSETS	10,684,702	11,080,879	3.71%
EQUITY AND LIABILITIES			
<i>Equity</i>			
Share capital	385,422	385,422	0.00%
Reserves	2,581,853	2,927,883	13.40%
Retained earnings	6,724,947	5,953,544	-11.47%
TOTAL EQUITY	9,692,222	9,266,849	-4.39%
<i>Non-current liabilities</i>			
Retirement benefit obligation	102,959	100,942	-1.96%
Deferred tax liabilities	62,589	59,489	-4.95%
Provisions	200,855	199,048	-0.91%
Total non-current liabilities	366,403	359,479	-1.89%
<i>Current liabilities</i>			
Trade and other payables	186,937	192,252	2.84%
Current tax liabilities	90,838	25,291	-72.16%
Provisions	28,779	33,830	17.55%
Other liabilities	319,523	1,203,178	+276.55%
Total current liabilities	626,077	1,454,551	132.33%
TOTAL LIABILITIES	992,480	1,814,030	82.78%
TOTAL EQUITY AND LIABILITIES	10,684,702	11,080,879	3.71%



Non-current assets

The total non-current assets decreased by 1.59%, i.e. RON 103.60 million, from RON 6,497.6 million on December 31, 2015 to RON 6,393.47 million on June 30, 2016. The decrease is due, mainly, to a lower volume of investments in gas exploration and production assets as compared to their depreciation and shut-down.

Currents assets

Current assets increased by RON 499.77 million on June 30, 2016, due to the increase of the value of investments of available government securities and bank deposits.

Inventories

The decrease by 46.03 % (RON 33.76 million) on June 30, 2016 as compared to December 31, 2015, mainly due to decrease of gas stock, both of gas from internal production (RON 19.40 million) as well as gas purchased for resale (RON 10.18 million), as a result of Q1 2016 deliveries, decrease compensated by gas storage, as from April 2016.

Trade and other receivables

Trade receivables decreased by 31.04 % as compared to December 31, 2015, as a result of lower sales made in Q2 2016, as compared to Q4 2015.

In H1 ended on June 30, 2016, an allowance for doubtful debts of RON 77.95 million was established as regards the receivables from Electrocentrale Bucuresti (ELCEN). As from August 2016, gas deliveries towards this client were restarted based on two advance payment contracts (for regulated market and for free market).

On June 30, 2016, the receivable against ELCEN was of RON 316,045 thousand. At the end of July 2016, following negotiations between the two parties, a debt rescheduling agreement was concluded for the amount of RON 110,418 thousand for a three year period, the first due instalment was in August 2016. Also, for the amount of RON 187,249 thousand, a transaction was concluded through which the litigation between the Company and ELCEN is paid off, resulting that, by the end of the legal procedures completion, a debt rescheduling agreement should be concluded for a period of three years. For the rest of the outstanding amount, the two parties shall continue negotiations in order to identify a modality to pay off the receivable. Considering the difficulties met by the Company to recover the receivable, the allowance for doubtful debts recorded for interim individual financial statements on June 30, 2016 shall be written-back only as the due instalments are collected, according to the debt rescheduling agreement.

Cash and cash equivalents. Other financial assets

On June 30, 2016, cash, cash equivalents and other financial assets amounted to RON 3,629.92 million, as compared to RON 2,916.48 million at the end of 2015. From these liquid assets, the dividends related to 2015 were paid in July, as approved by the company's shareholders.

Other assets

Other assets increased insignificantly on June 30, 2016 as compared to December 31, 2015, mainly as a result of the increase of prepayments, representing the tax on special constructions, which is to affect the costs, staggered over the next period of 2016.

Equity

Retained earnings of the company decreased by 4.39% (RON 425.37 million), being adversely influenced by the dividends granted to shareholders, of 2015 profit, according to

GMS Resolution and positively influenced by the net result of the reporting period (RON 615.27 million).

Non-current liabilities

The non-current liabilities decreased as compared to December 31, 2015, mainly as a result of the amendment of the provision constituted for decommissioning of production and storage wells owned by the company.

Current liabilities

Current liabilities increased by RON 828.47 million, from RON 626.08 million as recorded on December 31, 2016, to RON 1,454.55 million, the amount recorded on June 30, 2016.

Trade and other payables

Trade liabilities increased by 2.84% as compared to December 31, 2015, as a result of the collection in advance of the gas delivered equivalent value (RON 105.09 million on June 30, 2016, as compared to RON 56.71 million on December 31, 2015). This increase is due to the fact that invoices for the gas delivered in May and June were not issued and the advances have not been settled with the receivables.

Current Tax Liabilities

Current tax liabilities decreased by 72.16% as a result of a smaller income tax for Q2 2016, as compared to Q4 2015.

Other liabilities

Other liabilities increased by 276.55% as a result of the company's tax liability towards the shareholders, representing the distributed dividends, according to GMS Resolution, out of 2015 profit.

Provisions

Short-term provisions increased by 17.55% as compared to the year ended on December 31, 2016, as a result of the provision constituted for decommissioning of production and storage wells.

4.2. Statement of Interim Comprehensive Income

The synthesis of the profit and loss account of the company for the period January 1 - June 30, 2016 as compared to the similar period of 2015 is shown below:

Description	H1 2015 (RON thousand)	H1 2016 (RON thousand)	Differences (RON thousand)	Variation (%)
1	2	3	4=3-2	5=4/2x100
Revenue	2,235,108	1,849,903	(385,205)	(17.23%)
Cost of commodities sold	(28,003)	(37,867)	9,864	35.22%
Investment income	25,348	13,624	(11,724)	(46.25%)
Other gains and losses	(188,773)	(130,984)	(57,789)	(30.61%)
Change in inventory	(41,433)	(17,639)	(23,794)	(57.43%)
Raw materials and consumables used	(40,713)	(29,343)	(11,370)	(27.93%)
Amortization, depreciation and impairment	(296,876)	(272,935)	(23,941)	(8.06%)
Employee benefit expense	(228,040)	(229,977)	1,937	0.85%
Finance cost	(9,105)	(9,167)	62	0.68%

Description	H1 2015 (RON thousand)	H1 2016 (RON thousand)	Differences (RON thousand)	Variation (%)
Other expenses	(497,204)	(444,648)	(52,556)	(10.57%)
Other income	21,831	64,037	42,206	193.33%
Profit before tax	952,140	755,004	(197,136)	(20.70%)
Income tax expense	(185,531)	(139,737)	(45,794)	(24.68%)
Net Profit	766,609	615,267	(151,342)	(19.74%)

Revenue

In H1 ended June 30, 2016, the Company's revenue decreased by 17.23% (RON 385.21million) as compared to the same period of the previous year.

The decrease by RON 421.27 million of the revenue from gas sale, both from Romgaz production, as well as from gas delivered as commodity and from associations was compensated to a small extent by the increase of revenue from sale of electric power and gas storage services as well as auxiliary services.

Cost of Commodities Sold

At the end of H1 2016, the cost of commodities sold increased by 35.22%, respectively by RON 9.86 million, as compared to the similar period of the previous year, as a result of increase of gas delivered as commodity.

Investment Income

In the reviewed period, investment income decreased by 46.25% (RON 11.72 million), as a result of reduction in interest rates of cash placed in bank deposits, as well as state bonds.

Other Gains and Losses

In H1 ended June 30, 2016, the Company recorded a net loss of RON 130.98 million, mainly due to allowances for doubtful debts as regards Electrocentrale București in amount of RON 77.95 million, as well as writing off of some non-current assets with a carrying value of RON 49.35 million.

The loss due to writing off of non-current assets was cancelled by the release of the impairment to income registered for these assets, as reflected by amortization and depreciation.

As compared to the same period of 2015, the net loss decreased by RON 57.79 million (30.61%), due to the reduction of the cost of allowance related to Electrocentrale Bucuresti and Electrocentrale Galati customers (from RON 185 million, in H1 2015, to RON 77.95 million, in H1 2016), adversely influenced by the increase of the cost related to carrying value of non-current written-off assets (from RON 1.48 million, in H1 2015, to RON 49.35 million, in H1 2016).

Changes in Inventory

In H1 2016 and 2015, gas volumes – Romgaz property- withdrawn from UGSs were higher than those injected, therefore generating a negative change in inventory (loss).

Raw Materials and Consumable Used

The value of consumables used was lower than in H1 ended June 2015, due to fewer regular well operations and works performed at compressor stations.

Depreciation, amortization and impairment

In Q1 2016, depreciation, amortization and impairment expenses of tangible and intangible non-current assets decreased as compared to the similar period of 2015, mainly due to an impairment in amount of RON -9.24 million (income), as compared to a net impairment of RON 5.95 million (expense) in H1 2015. Net income from impairment in amount of RON 9.24 million was recorded due to write-off of non-current assets impaired in the previous years.

Employee Benefit Expense

In the reviewed period, expenses with salaries, taxes and social contributions related to employees increased insignificantly (by 0.85%) as compared to the similar period of 2015. For 2016, such expenses are not expected as compared to 2015, the variation in H1 being merely a circumstantial one.

Other Expenses

Other Expenses recorded a decrease by RON 52.56 million, from RON 497.20 million on June 30, 2016, to RON 444.65 million on June 2016. This decrease is due, mainly, to taxes and duties expenses, especially to royalty and additional income tax, with lower values as compared to the previous period, by RON 29.26 million, respectively by RON 33.39 million, influenced by the level of production withdrawn from deposits and gas production delivered to customers. As compared to the previous period, the expenses with transmission of injected gas in underground storages increased, invoiced to the customers at the moment of withdrawal from the storages, as well as expenses with acquisition of CO₂ emissions certificates.

Other Revenue

In H1 2016, other revenue increased by 193.33%, meaning RON 42.21 million, as compared to the same period of the previous year and relates to increasing revenue generated by penalties invoiced to the clients due to late payment of invoices, as well as to increasing revenue generated by re-invoicing natural gas capacity booking and transmission services.

Income Tax Expense

In H1 2016, the Company's expense in terms of income tax was RON 142.84 million and deferred tax revenue by RON 3.1 million, the total income tax expense recorded a decrease of 24.68 % as compared to H1 2015.

Profit for the Period

In H1 2016, the Company's net profit decreased by RON 151.34 million (-19.74%), from RON 766.61 million in 2015 to RON 615.27 million in 2016, due to the cumulative effects of the above-mentioned factors.



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The table below shows the breakdown of the interim global result for the period January – June 2016, respectively January - June 30, 2015:

RON thousand

Description	Gas Production and Sale	Storage	Other Activities	Adjustments and Removals	TOTAL
1	2	3	4	5	6
<i>Revenue</i>					
*H1 2015	1,998,821	191,339	240,630	(195,682)	2,430,790
*H1 2016	1,574,438	194,890	270,321	189,746	2,039,649
<i>Cost of Commodities Sold</i>					
*H1 2015	(9,031)	(24)	(18,949)	-	(28,004)
*H1 2016	(15,399)	(408)	(22,060)	-	(37,867)
<i>Investment Income</i>					
*H1 2015	1,163	2,940	21,245	-	25,348
*H1 2016	456	2,256	10,912	-	13,624
<i>Other gains and losses</i>					
*H1 2015	(186,892)	(320)	(1,560)	-	(188,772)
*H1 2016	(129,153)	(721)	(1,110)	-	(130,984)
<i>Changes in Inventory</i>					
*H1 2015	(26,893)	(16,433)	1,893	-	(41,433)
*H1 2016	(10,843)	(8,442)	1,646	-	(17,639)
<i>Raw materials and consumables used</i>					
*H1 2015	(27,094)	(6,511)	(8,683)	1,575	(42,288)
*H1 2016	(19,824)	(4,658)	(5,995)	1,134	(30,477)
<i>Depreciation, amortization and impairment</i>					
*H1 2015	(235,349)	(44,641)	(16,887)	-	(296,877)
*H1 2016	(210,834)	(46,936)	(15,165)	-	(272,935)
<i>Employee benefit expenses</i>					
*H1 2015	(144,768)	(21,451)	(61,821)	-	(228,040)
*H1 2016	(146,642)	(21,929)	(61,406)	-	(229,977)
<i>Financial cost</i>					
*H1 2015	(8,376)	(729)	-	-	(9,105)
*H1 2016	(8,366)	(801)	-	-	(9,167)
<i>Other expenses</i>					
*H1 2015	(552,300)	(42,658)	(97,014)	194,768	(691,972)
*H1 2016	(480,322)	(44,800)	(108,731)	(189,205)	(633,853)
<i>Other income</i>					
*H1 2015	21,249	166	1,078	(662)	22,493
*H1 2016	63,408	568	654	593	64,630
<i>Profit before tax</i>					
*H1 2015	830,530	61,678	59,932	(273,078)	952,140
*H1 2016	616,919	69,019	69,066	-	755,004
<i>Income tax expense</i>					
*H1 2015	-	-	(185,531)	69,510	(185,531)
*H1 2016	-	-	(139,737)	-	(139,737)
<i>Net profit</i>					
*H1 2015	830,530	61,678	(125,599)	(203,568)	766,609
*H1 2016	616,919	69,019	(70,671)	-	615,267

4.3. Statement of Cash Flows

Statements of cash flows recorded in H1 2016 and respectively in H1 2015 are as follows:

INDICATOR	H1 ended June 30, 2015 (RON thousand)	H1 ended June 30, 2016 (RON thousand)	Variation (%)
1	2	3	4=(3-2)/2x100
Cash flow from operating activities			
Net Profit for the period	766,609	615,267	-19.74%
Adjustments for:			
Profit tax expenses	185,531	139,737	-24.68%
Interest expense	17	9	-47.06%
Unwinding of decommissioning provision	9,088	9,158	0.77%
Interest revenue	(25,348)	(13,624)	-46.25%
Loss on disposal of non-current assets	1,483	49,347	3,227.51%
Change in decommissioning provision recognized in result for the period, other than unwinding	(249)	(1,230)	393.98%
Change in other provisions	(3,055)	(4,911)	60.75%
Expenses for impairment of exploration assets	7,849	13,890	76.97%
Impairment of property, plant and equipment	(1,930)	(23,126)	1,098.24%
Depreciation and amortization expense	290,957	282,171	-3.02%
Impairment of other financial investments	633	(1,516)	-339.49%
(Gains)/Losses from disposal of other financial investments		1,577	n/a
Losses from trade and other receivables	185,325	78,537	-57.62%
Write-down allowance of inventory	1,308	3,021	130.96%
Cash generated from operations, before movements in working capital	1,418,218	1,148,307	-19.03%
Movements in working capital			
(Increase)/Decrease in inventory	35,699	30,861	-13.55%
(Increase)/Decrease in trade and other receivables	147,562	91,269	-38.15%
Increase/(Decrease) in trade and other liabilities	(159,558)	(145,558)	-8.77%
Cash generated from operations	1,441,921	1,124,879	-21.99%
Interest paid	(17)	(9)	-47.06%
Income tax paid	(214,934)	(208,384)	-3.05%
Net cash generated from operations	1,226,970	916,486	-25.30%
Cash flows from investing activities			
Acquisition of investments in associates	(89)	-	n/a
(Increase)/Decrease in other financial assets	667,541	(302,899)	-145.38%
Interest received	25,683	12,963	-49.53%
Proceeds from sale of non-current assets	19	5	-73.68%
Loan granted to associates	(679)	-	n/a
Loans reimbursed by the associates	65	-	n/a
Dividends received	1,634	-	n/a
Collections from disposal of other financial assets	-	400	n/a
Acquisition of non-current assets		(147,384)	-6.72%
Acquisition of exploration assets	(158,006)	(67,507)	-78.36%
	(311,984)		
Net cash used in investing activities	224,184	(504,422)	-325.00%
Cash flows from financing activities			
Dividends paid	(870)	(123)	-85.86%
Net cash used in financing activities	(870)	(123)	-85.86%
Net Increase/(Decrease) in cash and cash equivalents	1,450,284	411,941	-71.60%
Cash and cash equivalents at the beginning of the year	526,256	740,352	40.68%
Cash and cash equivalents as of June 30	1,976,540	1,152,293	-41.70%

The Company's Statement of cash flows is prepared using the indirect method, whereby net profit is adjusted for the effects of non-cash transactions, any deferrals or accruals of cash payments or receipts from operations, past or future, and items of income or expense associated with cash flows from investing or financing.

Reconciliation of net profit to cash flow generated from operating activities (before changes in net current assets) resulted in a positive change in the net adjustments of RON 1,148.3 million for the period January – June 2016, as compared to RON 1,1418.2 million for the similar period of 2015.

The most important movements in cash flows were the receipts for gas delivered to the customers of the Company, payments for acquisition of non-current assets (RON 147.4 million) and exploration assets in amount of RON 67.5 million.

V. PERFORMANCE OF THE MANDATE CONTRACT/DIRECTOR'S CONTRACTS

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

- ✎ **June 12, 2013** – The Board of Directors' Resolution no. 8 approves the appointment of Mr. Virgil Marius Metea as Executive Director - Director General;
- ✎ **July 26, 2013** – The GSM Resolution no. 12 approves the form of the Director's Contract to be concluded with the members of the Board;
- ✎ **September 25, 2013** – the GSM Resolution no. 16 approves the 2013-2017 Directors' Plan as prepared and presented by the Board of Directors;
- ✎ **December 16, 2013** – the Board's Resolution no. 29 approves the Mandate Contract concluded between Romgaz and Mr. Virgil Marius Metea as Executive Director-Director General.
- ✎ **January 29, 2014** – the Board's Resolution no. 1 approves the "*Management Plan for 2013-2017 i.e. the mandate period of the Director General of Societatea Nationala de Gaze Naturale "ROMGAZ" – S.A.*".

Objectives and Performance Criteria

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

Hence, performance criteria and objectives provided in the Director's Contracts are also performance criteria and objectives for the Director General's activity.

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

- ✎ Enhancement of the company's portfolio of gas resources and reserves by discovering new resources and by developing and improving the recovery degree of already discovered resources;
- ✎ Consolidation of the company's position on the electricity supply market;

- Optimization, development and diversification of the underground storage activity by reconsidering its importance with the aim of ensuring safety, continuity and flexibility of natural gas supply to customers;
- Enhancement of the company's performance;
- Identification of new growth and diversification opportunities;
- Enhancement of the company's organization structure, including the reorganization of the internal audit function.

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

- Human resources management;
- Corporate governance and social responsibility;
- Budgeting and control process optimization;
- Improving the company's image;
- Implementation of the legal provisions on UGS activity separation;
- Developing the role of the company's risk management.

Considering that the Management Plan was approved no earlier than January 2014, the reporting of measures and actions undertaken to fulfil the company's strategic objectives has been performed since Q1 2014.

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

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

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

In view of the fact that:

- pursuant to the provisions of the Government Decision no. 831 dated August 4, 2010, the Ministry of Economy, Commerce and Business Environment (through OPSP) was approved to sell through IPO a share package held at SNGN Romgaz S.A. representing 15% of the company's share capital;
- the sale process of the share package, respectively admission of shares to trading on the regulated market operated by the Bucharest Stock Exchange and GDRs on the London Stock Exchange was successfully completed in November 2013;
- before shares were admitted to trading on a regulated market, Romgaz carried out its activities in accordance with the Public Finance Ministry Order no. 3055/2009, as regards accounting regulations;
- in 2012, by issuing **Order no. 881 dated June 25, 2012**, the Public Finance Minister decided to expand the scope of IFRS. According to this piece of legislation, the companies whose securities are admitted to trading on a regulated market have to apply the IFRS when preparing the annual individual financial statements since 2012;
In accordance with the Public Finance Minister Order no. 1121/2006, these entities had the option (not the obligation) to prepare separate financial statements based on IFRS for other users than the Romanian state entities.
Order no. 881/2012 repeals Article 4 of Order no.1121/2006 requiring the IFRS applying entities to also draft financial statements in accordance with national accounting provisions;
- Pursuant to the **Public Finance Minister Order no. 1286/October 1, 2012**, Accounting Regulations complying with IFRS were approved, applicable to companies whose securities are admitted to trading on a regulated market.

Romgaz has to apply IFRS since 2013.

The company's statutory accounting was in accordance with the Public Finance Minister Order 3055/2009 before the company's shares were admitted to trading, and since 2013 it is the IFRS. Therefore, some clarifications are due on how performance indicators, as provided in the Director's Contracts and the Mandate Contract are calculated. The Board of Directors approved on November 13, 2013 the required clarifications:

- "quarter" means the cumulated time from the beginning of the year until the end of the quarter for which performance indicators are calculated;
- since 2014, for comparison purposes, for the interim periods of the year (Q1, Q2 and Q3), the indicators relating to the similar time periods of the previous 3 years which were calculated according to Public Finance Ministry Order no. 3055/2009 are established as follows:

$$Indicator_{Q_i}(IFRS) = \frac{Indicator_{Q_i}(OMFP3055)}{Indicator_{year}(OMFP3055)} \times Indicator_{year}(IFRS),$$

where: $i=1\div 3$;

- for 2013, indicators were calculated based on the financial statements prepared according to Public Finance Ministry Order no. 3055/2009; at the end of the year, these were recalculated according to IFRS. Adjustments were made at the end of the year after the approval of financial statements when annual indicators were calculated according to IFRS;

the target indicators will be set at the beginning of each year (after closing the previous year's financial statements). They are calculated as an average over the past three years and the envisaged performance indicator.

2012-2016 Results

The table below presents the main indicators during H1 of 2013-2016 (thousand RON):

Indicators	H1 2013	H1 2014	H1 2015	H1 2016
1	2	3	4	5
Revenue	1,901,139	2,526,344	2,235,108	1,849,904
Operating income ^{*)}	2,048,919	2,656,020	2,322,941	1,983,987
Operating expense ^{*)}	1,393,617	1,444,729	1,203,057	1,158,240
Gross profit	725,615	1,089,531	952,140	755,004
Net profit	622,384	870,958	766,609	615,268
EBITDA	1,147,462	1,630,907	1,448,351	1,115,263
OPEX to RON 1000 operating income	680.2	543.9	517.9	583.8
Average number of employees	6,268	6,257	6,186	6,128
Labour productivity (RON thousand revenue/person)	303.3	403.8	361.3	301.9
Natural gas production (million m ³)	2,862.5	2,865.6	2,776.7	2,197.4
Volume of geological resources	470	805	1,800	1,570
Outstanding payments	0	0	0	0

^{*)} – no adjustments or provisions

H1 2016 Results

The performance indicators and criteria in the table below show the achievement in H1 2016:

	Weighting factor	Indicator	Average values 2013-2015	Target values	Results	Degree of achievement	Weighting
1	2	3	4	5	6	7=6/5x100	8=2x7
EBITDA	0.25	+4.5%	1,408,906.7	1,472,307.5	1,115,263.4	75.7	18.93
CA	0.20	+6%	2,220,863.0	2,354,114.8	1,849,903.5	78.6	15.72
W	0.10	+6%	356.1	377.4	301.9	80.0	8.00
C_{expl}/V_{expl}	0.10	-0.6%	575.1	571.6	583.8	97.9	9.79
RES	0.10	+1%	1,025.0	1,035.3	1,570.0	151.7	15.17
d_Q	0.15	-1.5%	2,766.2	2,724.7	2,197.4	80.6	12.09
P_{res}	0.10	0	0	0	0	110.0	11.00
Total	1.00	-	-	-	-	-	90.70

EBITDA – (RON thousand);
CA – revenue (RON thousand);
W – labour productivity (RON thousand/employee);

$C_{\text{expl}}/V_{\text{expl}}$	– operating expenses to 1000 RON operating income;
RES	– volume of geological resources (million m ³);
d _Q	– gas production decline (%);
P _{res}	– outstanding payments (RON thousand).

The performance indicators and objectives show a target achievement of **90.70%**.

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

- *Volume of geological resources* – higher by 534.8 million m³;
- *Level of outstanding payments* – zero;
- *OPEX to RON 1000 operating income* – lower by RON 88.1 (-14.5%) as compared to the target value.

The following indicators have not been fully achieved:

- *EBITDA* – below the target value by RON 357 million;
- *Revenue* – lower than the target value by RON 504 million;
- *Labour productivity* – lower than the scheduled productivity by RON 75.5 thousand/ employee;
- *Gas production* – below the target value by RON 527 million m³.

“The modification of performance indicator calculation as regards eliminating external influence factors beyond the control of the company’s management and which prevent fulfilment of objectives and performance indicators” was approved pursuant to the provisions of Article 23, item a) of the Board’s Resolution of May 12, 2016. Article 23, item b) of the same Resolution provides *“conclusion of an Addendum to the Mandate Contract of the company’s Director General, recorded under number 3066/ 2013, on modifying the performance indicator calculation as regards eliminating external influence factors beyond the control of the company’s management, subsequently to the approval by the Ordinary General Meeting of Shareholders of modifying the indicator calculation.”*

Article 9, paragraph (1), item c) of the Government Ordinance 26/ 2013 on strengthening the financial discipline of economic operators where the State or the territorial-administrative units are the sole or majority shareholders, establishes the correlation of performance criteria and objectives provided in the mandate contracts and the Board’s Management Plan with the substantiation data of the income and expenditure budget.

The OGMS Resolution no. 5/ June 16, 2016 approves the 2016 Income and Expenditure Budget as well as the modification of the performance indicator calculation method by complying with the provisions of Article 23 item b) of the Board Resolution no.11/ May 12, 2016 and Article 9 paragraph (1) item c) of the Ordinance 26/ 2013.

Hence, for H1 2016, the performance indicators provided in the *2013 – 2017 Management Plan*, approved by the Board Resolution 1/ 2014 have been calculated, with the aim of mitigating the effects generated by the external influence factors for the indicators achieved in the period January - June of the years 2013 – 2015 as well as the indicators achieved in H1 2016. Following corrections have been taken into account:

- Reduction of expenditures with the equivalent value of tax on constructions (Government Emergency Ordinance 102/ 2014);

- Reduction of expenditures with the equivalent value of tax on additional income (Government Ordinance 7/ 2013) for H1 2015 and H1 2016;
- Reduction of income and expenditures with the values related to sale and purchase of import natural gas for H1 2013 – 2016;
- Increase of income (and increase of expenses with the petroleum royalty) related to sale of natural gas from own production, taking into account the calendar for gradual deregulation of prices for non-household and household customers, in accordance with the “Calendar for Gradual Deregulation of Natural Gas Prices” Memorandum, approved by the Government of Romania in 2012.

The re-calculated values of the main indicators for H1 2013 - 2016 are shown in the table below (RON thousand):

Indicator	H1 2013	H1 2014	H1 2015	H 1 2016
1	2	3	4	5
Revenue	1,580,566	2,426,461	2,646,056	2,328,280
Operating income ^{*)}	1,728,346	2,556,139	2,733,889	2,462,363
Operating expense ^{*)}	1,094,183	1,305,411	992,911	979,470
Gross profit	704,477	1,128,965	1,573,235	1,412,151
EBITDA	1,126,323	1,670,345	2,069,445	1,772,411
OPEX to RON 1000 operating income	633.1	510.7	363.2	397.8
Average number of employees	6,268	6,257	6,186	6,128
Labour productivity (RON thousand revenue/person)	252.2	387.8	427.7	379.9
Natural gas production (million m ³)	2,862.5	2,865.6	2,776.7	2,197.4
Volume of geological resources	470	805	1,800	1,570
Outstanding payments	0	0	0	0

^{*)} - no adjustments or provisions

Performance indicators and criteria re-calculated as afore-mentioned are shown in the table below:

Weighting factor	Indicator	Average values 2013-2015	Target values	Re-calculated value	Degree of achievement	Weighting	
1	2	3	4	5	6	7=6/5x100	8=2x7
EBITDA	0.25	+4.5%	1,622,037.7	1,695,029.4	1,772,411	104.6	26.15
CA	0.20	+6%	2,217,694.3	2,350,756.0	2,328,280	99.0	19.80
W	0.10	+6%	355.6	376.9	379.9	100.8	10.08
C _{expl} /V _{expl}	0.10	-0.6%	483.4	480.5	397.8	120.8	12.08
RES	0.10	+1%	1,025.0	1,035.3	1,570.0	151.7	15.17
d _Q	0.15	-1.5%	2,766.2	2,724.7	2,197.4	80.6	12.09
P _{res}	0.10	0	0	0	0	110.0	11.00
Total	1.00	-	-	-	-	-	106.37



No addendums have been concluded to the director's agreements and to the contract of mandate.

Taking into account the request to modify the agenda of the G.M.S. held on 11.08.2016 send by the major shareholder by letter no.102.175/07.07.2016 on repealing items 1 and 2 of Resolution no.5/16.06.2016 of the G.M.S., in order to comply with Government Ordinance no.26/2013, in the following period the proposal to analyse and approve the modification of the performance indicators will be made.

Attached hereto are the Interim Financial Statements for the period ending June 30, 2016 prepared in accordance with IFRS.

Signatures:

Chairperson of the Board of Directors,

AURORA NEGRUȚ

Director General,

MARIUS VIRGIL METEA



Economic Department Director,

LUCIA IONAȘCU