



Societatea Națională de Gaze Naturale “ROMGAZ” SA

IST HALF YEAR REPORT
ON ECONOMIC- FINANCIAL ACTIVITY OF
ROMGAZ GROUP AS OF JUNE 30, 2018
(JANUARY 1, 2018 - JUNE 30, 2018)



SUMMARY

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IDENTIFICATION DETAILS ON REPORT AND ISSUER

| | |
|--|---|
| Report based on | <i>Law no. 24/2017 on issuers of financial instruments and market operations (Article 65) and ASF (Financial Supervisory Authority) Regulation no.5/2018 on issuers of financial instruments and market operations (Annex 14) for the six-month period ended on June 30, 2018 (H1 of financial year 2018)</i> |
| Report Date | August 14, 2018 |
| Name of the Company | Societatea Națională de Gaze Naturale “ROMGAZ” SA |
| Headquarters | Mediaș, 4 Constantin I. Motaș Square, code 551130, Sibiu County |
| Telephone/fax number | 0040 374 401020 / 0040 269 846901 |
| Web/E-mail | www.romgaz.ro / secretariat@romgaz.ro |
| Fiscal Code | 14056826 |
| Trade Registry No. | J32/392/2001 |
| Regulated market where company shares are traded | Bucharest Stock Exchange (shares), London Stock Exchange (GDRs) |
| Subscribed and paid in share capital | RON 385,422,400 |
| Main characteristics of shares | 385,422,400 shares with a nominal value of RON 1 nominative, ordinary, indivisible shares, issued dematerialised and free tradable since November 12, 2013 as SNG – for shares and SNGR – for GDRs |
| Legal Entity Identifier | 2549009R7KJ38D9RW354 |

I. 1ST HALF YEAR 2018 OVERVIEW

1.1. Romgaz Group Performances¹

Operational and financial performances of Romgaz Group achieved in H1 2018² continued to be high, confirming the ascending trend.

In the first 6 months of 2018 the national gas consumption recorded a 3.5% decrease as compared to the similar period of the previous year, while Romgaz deliveries decreased only by 2.96%, from 32.06 TWh to 31.11 TWh. Therefore, *Romgaz market share* on the Romanian gas delivery market reached 45.26%, 0.27% higher than the market share held in the previous period (44.98%)³.

Natural gas production reached 2,640 million m³, higher by 81 million m³ than the production recorded during the similar period of the previous year (+3.2%) and higher by 18 million m³ than the production schedule (+0.7%), considering that production for H1 2017 was by 362 million million m³, 16.5% respectively, higher than the production for H1 2016. According to company's estimates, this production placed Romgaz at a market share of 49.96% from the consumption of the domestic gas production, which is an increase of 0.78% in relation to the market share of the previous reporting period (49.18%).

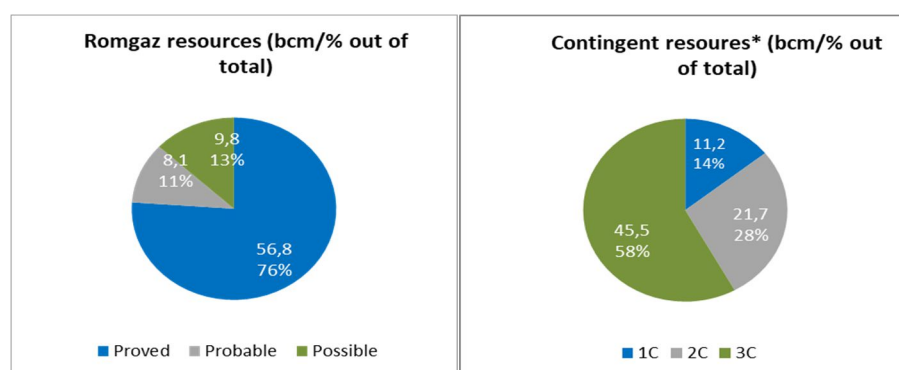
Romgaz electricity production of 466.2 TWh decreased compared to the similar period of 2017 (999.7 TWh). This production placed Romgaz at a market share of 1.45%⁴.

The consolidated revenue from natural gas sales (excluding sales to Depogaz) are higher by 11.98% compared to the similar period of the previous year.

The margins of the main profitability indicators: net profit (32.2%), EBIT (37.2%) and EBITDA (47.2%) confirm a high profitability of Romgaz Group activity.

The American company DeGolyer&MacNaughton performed in H1 2018 an external audit of Romgaz *natural gas reserves and contingent resources*, the final report being sent to Romgaz on May 31, 2018.

The results of the report confirm the evaluation of gas resources and reserves performed by Romgaz with the reference date on December 31, 2017, and confirm an average 78% annual reserves replacement ratio for years 2013- 2017, value above the target of 70%.



¹ **Romgaz Group** consists of SNGN Romgaz SA (“the Company”/“Romgaz”) as parent company, Filiala de Îmagazinare Gaze Naturale Depogaz Ploiești SRL (“Depogaz”), is the subsidiary owned 100% by Romgaz, and its associates SC Depomures SA (40% of the share capital) and SC Agri LNG Project Company SRL (25% of the share capital)

² Given the fact that ANRE has not published market monitoring reports since April 2018, the data used for the national consumption is an estimate.

³ The market shares include the natural gas quantities delivered to CTE Iernut and Depogaz for the technological consumption.

⁴ Source: CNTEE Transelectrica SA

**IC contingent resources include proved developed reserves whose exploitation program is beyond December 31, 2042, this date being the end of the effective concession terms.*

Relevant Financial Results (consolidated)

| | | | | <i>*million RON*</i> | | | |
|--------------------------|--------------------------|------------|-------------|--|--------------------------|------------|----------|
| Q2 2017 ^{*)} | Q1 2018 ^{*)} | Q2 2018 | Δ Q2 (%) | Main indicators | HI 2017 ^{*)} | HI 2018 | Δ HI (%) |
| 894.68 | 1,482.3 | 992.2 | 10.9 | Revenue | 2,392.2 | 2,474.5 | 3.4 |
| 936.86 | 1,406.4 | 1,040.6 | 11.1 | Income | 2,327.1 | 2,446.9 | 5.1 |
| 549.07 | 835.8 | 664.3 | 21.0 | Expenses | 1,270.8 | 1,500.0 | 18.0 |
| -0.28 | 0.77 | 0.20 | n/a | Share of the associates' result | 0.53 | 0.98 | 84.9 |
| 387.51 | 571.4 | 376.5 | -2.8 | Gross Profit | 1,056.9 | 947.9 | -10.3 |
| 61.23 | 92.9 | 57.3 | -6.4 | Profit Tax | 169.5 | 150.2 | -11.4 |
| 326.28 | 478.5 | 319.2 | -2.2 | Net Profit | 887.5 | 797.7 | -10.1 |
| 381.77 | 560.1 | 361.6 | -5.3 | EBIT | 1,046.2 | 921.7 | -11.9 |
| 421.95 | 707.3 | 460.5 | 9.1 | EBITDA | 1,314.6 | 1,167.8 | -11.2 |
| 0.80 | 1.3 | 0.9 | 12.5 | Earnings per share ^{**)} (RON) | 2.3 | 2.1 | -8.7 |
| 36.47 | 32.3 | 32.2 | -11.7 | Net Profit Rate (% from Revenue) | 37.1 | 32.2 | -13.2 |
| 42.67 | 37.8 | 36.4 | -14.7 | EBIT Ratio (% from Revenue) | 43.7 | 37.2 | -14.9 |
| 47.16 | 47.7 | 46.4 | -1.6 | EBITDA Ratio (% from Revenue) | 55.0 | 47.2 | -14.2 |
| 6,211 | 6,157 | 6,132 | -1.3 | Number of employees at the end of the period | 6,211 | 6,132 | -1.3 |

^{)}In Q2 2018 the Group modified on voluntary basis the accounting policy related to costs with seismic, geological, geophysical works and other similar operations. According to the new policy, these costs are recognized as expenses when incurred. Previously, these were recognized as intangible exploration assets. To reflect the change and ensure comparability of information, previous periods were restated.*

*^{**)}EPS is calculated based on the individual results of SNGN ROMGAZ SA*

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

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

Confirming the trend, the Group recorded in Q2 2018 an increase of the main indicators compared to the similar period of 2017, as follows: revenue +10.9%, EBITDA +9.1%, the profitability margins have also remained at significant values.

Summary of the Group's main indicators for H1 2018:

↳ *Total Income*, higher by **RON 119.8 million**, rising by 5.1% while the total expenses recorded an increase of 18.0%.

The increase of expenses above the income increase ratio was caused by the following influential factors:

- *royalty (+ RON 57.5 million)*. According to ANRE Order no. 32/2018⁵, starting with February 12, 2018 “the reference price for the natural gas produced in Romania used for calculating the value of the natural gas gross production and the equivalent value of the petroleum royalty” was changed, being related to the reference price of index „PEGAS CEGH Day Ahead Market Single Day Select, VWAP/CEGHIX Central European Gas Hub AG (CEGH)”.

The table below shows the gas price difference representing the royalty for the reporting period, compared to the previous period:

| Item no. | Specifications | Quantity (thousand m ³) | Price (RON/1000 m ³) | Value (RON thousand) |
|------------------|-----------------------------|-------------------------------------|----------------------------------|-----------------------|
| Year 2017 | | | | |
| 1.1 | Q1 | 98,251.35 | 709.60 | 69,719,160.04 |
| 1.2 | Q2 | 87,079.56 | 752.47 | 65,524,754.99 |
| I. | H I | 185,330.91 | 729.74 | 135,243,915.03 |
| Year 2018 | | | | |
| 2.1 | Q1 | 100,665.71 | 931.73 | 93,793,536.90 |
| 2.2 | Q2 | 90,710.33 | 1,091.08 | 98,971,942.12 |
| II. | H I | 191,376.04 | 1,007.26 | 192,765,479.02 |
| * | Differences (II.-I.) | | | |
| | *absolute | 6,045.13 | 277.52 | 57,521,563.99 |
| | *relative | 3.26% | 38.03% | 42.53% |

As seen in the table above, the royalty increase of 90% (RON 51.4 million) is caused by the increase of the reference price further to ANRM Order no.32/2018.

The table below shows the significant royalty price difference once ANRM Order no.32/2018 became effective:

| Item no. | H I 2018 | Quantity (thousand m ³) | Price (RON/1000 m ³) |
|----------|------------------|-------------------------------------|----------------------------------|
| 1 | January | 437,110.13 | 788.54 |
| 2 | February (1-11) | 171,822.45 | 790.20 |
| 3 | February (12-28) | 269,436.62 | 932.68 |
| 4 | March | 485,748.98 | 1,110.27 |
| 5 | April | 424,692.39 | 1,184.38 |
| 6 | May | 427,399.31 | 1,001.91 |
| 7 | June | 424,100.95 | 1,087.64 |

- *the windfall tax due further to gas prices deregulation (+ RON 60 million)*;
- *cost of commodities sold (+ RON 57 million)*. Cost of commodities sold increased by 124.44% as compared to H1 of 2017, mainly further to an increase of the gas quantities purchased from import to be resold;
- *change of the accounting policy (+RON 47.6 million)*. Changing the accounting policy, namely exploration expenses for seismic surveys, geological and geophysical studies and other similar works are recorded as expenses when incurred and no longer capitalized led to recording in H1 2018 exploration expenses of RON 50.7 million, compared to RON 3.1 million in the similar period of last year.

⁵ Order of the National Agency for Mineral Resources no.8 of February 9, 2018 on approving the Methodology for setting the reference price for the natural gas produced in Romania.

- ↳ *Net Profit*, lower by **RON 89.8 million** as compared to the previous period due to the increase of income and influenced by the increase of the above mentioned expenses (-10.1%);
- ↳ *Labour productivity* increased by 4.8% as compared to the previous period, from RON 385.16 thousand /employee in H1 2017 to RON 403.54 thousand/employee in H1 2018;
- ↳ *Net Profit Rate, EBIT Ratio and EBITDA Ratio* are lower as compared to H1 2017 due to a higher rise of expenses against the revenue increase;
- ↳ *EPS (SNGN Romgaz SA net profit/share)* is **RON 2.1** by 8.7% lower than in H1 2017.

Revenue, profit and the other indicators calculated based on these were determined based on the estimated value of the delivered natural gas equivalent value, considering that since November 2016 the gas balance has not been finalised due to clarity issues related to gas deliveries to household consumers and assimilated household consumers.

Operational Results

| Q2 2017 | Q1 2018 | Q2 2018 | Δ Q2 (%) | Main Indicators | HI 2017 | HI 2018 | Δ HI (%) |
|---------|---------|---------|----------|--|---------|---------|----------|
| 1,226 | 1,364.1 | 1,276.2 | 4.1 | Gas Produced (million m ³) | 2,559 | 2,640 | 3.2 |
| 87 | 101 | 91 | 4.2 | Petroleum Royalty (million m ³) | 185 | 192 | 3.4 |
| 1,486 | 1,635 | 1,850 | 24.5 | Condensate Production (tonnes) | 3,158 | 3,485 | 10.4 |
| 388.2 | 287.3 | 178.9 | -53.9 | Electricity delivered (GWh) | 999.7 | 466.2 | -46.6 |
| 31.3 | 1,098.2 | 20.3 | -35.1 | Invoiced UGS gas withdrawal services (million m ³) | 1,198.8 | 1,118.6 | -6.7 |
| 99.0 | 17.6 | 733.9 | 641.3 | Invoiced UGS gas injection services (million m ³) | 601.5 | 751.6 | 25.0 |

Note: the information is not consolidated, namely contains transactions between Romgaz and Depogaz.

Gas production was in the parameters expected when preparing the 2018 production schedule; the achieved level represents 100.68% of the schedule.

Romgaz produced 2,640 million m³ natural gas during the first half of 2018, 81 million m³ (3.2%) more than the volume produced during the same period of the previous year.

As shown in the table below, the decrease of *produced electricity* was in close relation to the high temperatures recorded during the cold season and high hydrology.

MWh

| | 2017 | 2018 | Ratio |
|----|------------|---------|-----------|
| 1 | 2 | 3 | 4=3/2x100 |
| Q1 | 611,482.91 | 287,287 | -46.98% |
| Q2 | 388,248.50 | 178,933 | -46.08% |
| HI | 999,731.41 | 466,221 | -46.63% |

1.2. Highlights

April 1, 2018

As of April 1, 2018 the subsidiary managing the gas storage activity is operational, called SNGN Romgaz SA – Filiala de Înmagazinare Gaze Naturale Depogaz Ploiești SRL.

Therefore, subject to EC Directive No. 73/2009 implemented by Law 123/2012 Electricity and Natural Gas Law, (art. 141), the storage activity is unbundled from SNGN Romgaz SA and performed by a storage operator, a subsidiary where SNGN Romgaz SA is sole associate.

The Subsidiary took over the operation of underground storages licensed by SNGN Romgaz SA, the operation of assets that are used for performing the activities, taking over the entire personnel that performs storage activities.

April 13, 2018

At CET Iernut, an assumed failure (leakage) of the bulkhead isolating an oil separator from direct discharge of wastewater in the emissary called for repair works. Therefore, on April 13, 2018 further to such works an accidental water-oil emulsion spill occurred, that did neither contain any toxic substances for the aquatic environment nor affected the public health or Mures river flora and fauna.

In the presence of Mures Water Basin Administration and Environment Guard – Mures County Commission representatives, company professionals sealed the wastewater discharge facility, repairing the failure by using absorbent booms specially prepared for this situation and cleaning the wastewater discharge duct to remove all pollution traces.

Further to the findings of *SC Centrul de Mediu si Sanatate SRL Cluj Napoca* team of professionals, the volume of water in oil emulsion spill in Mures river was 1.44m³. The National Administration “Romanian Waters” sanctioned the company with a civil penalty of RON 17,500 and the Environment Guard – Mures County Commission with a civil penalty of RON 25,000. The company paid RON 214.000 for ecological works performed in Mures river. The company started an investigation to identify the cause of the incident, and to take all measures to prevent other potential events that may generate accidental pollution.

May 31, 2018

The American company DeGolyer&MacNaughton performed in H1 2018 an external audit of Romgaz *natural gas reserves and contingent resources*, the final report was sent to Romgaz on May 31, 2018.

June 4, 2018

In compliance with *GEO no.109/2011 on corporate governance of public enterprises, as subsequently amended and supplemented*, the selection procedure of Board members was finalised.

The main milestones of the selection procedure were the following:

- ✍ December 20, 2017: company shareholders approved by Resolution no.9 the start of the selection procedure and mandated the Board of Directors for the selection procedure;
- ✍ January 25, 2018: the Board of Directors initiated the selection procedure;
- ✍ February 22, 2018: the Board of Directors approved the initial component of the selection procedure;
- ✍ As a result of a public acquisition procedure SC Butunoiu Group SRL, as independent expert specialized in human resources recruitment, has been awarded to perform consultancy services during the entire selection process;
- ✍ March 16, 2018: the announcement for recruiting directors was published with the deadline for submission of applications on April 16, 2018;
- ✍ March 5 – May 31, 2018: the independent expert carried out the phases of the selection process;

- ✍ April 17, 2018: company shareholders approved by Resolution no.5 the board of directors profile and candidate profile;
- ✍ April 27, 2018: the independent expert elaborated the integral component of the selection plan;
- ✍ May 31, 2018: the independent expert prepared the final report with the results of the selection procedure and sent it to the Ministry of Energy;
- ✍ June 4, 2018: convening the general meeting of shareholders on July 6, 2018 to elect the members in the Board of Directors by the cumulative voting method.

June 14, 2018

The Board of Directors decided to appoint Mr. Volintiru Adrian Constantin as chief executive officer of the company with a four months mandate until completion in line with the law of the selection procedure of the chief executive officer for a four-year mandate.

June 18-26, 2018

The company continued in H1 2018 the actions required for the transition of the integrated quality, environmental, occupational health and safety management system to the 2015 revisions of SR EN ISO 9001 and SR EN ISO 14001, as well as for fulfilling the requirements of SR OHSAS 18001.

Further to the external audit performed by SRAC CERT Bucuresti, SNGN Romgaz SA received confirmation that its integrated quality, environmental, occupational health and safety management systems fulfil the new requirements, the transition occurred without any findings of unconformities and therefore, the company received new certificates in compliance with the reference standards 9001:2015, 14001:2015 and SR OHSAS 18001:2008.

July 6, 2018

After exercising the cumulative voting method the Company's shareholders appoint by Resolution no.8 the following persons as members of the Board of Directors, for a four-year mandate:

- ✍ **Nistoran Dorin Liviu**
- ✍ **Volintiru Adrian Constantin**
- ✍ **Ungur Ramona**
- ✍ **Grigorescu Remus**
- ✍ **Ciobanu Romeo Cristian**
- ✍ **Jude Aristotel Marius**
- ✍ **Jansen Petrus Antonius Maria.**

II. ROMGAZ GROUP OVERVIEW

Romgaz Group undertakes business in the following segments:

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

Shareholder structure

On June 30, 2018, the shareholder structure of SNGN Romgaz SA was the following:

| | Number of shares | % |
|-----------------------------------|--------------------|-----------------|
| The Romanian State ⁶ | 269,823,080 | 70.0071 |
| Free float – total, out of which: | 115,599,320 | 29.9929 |
| *legal persons | 97,393,366 | 25.2693 |
| *natural persons | 18,205,954 | 4.7236 |
| 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.

Until March 31, 2018 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
- Targu Mureş Production Branch
- Ploiesti Storage Branch
- SIRCOSS – Branch for Well Workover, Recompletions and Special Well Operations
- STTM – Technological Transport and Maintenance Branch
- SPEE – Iernut Power Generation Branch
- Bratislava Branch

⁶ The Romanian State through the Ministry of Energy

As of April 1, 2018 Ploiesti Storage Branch was closed and *SNGN Romgaz SA – Filiala de Înmagazinare Gaze Naturale Depogaz Ploiești SRL* became operational, managing the natural gas underground storage activity.

Therefore, subject to EC Directive No. 73/2009 implemented by Law 123/2012 Electricity and Natural Gas Law, (art. 141), the storage activity is unbundled from SNGN Romgaz SA and performed by a storage operator, a subsidiary where SNGN Romgaz SA is sole associate.

The Subsidiary took over the operation of the underground storages licensed by SNGN Romgaz SA, the operation of assets that contribute to performing the storage activity, taking over the entire personnel that performs storage activities.

Information on the Subsidiary may be found at: <https://www.depogazploiesti.ro>.

Company Management

Board of Directors

The company is governed by a **Board of Directors** composed of 7 members, having on *June 30, 2018* the following structure:

| Item No. | Name | Position in the Board | Status | Professional Qualification | Institution of Employment |
|----------|-----------------------------|-----------------------|---------------------------|----------------------------|---|
| 1 | Nistoran Dorin Liviu | Chairman | independent non-executive | Engineer | SC Televoice Grup SRL |
| 2 | Ciobanu Romeo Cristian | member | independent non-executive | PhD Engineer | Universitatea Tehnică Iași |
| 3 | Cermonea Ioan Daniel | member | independent non-executive | Engineer | Consiliul Județean Sibiu |
| 4 | Grigorescu Remus | member | independent non-executive | PhD in Economics | Universitatea “Constantin Brâncoveanu” |
| 5 | Baciu Sorana Rodica | member | independent non-executive | Economist | SC Aagenio SRL |
| 6 | Volintiru Adrian Constantin | member | independent non-executive | Economist | SC Exclusiv Clean International SRL |
| 7 | Anghel Daniel Florin | member | non-executive independent | Legal adviser -Economist | Agenția Națională de Administrare Fiscală |

On the date of the report, the Board of Directors consists of:

| Item No. | Name | Position in the Board | Status ^{*)} | Professional Qualification | Institution of Employment |
|----------|-----------------------------|-----------------------|---------------------------|----------------------------|--|
| 1 | Nistoran Dorin Liviu | Chairman | non-executive | Engineer | SC Televoice Grup SRL |
| 2 | Volintiru Adrian Constantin | member | executive | Economist | SC Exclusiv Clean International SRL |
| 3 | Ungur Ramona | member | non-executive | Economist | |
| 4 | Grigorescu Remus | member | non-executive | PhD in Economics | Universitatea “Constantin Brâncoveanu” |
| 5 | Ciobanu Romeo Cristian | member | independent non-executive | PhD Engineer | Universitatea Tehnică Iași |
| 6 | Jude Aristotel Marius | member | non-independent | Legal adviser | SNGN Romgaz SA |

| | | non-executive | | | |
|---|------------------------------|---------------|---------------|-----------|---------------------------------------|
| 7 | Jansen Petrus Antonius Maria | member | non-executive | Economist | London School of Business and Finance |

*) - members of the Board of Directors submitted the statement of independence in compliance with the provisions of Romgaz Corporate Governance Code.

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

Executive management

Cindrea Corin-Emil – Chief Executive Officer (CEO) January 1st – June 14, 2018

The Board of Directors appointed Mr. Cindrea Corin Emil by Resolution no. 37 of December 14, 2017 as interim CEO for a 4-month period, having the possibility to extend the mandate up to maximum 6 months, according to legal provisions, and delegated internal management powers and representation competences to him.

By Resolution no.19 of April 12, 2018, the Board of Directors decided to extend the contract of mandate of the CEO by 2 months, until June 14, 2018.

Volintiru Adrian Constantin – Chief Executive Officer (CEO) starting with June 15, 2018

The Board of Directors decided by Resolution no.29 of June 14, 2018 to appoint Mr. Volintiru Adrian Constantin as Chief Executive Officer of the company for a four-month period.

Bobar Andrei – Chief Financial Officer (CFO)

The Board of Directors appointed Mr. Bobar Andrei by Resolution no. 30 of November 2, 2017 as Chief Financial Officer.

The table below shows the management positions to which the Board of Directors did not delegate managing powers:

| Name | Position |
|------------------------------|---|
| ROMGAZ - headquarters | |
| Cindrea Corin Emil | Deputy Director General |
| Rotar Dumitru Gheorghe | Deputy Director General |
| Dobrescu Dumitru | Deputy Director General |
| Chertes Viorel Claudiu | Management Support Director |
| Ciolpan Vasile | Energy Trade Director |
| Ştefănescu Dan Paul | E&P Director |
| Stan Ioan | HR Director |
| Stancu Lucian Adrian | Corporate Management Director |
| Bodogae Horea Sorin | Procurement Director |
| Pavlovschi Vlad | Business Development Director |
| Balasz Bela Atila | Energy Management Director |
| Morariu Dan Nicolae | Information Technology and Telecommunication Director |
| Bîrsan Mircea Lucian | Technical Director |
| Sorescu Eugen | Exploration Director |
| Pleşa Vasile Gabriel | QHSE Director |
| Mediaş Branch | |
| Man Ioan Mihai | Director |

| Name | Position |
|---------------------------|--------------------------------|
| Achimeț Teodora Magdalena | Economic Director |
| Șuțoiu Florinel | Production Director |
| Seician Daniel | Technical Director |
| Târgu Mureș Branch | |
| Dincă Ispasian Ioan | Director |
| Papoi Iлона | Economic Director |
| Rusu Grațian | Production Director |
| Baciu Marius Tiberiu | Technical Director |
| Iernut Branch | |
| Călian Dorel | Director |
| Oros Cristina Monica | Economic Director |
| Oprea Maria Aurica | Commercial Director |
| Bircea Angela | Technical Director |
| SIRCOSS | |
| Bordeu Viorica | Economic Director |
| Gheorghiu Sorin | Technical Director |
| STTM | |
| Pop Traian | Director |
| Ilinca Cristian Alexandru | Economic Director |
| Cioban Cristian Augustin | Operation-Development Director |

Human Resources

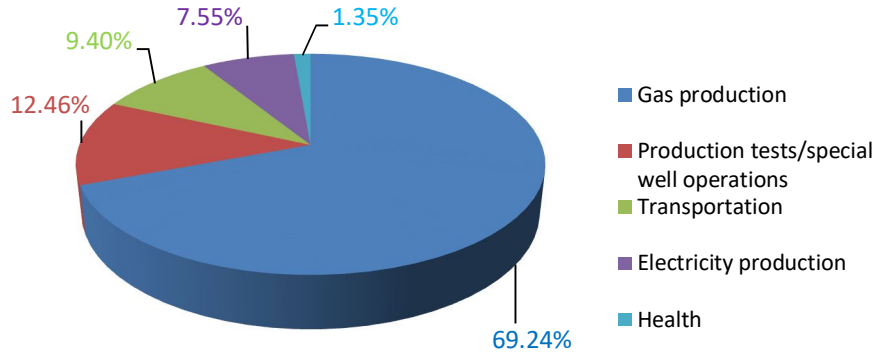
On June 30, 2018 Romgaz Group had 6,132 employees and SNGN Romgaz SA 5,626 employees. Starting with April 1, 2018, 504 employees terminated the labour agreement with the company, passing over to Depogaz.

The table below shows the evolution of the employees' number during January 1, 2015 – June 30, 2018:

| Description | 2015 | 2016 | 2017 | SI 2018 | |
|---|-------|-------|-------|--------------|----------------|
| | | | | Romgaz Group | SNGN Romgaz SA |
| 1 | 2 | 3 | 4 | 5 | 6 |
| Employees at the beginning of the period | 6,344 | 6,356 | 6,246 | 6,198 | 6,198 |
| Newly hired employees | 159 | 168 | 233 | 85 | 79 |
| Employees who terminated their labour relationship with the company | 147 | 278 | 281 | 151 | 651 |
| Employees at the end of the period | 6,356 | 6,246 | 6,198 | 6,132 | 5,626 |

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

a) by activities



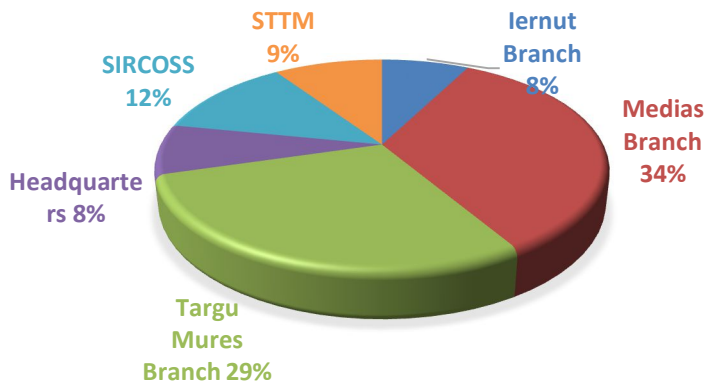
b) by level of education

- university 23.45%;
- secondary school 27.22%;
- foreman school 3.39%;
- vocational school 34.46%;
- middle school 11.48%;

c) by age

- under 30 years 3.87%;
- 30-40 years 14.90%;
- 40-50 years 37.26%;
- 50-60 years 35.58%;
- over 60 years 8.39%;

d) by headquarters and branches



e) by categories

| Entity | Workers | Foremen | Office | Total |
|---------------|---------|---------|--------|--------------|
| 1 | 2 | 3 | 4 | 5 |
| Headquarters | 31 | | 402 | 433 |
| Medias Branch | 1,482 | 89 | 337 | 1,908 |

| | | | | |
|--------------------|--------------|------------|--------------|--------------|
| Targu-Mureş Branch | 1,302 | 53 | 275 | 1,630 |
| SIRCOSS | 505 | 52 | 144 | 701 |
| STTM | 403 | 20 | 106 | 529 |
| Iernut Branch | 280 | 42 | 103 | 425 |
| TOTAL | 4,003 | 256 | 1,367 | 5,626 |

Romgaz on the stock exchange

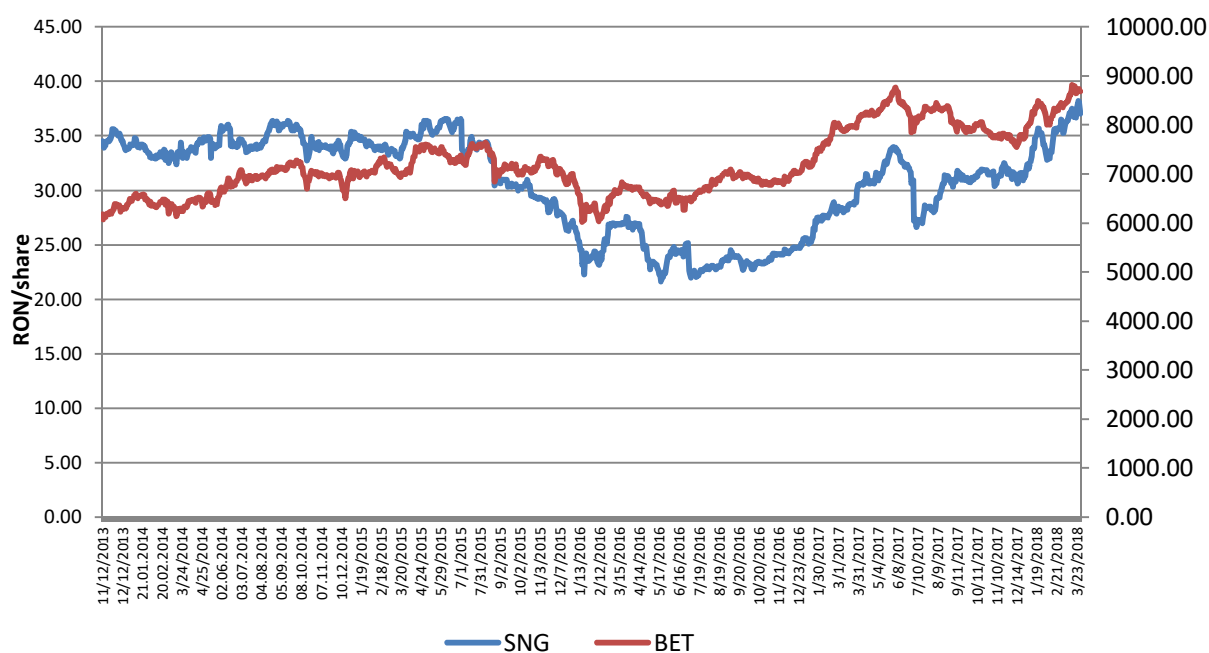
As of November 12, 2013, the company’s shares have been traded on the regulated market governed by BVB (Bucharest Stock Exchange) – under the symbol “*SNG*” and on the regulated market governed by LSE (London Stock Exchange), as GDRs issued by the Bank of New York Mellon – under the symbol “*SNGR*”.

Romgaz is considered an attractive company for the investors from the perspective of the dividend distribution to shareholders and due to the company’s stability.

Romgaz is among the most significant local issuers and is also included in the BVB indices, as follows:

- 2nd place by market capitalization in the top of Premium local issuers on BVB on June 30, 2018 (RON 14,395.5 million, namely Euro 3,088.4 million);
- 4th place by trading value in H1 2018 in the top of local issuers on BVB main segment (RON 468 million);
- Weights of 12.35% and 11.17% in the BET index (top 13 issuers) and namely in the BET-XT (BET Extended), 29.99% in the BET-NG index (energy and utilities) and 12.43% in the BET-TR index (BET Total Return);

Performance of Romgaz shares between listing and June 30, 2018 in relation to BET index, is shown below:



The table below presents the evolution of the closing price as well as the company's market capitalization on the last day of H1 of 2016, 2017 and 2018.

| | June 30, 2016 | June 30, 2017 | June 30, 2018 |
|-----------------------|--------------------------|--------------------------|--------------------------|
| Number of shares | 385,422,400 | 385,422,400 | 385,422,400 |
| Closing price (RON) | 25.10 | 30.75 | 37.35 |
| Market capitalization | | | |
| *mil. RON | 9,674 | 11,852 | 14,396 |
| *mil. EUR | 2,140 | 2,603 | 3,088 |

At the end of H1 2018 Romgaz shares trading price followed a sinusoidal trend, but at the end of this period it recorded a higher value by 17.45% as compared to the beginning of the year. The same oscillating trend recorded the closing price of the GDRs during the analysed period, which on June 30, 2018 was by 13.92% higher than on the first day of the year.

Thus, at the beginning of 2018, Romgaz shares were quoted at RON 31.80, the minimum value of the analysed period, the maximum share price being recorded on March 27, 2018, after the publication of the notice regarding the dividend proposal for 2017 (RON 38.20). For Q2, the share price decreased, especially after the publication of Q1 2018 Report, which highlighted the decrease of revenue due to a warmer winter, reaching the minimum value on May 30, 2018 (RON 34.35/share). Subsequently, the share price developed positively, the last price of the half year being RON 37.35/share, recorded on June 29.

The GDRs followed the same trend as the shares, reaching a minimum price on the first trading day of the year (USD 7.90) and the maximum price on March 27, 2018 (USD 10). For the second half of the semester, the minimum value of the period was reached at the end of May (USD 8.60/GDR), increasing to USD 9.50 during the first days of June. However subsequently, the GDRs price decreased to USD 9 on June 30, 2018.

III. REVIEW OF THE COMPANY'S BUSINESS

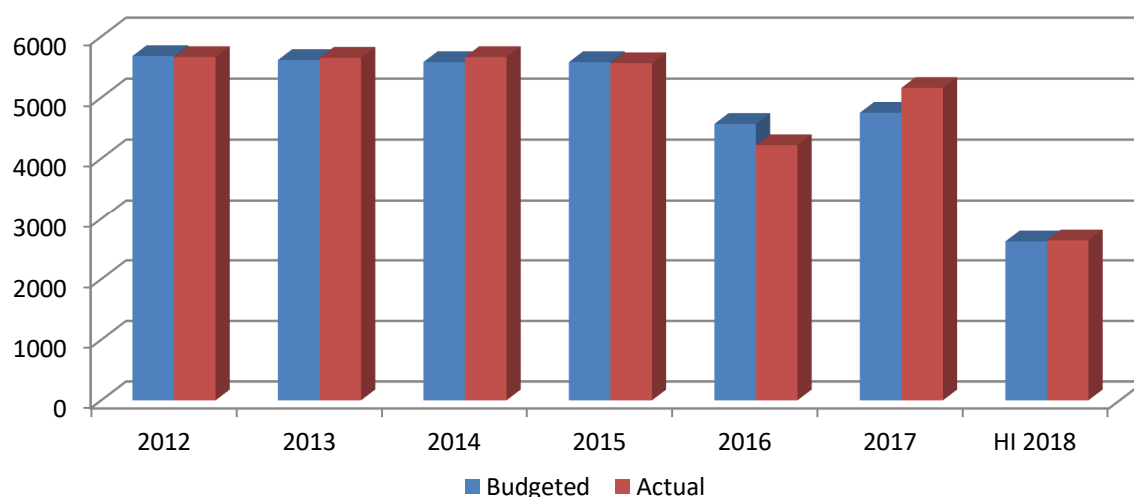
3.1. Operational Results

The 148 commercial fields, located in the Transylvanian Basin, Moldova, Muntenia and Oltenia, are operated by Medias and Targu 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 2012- 2018 is shown below:

| Specifications | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | H1 2018 | |
|--------------------------------|--------------------|-------|-------|-------|-------|-------|---------|-------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| Budgeted (mil.m ³) | 5,680 | 5,615 | 5,581 | 5,581 | 4,567 | 4,750 | 2,622 | |
| Actual (mil.m ³) | 5,663 | 5,651 | 5,664 | 5,563 | 4,219 | 5,158 | 2,640 | |
| Differences (Actual-Budgeted) | mil.m ³ | +36 | +23 | -18 | +23 | -348 | +408 | +18 |
| Actual | % | 100.7 | 100.8 | 99.7 | 100.8 | 92.4 | 108.6 | 100.7 |

The figure below shows the evolution of gas volumes produced between 2012 – 2017 and in H1 2018, 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 decreased in this period, recording a value of approximately 1.4 % for the period 2011 – 2017.

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

- sustained investment efforts for the extension/modernisation of the surface facilities – putting into operation of a new gas delivery panel for Caragele field from Muntenia area;
- increase production of Caragele commercial reservoir by approximately 44% as a result of putting into operation of 6 new wells, as compared to the same reporting period of 2017;

- modernization of facilities related to the compressor stations by reducing the gathering pressure by further mounting of booster compressors and portable group compressors;
- implementation of well workover programs, a number of 50 wells with production potential being completed on June 30, 2018, of over 300 thousand m³/day, recording a cumulative of approximately 34 million m³;
- the main mature reservoirs were subject to an intense program to optimize the exploitation by carrying out recompletions and well workover by using water removal methods, by implementing efficient perforation technologies and installing flow measuring equipment at the well, so that 11 reservoirs reached a negative production decline;
- installation of SCADA system, allowing continuous monitoring of the operating parameters and a pro-active approach in identifying and eliminating the causes that determine the decrease of reservoirs production potential.

The table below shows the gas quantities produced, delivered, injected/withdrawn in/from the underground storage during January – June 2018 compared to the similar period of years 2016 and 2017 (million m³):

| Item No. | Specifications | HI 2016 | HI 2017 | HI 2018 | Ratios |
|------------|--|----------------|----------------|----------------|---------------|
| 0 | 1 | 2 | 3 | 4 | 5=4/3x100 |
| 1. | Gross production – total , out of which: | 2,197.4 | 2,559.4 | 2,640.3 | 103.2% |
| 1.1. | *own gas | 2,123.1 | 2,474.6 | 2,553.5 | 103.2% |
| 1.2. | * Schlumberger joint operations (100%) | 74.4 | 84.8 | 86.8 | 102.4% |
| 2. | Techological consumption | 26.6 | 36.9 | 42.9 | 116.2% |
| 3. | Net own gas production (1.-1.2.-2.) | 2,096.4 | 2,437.7 | 2,510.6 | 103.0% |
| 4. | Own gas stored in UGS | 210.4 | 77.6 | 88.8 | 114.4% |
| 5. | Own gas withdrawn from UGS | 308.9 | 497.0 | 297.3 | 59.8% |
| 5.1. | *gas cushion | | | 6.9 | |
| 6. | Difference from conversion to Gross Calorific Value | 0.0 | -6.6 | 1.6 | -24.2% |
| 7. | Delivered own gas (3.-4.+5.-6.) | 2,194.9 | 2,863.7 | 2,715.5 | 94.9% |
| 8.1. | Gas sold in UGS | | | 8.1 | |
| 8.2. | Gas delivered to CTE Iernut and Cojocna | 152.2 | 268.1 | 130.1 | 48.5% |
| 9. | Own gas delivered to the market (7.+8.1.-8.2.) | 2,042.7 | 2,595.6 | 2,595.5 | 100.0% |
| 10. | Gas from joint operations^{*)} – total , out of which: | 75.8 | 85.7 | 91.9 | 113.1% |
| | *Schlumberger (50%) | 37.2 | 42.4 | 43.4 | 114.3% |
| | *Raffles Energy (37.5%) | 0.2 | 0.1 | 0.01 | 10% |
| | *Amromco (50%) | 38.4 | 43.2 | 48.5 | 112.3% |
| 11. | Gas acquisitions from domestic production | 7.0 | 23.2 | 5.3 | 22.8% |
| 12. | Traded domestic gas (9.+10.+11.) | 2,125.5 | 2,704.5 | 2,692.7 | 99.6% |
| 13. | Gas delivered from domestic production (8.2.+12.) | 2,277.7 | 2,972.6 | 2,822.8 | 95.0% |
| 14. | Delivered import gas | 6.8 | 25.7 | 82.5 | 321.0% |
| 15. | Gas delivered to Iernut and Cojocna and other sources (including imbalances) | | 17.7 | 6.9 | 39.0% |
| 16. | Total delivered (13.+14.+15.) | 2,284.5 | 3,016.0 | 2,912.2 | 96.6% |
| * | Invoiced UGS gas withdrawal services ^{**)} | 931.0 | 1,198.8 | 1,118.6 | 93.3% |
| * | Invoiced UGS gas injection services ^{**)} | 682.5 | 601.5 | 751.6 | 125.0% |

Notice: this information is not consolidated, namely it also includes the transactions between Romgaz and Depogaz.

*) With respect to Romgaz – Schlumberger joint operations, 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 operations with Amromco and Raffles Energy, the gas produced does not represent Romgaz production but the value of the gas is reflected in Romgaz revenue proportionate with the interest share held in the partnership.

**) – including gas injection/withdrawal services of Romgaz.

Traded domestic gas by Romgaz in H1 2018, representing deliveries to customers, CET Iernut consumption and technological consumption, decreased by 2,96% as compared to the same period of the previous year, mentioning that in H1 2017 the deliveries increased by 32 % as compared to the same period of 2016.

As a consequence of the sustained effort to improve the sales strategy, Romgaz share representing deliveries reported to Romania's total consumption increased from 44.98% to 45.26%, and Romgaz share representing gas delivered from domestic production as reported to Romania's domestic consumption increased from 49.18% to 49.96%, as according to the data presented in the table below:

| Specifications | H I 2017 | | H I 2018 | | Differences | |
|--|---------------|--------|---------------|--------|--------------|--------|
| | Romania | Romgaz | Romania | Romgaz | Romania | Romgaz |
| Total consumption of Romania/ Romgaz deliveries (TWh) | 71.27 | 32.06 | 68.74 | 31.11 | -3.55% | -2.96% |
| Romgaz share | 44.98% | | 45.26% | | 0.27% | |
| Domestic consumption of Romania / Romgaz domestic deliveries (TWh) | 63.83 | 31.39 | 60.35 | 30.15 | -5.45% | -3.95% |
| Romgaz share | 49.18% | | 49.96% | | 0.78% | |

3.2. Consolidated Financial results

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

RON thousand

| Item No. | Specification | H1 2017 (restated) | H1 2018 | Ratios (2018/2017) |
|----------|--|--------------------|------------------|--------------------|
| 0 | 1 | 2 | 3 | 4=3/2x100 |
| 1 | Income – total, out of which: | 2,327,146 | 2,446,938 | 105.15% |
| | *operating income | 2,316,302 | 2,418,719 | 104.42% |
| | *financial income | 10,844 | 28,219 | 260.23% |
| 2 | Revenue | 2,392,217 | 2,474,507 | 103.44% |
| 3 | Expenses – total, out of which: | 1,270,760 | 1,500,031 | 118.04% |
| | *operating expenses | 1,261,473 | 1,478,355 | 117.19% |
| | *financial expenses | 9,287 | 21,676 | 233.40% |
| 4 | Share of associates' result | 532 | 976 | 183.46% |
| 5 | Gross profit | 1,056,915 | 947,883 | 89.68% |
| 6 | Income tax | 169,459 | 150,179 | 88.62% |

| | | | | |
|----------|-------------------|----------------|----------------|---------------|
| 7 | Net profit | 887,456 | 797,704 | 89.89% |
|----------|-------------------|----------------|----------------|---------------|

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

The total income for H1 2018 was higher by 5.15% than the income for the similar period of 2017.

Financial results

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

| Description | H1 2017 (restated) | H1 2018 | Ratios (2018/2017) |
|------------------------------------|-----------------------|----------------|-----------------------|
| 1 | 2 | 3 | 4=3/2x100 |
| Operating result | 1,054,829 | 940,364 | 89.15% |
| Financial result | 1,557 | 6,543 | 420.23% |
| Share of associates' result | 532 | 976 | 183.46% |
| Gross result | 1,056,915 | 947,883 | 89.68% |
| Income tax | 169,459 | 150,179 | 88.62% |
| Net result | 887,456 | 797,704 | 89.89% |

The net result achieved in H1 of 2018 is RON **797,704 thousand**, lower by 10.11% than the result achieved in the similar period of 2017.

3.3. Prices and tariffs

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

- ☞ activities in the regulated market comprise the following:
 - supply of natural gas to non-household customers at regulated price and under frame contracts until December 31, 2014. On January 1, 2015 regulated prices for non-household customers were eliminated;
 - supply of natural gas to household customers at regulated price and under frame contracts until December 31, 2021. To ensure non-discrimination between customer categories until the end of the regulated period, the household consumers and the thermal energy producers receive the same treatment in terms of security of supply and sale price of consumed gas, exclusively for the gas quantities used for producing thermal energy in cogeneration plants and thermal power plants intended for household consumption, irrespective of their option to be eligible or regulated customers;
 - supply of last resort of natural gas to final consumers at regulated price and under frame contracts;
 - natural gas transmission;
 - natural gas transmission through upstream supply pipelines, in accordance with the provisions of license validity conditions;
 - underground gas storage;

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

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

Underground gas storage

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

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

The storage tariffs applied are shown in the table below:

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

Natural Gas Distribution

Distribution tariffs and final regulated prices applied during H1 2017 were approved by Order No. 58/ of September 27, 2016 on establishing the regulated tariffs for distribution services and approving the prices for the regulated gas supply performed by SNGN "Romgaz" - S.A. Medias and those applied during H1 2018 were approved by Order no. 89 of September 28, 2017.

The applied prices and tariffs are presented in the table below:

| Specifications | QI 2017 | Q I 2018 |
|---|----------------|-----------------|
| Distributions tariffs (RON/MWh): | | |
| *B1 with a consumption up to 23.25 MWh | 52.48 | 52.70 |
| *B1 with an annual consumption between 23.26 and 116.28 MWh | 47.71 | 47.91 |
| *B1 with an annual consumption between 116.29 and 1,116.78 MWh | 46.81 | 47.01 |
| *B1 with an annual consumption between 1,116.79 and 11,627.78 MWh | 45.77 | 46.21 |

Final regulated prices (RON/MWh):

| | | |
|---|--------|--------|
| *B1 with a consumption up to 23.25 MWh | 123.27 | 119.10 |
| *B1 with an annual consumption between 23.26 and 116.28 MWh | 118.49 | 114.31 |

3.4. Investments

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

During 2015 - June 30, 2018 the company made investments in amount of approx. RON 2.87 billion, as follows:

| Period | 2015 | 2016 | 2017 | H1 2018 | Total |
|----------------------|---------|---------|---------|---------|-----------|
| Value (thousand RON) | 937,916 | 497,716 | 781,768 | 652,741 | 2,870,142 |

Note: the period between 2015 – 2017 and H1 2018 were not restated to reflect the accounting policy change described in Note 10 of the Financial Statements.

For 2018, Romgaz scheduled investments of RON 1,605.00 million out of which the program for H1 is in amount of RON 700.74 million, out of which RON 652.74 million was achieved, representing:

- 93.15% from the scheduled investments for H1 2018;
- 40.67% out of the total of Investment Program for 2018;
- 294.58% as compared to the level of achievements recorded for H1 2017.

Investments were financed exclusively from own sources.

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

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

The table below shows a comparison between H1 2017 and H1 2018 split into main investment categories:

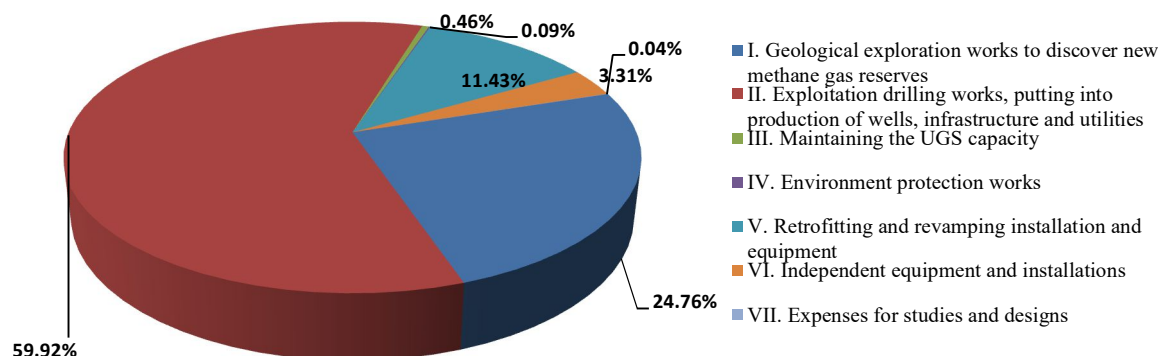
thousand RON

| Investment Categories | H1 2017 | H1 2018 | % |
|---|----------------|----------------|---------------|
| 1 | 2 | 3 | 4=3/2x100 |
| I. Geological exploration works to discover new methane gas reserves | 94,837 | 161,618 | 170.42 |
| II. Exploitation drilling works, putting into production of wells, infrastructure and utilities and electric power generation | 15,056 | 391,106 | 2,597.68 |
| III. Maintaining the UGS capacity | 1,728 | 2,980 | 172.45 |
| IV. Environment protection works | 810 | 592 | 73.09 |
| V. Retrofitting and revamping of installation and equipment | 89,894 | 74,587 | 82.97 |
| VI. Independent equipment and installations | 17,296 | 21,619 | 124.99 |
| VII. Expenses related to studies and projects | 1,965 | 239 | 12.16 |
| TOTAL | 221,586 | 652,741 | 294.58 |

The table below presents the situation of the achievements by main chapters, in relation to the Investment Program for 2018:

| Investment Categories | H1 2018 Program | *RON thousand* | |
|---|--------------------|----------------|--------------|
| | | H1 2018 | % |
| 1 | 2 | 3 | 4=3/2x100 |
| I. Geological exploration works to discover new methane gas reserves | 412,370 | 161,618 | 39.19 |
| II. Exploitation drilling works, putting into production of wells, infrastructure and utilities and electric power generation | 829,373 | 391,106 | 47.16 |
| III. Maintaining the UGS capacity | 2,980 | 2,980 | 100.00 |
| IV. Environment protection works | 4,740 | 592 | 12.49 |
| V. Retrofitting and revamping of installation and equipment | 233,881 | 74,587 | 31.89 |
| VI. Independent equipment and installations | 99,797 | 21,619 | 21.66 |
| VII. Expenses related to studies and projects | 21,859 | 239 | 1.09 |
| TOTAL | 1,605,000 | 652,741 | 40.67 |

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 | 26 wells | - completed: 4 wells - in progress: 7 wells - works contract: 5 wells - procurement in progress for drilling: 10 wells - drafting tender documentation: 25 wells |

| | | | |
|----|--|--|--|
| 2. | Drilling design | - | 27 wells – under design or procurement in progress |
| 3. | Production drilling | 3 wells | - completed: 1 well - works contract concluded and notice to commence works issued: 1 well -works contract in the process of signing: 1 well |
| 4. | Construction of surface facilities – gas wells | construction of 24 surface facilities for putting into operation of 37 gas wells | - completed: 6 wells - in progress: 7 wells - procurement in progress: 2 wells - approvals for construction are pending: 10 wells - under design: 12 wells |
| 5. | Sustaining the storage capacity | <p>Urziceni UGS: - gas cushion - revamping 10 underground storage wells</p> <p>Butimanu UGS: - revamping compressor automation cabinets - adjustment of surface facilities to modules 1 and 2 - construction of access roads and squares for 5 underground storage wells - pressure gauges acquisition</p> | <p>100% completed</p> <p><i>As of April 1, 2018 Filiala de Inmagazinare Gaze Naturale Depogaz Ploiesti (Underground Gas Storage Subsidiary) was established</i></p> |
| 6. | Well capitalizable repairs, modernization and reactivation | approx. 190 wells correlated with the annual plan agreed with ANRM | - workover at 105 wells, in-house works performed by SIRCOSS |
| 7. | Electricity generation | Continuing works at CTE Iernut | The contract is undergoing |
| 8. | Joint operations | <p><u>Raffles Energy SRL:</u> - retesting Well 1 Voitinell - elaboration of Feasibility Study regarding the technical solution of natural gas exploitation</p> | - completed - all the required approvals for the feasibility study elaboration were obtained and it was assigned the company to elaborate the study |
| 9. | | <p><u>Lukoil:</u> - preparing drilling for exploration well 1 Trinity 1X in 30EX Trident Block</p> <p><u>Amromco:</u> - drilling 3 wells</p> <p>-repair works for 6 wells</p> | <p>in progress</p> <p>-2 wells in progress of drilling and 1 abandoned well from drilling -2 completed wells; 1 abandoned well and 3 wells in progress of drilling</p> |

| | |
|---|---------------|
| -acquisition of 42 km ² , 3D seismic | -completed |
| -abandonment of 5 wells | -completed |
| Slovakia: | |
| - drilling 1 well | - in progress |
| - G&G studies | - in progress |

During the reviewed period, investments in amount of RON 149,749 thousand were commissioned.

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*”.

Consequently, a special important objective is “*The development of CTE Iernut by means of constructing a new thermal power plant with combined-cycle gas turbine*”, with completion deadline in Q1 2020. By the end of the reporting period the following works have been performed:

- land clearing/development by buildings demolition;
- access and marginal road development;
- storage platform development (site organization);
- platform construction works for foundation pilots;
- construction works for the foundation of the engine room, electric building and control room, equipment and machinery;
- 4 gas turbines, 3 generators for gas turbines, the steam boilers for the 4 turbines, as well as different equipment related to the thermal power plant were delivered to the site;
- metal structures were delivered to the site to fabricate the structure of the engine room;
- work is progress to complete the execution of the floor fillers at height ± 0.00 and the foundation pillars for the engine room are assembled.

3.5. Litigations

The summarized breakdown of litigations involving Romgaz shows the following:

- ☞ Total number of litigations is 222 (excluding labour-related litigations with no financial claims, specific performance obligations, cases where the company is a seized third party, etc.) out of which:
 - ✎ 150 cases where Romgaz is plaintiff;
 - ✎ 60 cases where Romgaz is defendant;
 - ✎ 12 cases where Romgaz is plaintiff claiming damages/injured party
- ☞ The total value of the files where Romgaz is plaintiff amounts to RON 2,142,124,354.11;
- ☞ the total value of the files where Romgaz is defendant amounts to RON 26,185,379.33 and EUR 60,000.

3.6. Legal documents concluded under Art. 52 of the GEO No. 109/2011

Legal documents concluded by the company between 1st of January and 30 June 2018 under the terms of the Art. 52 par. (1) and par. (6) of the GEO No. 109/2011 of 30 November 2011 on public companies corporate governance, as amended under Law 111/2016, are the following:

| No. | Contracting party | Legal document (no. and date) | Scope of contract | Total estimated value, including VAT (lei) | Payment terms and methods | Reciprocal receivables | Established securities | Penalties |
|-----|--|--|--|--|---|------------------------|--|--------------|
| 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 | SNTGN Transgaz SA | Contract no.28T/07.12.2017 | Quarterly gas transmission services (period 01.01-01.04.2018) | 3,437,910.00 | Payment within 15 calendar days from the date of issue of the invoice | No | 5% of the equivalent value of the transmission capacity reserved for the entire duration of the contract | See Note (1) |
| 2 | SNTGN Transgaz SA | Contract no.48L/19.12.2017 | Monthly gas transmission services (period 01.01-01.02.2018) | 1,900,572,80 | Payment within 15 calendar days from the date of issue of the invoice | No | 5% of the total contract value (excluding VAT) | See Note (1) |
| 3 | SNTGN Transgaz SA | Contract no.210/01.03.2018 | Natural gas sale-purchase (period 01.03.2018 hours 06:00-02.03.2018 hours 06:00) | 1,394,085.00 | Payment within 15 business days from the date of issue of the invoice | - | - | See Note (2) |
| 4 | Depogaz Ploiești SRL ⁷ (Lessee) | Fixed assets lease contract ⁸ no.19575/28.03.2018 | See Note (3) | 105,655,249.56 | The rent will be paid monthly, by payment order or any other legal payment instrument mutually agreed by parties, within 60 days from the date of issue of the invoice. | - | Not applicable | See Note (4) |
| 5 | Depogaz Ploiești SRL (Lessee) | Fixed assets lease contract no.19576/28.03.2018 | See Note (3) | 26,799,861.48 | The rent will be paid monthly, by payment order or any other legal payment instrument mutually agreed by parties, within 60 days from the date of issue of the invoice. | - | Not applicable | See Note (4) |

⁷ SNGN Romgaz SA – Filiala de Înmagazinare Gaze Naturale Depogaz Ploiești SRL

⁸ Included in the annexes to the License No. 1942/2014 in “Technical characteristics of the underground storage surface facilities”.

| | | | | | | | | |
|----|------------------------------|---|---|-------------------------------|---|----|--|--------------|
| 6 | SC Electrocentrale Galați SA | Contract no.147/2017 | Natural gas sale-purchase on the open market (01.10.2017-31.03.2018) | 62,581,780.04 See Note (5) | Advance payment, settlement invoice due within 30 days from the date of issue | - | - | 0.10%/day |
| 7 | SNTGN Transgaz SA | Contract no.608/2017 | Natural gas sale-purchase from storage (01.12.2017-31.03.2018) | 13,294,336.89 See Note (5) | Payment within 5 business days from the date of issue of the invoice | - | Performance security issued by the seller | See Note (2) |
| 8 | SNTGN Transgaz SA | Contract no.28T/2017 | Quarterly transmission services (01.01-01.04.2018) | 3,415,335.46 | Payment within 15 calendar days from the date of issue of the invoice | No | 5% from the equivalent value of the transmission capacity reserved for the contract duration | See Note (1) |
| 9 | Depogaz Ploiești SRL | Contract no.4/01.04.2018 | Provision of underground gas storage services (01.04.2018-31.03.2019) | 73,645,577.60 | Payment within 15 calendar days from the date of issue of the invoice | - | - | See Note (1) |
| 10 | Depogaz Ploiești SRL | Contract no.VG12/24.04.2018 | Natural gas sale-purchase (01.05-31.05.2018) | 2,081,667.00 | Settlement invoice due within 90 days from the date of issue | - | - | 0.10%/day |
| 11 | SC Oltchim SA | Addendum no.2/05.04.2018 ⁹ to Contract no.101/2017 | Natural gas sale-purchase on the open market (01.04-30.06.2018) | 3,494.11 | Advance payment, settlement invoice due within 30 days from the date of issue | - | - | See Note (2) |
| 12 | Depogaz Ploiești SRL | Addendum no.1/31.05.2018 ¹⁰ to Contract no.VG12/2018 | Natural gas sale-purchase on the open market (01.06-30.06.2018) | 1,247,215.92 | Settlement invoice due within 90 days from the date of issue | - | - | 0.10%/day |
| 13 | SC Termoficare Oradea SA | Addendum no.3/14.06.2018 ¹¹ | Natural gas sale-purchase on the open market (01.07-30.09.2018) | 15,716,056.30 | Advance payment, settlement invoice due | - | - | 0.10%/day |

⁹ Addendum no.2/2018 modifies the price of Contract no.101/2017 for the period 1st April 2018 - 30 June 2018, which implicitly modifies the value of the contract. Thus, the total value of the Contract no.101/2017 for the period 1st July 2017 - 30 June 2018 becomes RON 24,808.64 including VAT, increasing by RON 156.50 including VAT as compared to the value reported previously.

¹⁰ Addendum no.1/2018 modifies the quantity and extends the duration of the Contract no.VG12/2018 for the period 1st June 2018 - 30 June 2018, which implicitly modifies the value of the contract. Thus, the total value of the Contract no.VG12/2018 for the period 1st May 2018 - 30 June 2018 becomes RON 3,328,882.92 including VAT, increasing by RON 1,247,215.92 including VAT as compared to the previously reported value.

¹¹ Addendum no.3/2018 modifies the quantity of the Contract no.145/2017 for the period 1st July 2018 - 30 September 2018, which implicitly modifies the value of the contract. Thus, the total value of the Contract for the period 1st October 2017 - 30 September 2018 becomes RON 178,708,142.90 including VAT, decreasing by RON 2,073,096.62 as compared to the initial value.

| | | to Contract no.145/2017 | | | within 30 days from the date of issue | | | |
|----|---------------------------------|---|---|-------------------------------|---|---|---|--------------|
| 14 | SC Electrocentrale Constanța SA | Instalment scheme agreement no.1/30.04.2018 ¹² | Debt payable in instalments, resulting from Contract no. 148/2017 (01.05.2018-28.02.2019) | 12,500,652.44 | Installments every 30 days | - | - | 0.05%/day |
| 15 | SC Electrocentrale Constanța SA | Addendum to the Instalment scheme agreement no.1/2018 | Debt payable in instalments, resulting from Contract no. 148/2017 (21.06.2018-30.04.2019) | 15,242,257.22 See Note (6) | Installments every 30 days | | | |
| 16 | SC Oltchim SA | Contract no.VG16 of 22.06.2018 ¹³ | Natural gas sale-purchase on the open market (period 01.07.2018-30.06.2019) | 37,883,447.70 | Advance payment, settlement invoice due within 30 days from the date of issue | - | - | 0.10%/day |
| 17 | SC Oltchim SA | Contract no.VG16 of 22.06.2018 ¹⁰ | Natural gas sale-purchase on the open market (period 01.07.2018-30.06.2019) | 26,968.31 | Advance payment, settlement invoice due within 30 days from the date of issue | - | - | See Note (4) |

Note:

- (1) If the invoice payment obligation is not fulfilled a delayed payment penalty is paid, which is calculated to the unpaid amount, and is equal to the default interest due for delayed payment of the budget liability, for every day of delay, starting with the 16-th calendar day from the day of issue of the invoice until the full payment of the invoice, including the day of payment, or until the enforcement of security provided under the contract, if the payment liability is not fulfilled within 15 days from the due date.
- (2) The default interest is equal to the default interest due for late payment to the state budget, for every day of delay.
- (3) The Lessor (Romgaz) gives the Lessee the right of use of the Relevant Assets – including fixed assets (According to Annex A to the contract) for 1-year period and against payment of Contractual Price. *Contractual Term*: it enters into force on April 1st 2018 or at the date of the license transfer and it is valid for 1 year.
- (4) Late payment penalties are equal to the default interest due for late payment to the state budget, as established under the regulations in force at the respective date, applied to the amount not paid from the first day from the due date.
- (5) Bearing in mind that the current reports published by the company at the time when the contracts are concluded contain information related to the *estimated value*, these reports contain information referring to the *actual (incurred) value*.
- (6) The Addendum no.1/2018 modifies the amount and extends the period of instalments payment of the debt resulting from Contract no. 148/2017 until 30.04.2019, which modifies implicitly the value of the Instalment Scheme Agreement. Thus the total value of the Installment Scheme Agreement no. 1/2018 becomes RON 16,289,717.22.

¹² The Instalment Scheme Agreement was received from SC Electrocentrale Constanța SA on 02.07.2018.

¹³ The Contracts were transmitted by SC Oltchim SA on 17.07.2018 and registered by Romgaz on 18.07.2018.

3.7. Main risks and uncertainties for H2 2018

Operational risks:

- ✘ non-compliance with schedule of works related to new production facilities (commissioning, technological facilities, wells, collecting pipelines);
- ✘ non execution of maintenance works in due time and in planned parameters (dehydration stations, compression stations);
- ✘ increase of production costs as a result of local and national regulations;
- ✘ reduced usage of production facilities due to unfavourable weather (electricity supply suspension, landslides –pipeline rupture).

Investment risks:

- ☞ non-fulfilment of the Investment Program as regards the physical investments and the amount of the investments if unpredictable events occur;
- ☞ defective or delayed execution of investment works due to non-compliance with tender books, technical specifications of projects and execution schedules;
- ☞ fail to ensure the budget necessary for fulfilling the investment objectives included in the Investment Program due to an incorrect assessment of the estimated procurement value.

Commercial risks:

1. Decrease of demand on the market influenced by factors as follows:
 - a. Modification of the energy mix, negatively influencing the gas demand due to:
 - I. political, legislative reasons, such as: a legislation favourable for renewable energy or an environment legislation too permissive with carbon (encourages coal consumption);
 - II. market and climate reasons, such as: favourable price for alternative fuels (wood, coal), climate condition favourable for electricity production using hydro and/or wind/solar power and unfavourable for gas consumption in mild winters;
 - b. Macroeconomic environment (decrease of macroeconomic indicators) such as:
 - I. decrease of GDP;
 - II. economic, industrial, sectorial growth/limited growth;
 - III. demographic, migration, social indices;
2. Supply alternatives for customers from other sources at a favourable price (especially from import) under the influence of factors, such as:
 - a) decrease of oil products price;
 - b) decrease of prices for gas delivered in the region due to decrease of gas demand or increase of the regional offer;
 - c) political and geostrategic reasons;
 - d) gas supply alternatives for Europe and the region;
3. Erroneous evaluation of sources availability and/or “short” sale strategies without covering the sources existing by the time of delivery (over sale);

4. Market price evolution at an unpredicted level and failure to take the required insurance measures. Factors:
 - a. market price decrease at an unpredictable level due to free market mechanisms (supply/demand) - risk for contract annulment in case of contracts without take-or-pay terms;
 - b. market price increase at an unpredicted level due to free market mechanisms (supply/demand) - risk of sale under the market price without having insurance instruments appropriate for the “mark-to-market” mechanism.

IV. CONSOLIDATED FINANCIAL-ACCOUNTING INFORMATION

In Q2 2018, the management of the Group modified on voluntary basis the criterion to recognize the costs related to seismic surveys, geological, geophysical studies and other similar exploration activities, effective January 1, 2018.

Until March 31, 2018, these activities were recorded as intangible exploration assets, in accordance with the accounting policy applied prior to the transition of Romgaz to IFRS, the approach being permitted by IFRS 6. Since Q2 2018 these are expensed as incurred, in accordance with the successful efforts method. This way of accounting is more consistent with the international practice, making the financial statements more relevant to the users.

In accordance with IAS 8 “Accounting policies, changes in accounting estimates and errors”, this is a voluntary change in accounting policy, explained by the alignment with an accounting standard largely adopted by oil & gas companies and as such it has been applied retrospectively.

The retrospective application of the new accounting policy implies an adjustment of the opening balance of the consolidated retained earnings and other comparative amounts as of January 1, 2017. Specifically, the opening balance of the carrying amount of intangible assets decreased by RON 383,273 thousand and retained earnings by RON 321,662 thousand. Other adjustments related to deferred tax (following the change in accounting policy, Romgaz recorded an asset of RON 21,146 thousand, while prior to this change Romgaz reported a liability of RON 40,123 thousand) and other minor line items were recorded.

To reflect the change and ensure comparability of information presented in this report, previous periods were restated, as if the new accounting policy had always been applied.

More information are given in Note 10 in the consolidated condensed interim financial statement, attached hereto.

4.1. Statement of Consolidated Interim Financial Position

The table below presents a summary of the statement of the consolidated interim financial position as of June 30, 2018 and as compared to December 31, 2017:

| INDICATOR | December 31, 2017 (restated) (thousand RON) | June 30, 2018 (thousand RON) | Variation (%) |
|--------------------------------------|---|---------------------------------|------------------|
| 1 | 2 | 3 | 4=(3-2)/2x100 |
| ASSETS | | | |
| <i>Non-current assets</i> | | | |
| Property, plant and equipment | 5,842,708 | 6,087,907 | 4.20 |
| Other intangible assets | 8,629 | 6,707 | -22.27 |
| Investments in associates | 22,676 | 23,652 | 4.30 |
| Deferred tax assets | 66,272 | 72,730 | 9.74 |
| Other financial investments | 69,678 | 45,147 | -35.21 |
| TOTAL NON-CURRENT ASSETS | 6,009,963 | 6,236,143 | 3.76 |
| <i>Current assets</i> | | | |
| Inventories | 389,515 | 256,001 | -34.28 |
| Trade and other receivables | 816,086 | 262,178 | -67.87 |
| Contract assets | - | 218,947 | n/a |
| Contract costs | - | 976 | n/a |
| Other financial assets | 2,787,261 | 1,098,020 | -60.61 |
| Other assets | 305,913 | 182,029 | -40.50 |
| Cash and cash equivalents | 227,167 | 2,528,535 | 1013.07 |
| TOTAL CURRENT ASSETS | 4,525,942 | 4,546,686 | 0.46 |
| TOTAL ASSETS | 10,535,905 | 10,782,829 | 2.34 |
| EQUITY AND LIABILITIES | | | |
| <i>Equity</i> | | | |
| Share capital | 385,422 | 385,422 | 0.00 |
| Reserves | 2,312,532 | 2,498,095 | 8.02 |
| Retained earnings | 6,296,875 | 4,967,280 | -21.12 |
| TOTAL EQUITY | 8,994,829 | 7,850,797 | -12.72 |
| <i>Non-current liabilities</i> | | | |
| Retirement benefit obligation | 119,482 | 114,247 | -4.38 |
| Provisions | 280,601 | 289,500 | 3.17 |
| Total non-current liabilities | 400,083 | 403,747 | 0.92 |
| <i>Current liabilities</i> | | | |
| Trade and other payables | 606,109 | 144,490 | -76.16 |
| Contract liabilities | - | 48,897 | n/a |
| Current tax liabilities | 128,520 | 58,970 | -54.12 |
| Deferred revenue | 970 | 25,681 | 2547.53 |
| Provisions | 76,290 | 61,024 | -20.01 |
| Other liabilities | 329,104 | 2,189,223 | 565.21 |
| Total current liabilities | 1,140,993 | 2,528,285 | 121.59 |
| TOTAL LIABILITIES | 1,541,076 | 2,932,032 | 90.26 |
| TOTAL EQUITY AND LIABILITIES | 10,535,905 | 10,782,829 | 2.34 |

Non-current assets

The total non-current assets recorded an increase by 3.76%, i.e. RON 226.18 million, from RON 6,010.0 million on December 31, 2017 to RON 6,236.1 million on June 30, 2018, mainly due to the investments made for the new power plant at Iernut.

As regards the other financial investments, during H1 2018, the Group recorded an impairment on the investment in Electrocentrale Bucuresti of RON 24.5 million. Of this amount, only RON 5.5 million affected the earnings related to the period, the difference being recorded as retained earnings, as a result of transition to IFRS 9.

Investments in associates are recorded in the financial statements by equity method, which requires that the investment is initially recognized as cost and subsequently adjusted based on the changes that occur post acquisition in the apportioned shares of the Group in associate net assets in which the investment was made. The profit and loss of the Group includes its share in the profit and loss of the associate.

Inventories

The decrease by 34.28 % (RON 133,51 million) on June 30, 2018 as compared to December 31, 2017, is mainly due to decrease of gas stock, as a result of H1 2018 deliveries and storage of reduced quantities of gas during the H1 2018.

Trade receivables and other receivables

As compared to December 31, 2017, trade receivables decreased by 67.87 % due to implementation of IFRS 15. The effect of transition to IFRS 15 is presented in the financial statements, in Note 2.

During H1 2018 the Group recorded net losses in connection with impairment of receivables in amount of RON 18.9 million as a result of the high non-collection risk from one of the Group's clients. This amount is presented in the statement of consolidated interim comprehensive income under net impairment losses on trade receivables.

Contract assets

Contract assets represent the Group's right to an equivalent value in exchange for goods and services transferred by the Group to its clients for the case when that specific right is conditioned upon something else than the passing of time. Prior to the transition to IFRS 15, these amounts were presented as trade receivables. These amounts represent the deliveries for June 2018 for which gas sales invoices are to be issued at the moment indicated in the gas sales contracts concluded between the Group and its clients.

Cash and cash equivalents. Other financial assets

On June 30, 2018, cash, cash equivalents and other financial assets amounted to RON 3,626.5 million, as compared to RON 3,014.4 million at the end of 2017, the increase being due to collections during H1 2018. From these liquid assets, the dividends related to 2017 were paid in July 2018, as approved by the Group's shareholders.

Other assets

As compared to December 31, 2017, other assets decreased on June 30, 2018, mainly due to the offset of reimbursable gas excises with other tax liabilities, following the completion of fiscal inspection in 2017.

EQUITY AND RESERVES

The Group's equity decreased by 12.72% due to distribution of 2017 profit to shareholders.

CURRENT LIABILITIES

Current liabilities increased by RON 1,387.3 million, from RON 1,141.0 million as recorded on December 31, 2017 to RON 2,189.2 million, amount recorded on June 30, 2018.

Trade payables and other payables

As compared to December 31, 2017, trade liabilities decreased by 76.16% due to the implementation of IFRS 15. Prior to the application of IFRS 15, the advance payments received for the gas to be delivered in the following period were presented at trade payables. Starting with 2018, these advance payments are presented as contract liabilities.

On June 30, 2018, the advance payments for the gas to be delivered decreased given the seasonal nature of the Group's activity. This decrease drew the decrease of trade payables as compared to the end of previous year.

Current tax liabilities

As compared to Q4 2017, current profit tax liabilities decreased by 49.82% due to a lower gross result in Q2 2018, which was influenced by recording an income for the excise related to technological consumption, recognized following the completion of fiscal inspection. The gross result is adjusted by non-taxable income and non-deductible expenses, pursuant to fiscal regulations applicable in Romania, hence resulting the tax payable. The current profit tax is paid quarterly.

Deferred revenue

The increase of deferred revenue is due to the collection by the Group of the first instalment related to the construction of the new power plant at Iernut from the National Investment Plan. This amount shall be transferred to income as the investment is depreciated, further the completion. Currently, the investment is ongoing.

Other liabilities

Other liabilities increased by 565.21% as a result of the Group's liability towards the shareholders, representing the distributed dividends, according to GMS Resolution, out of 2017 profit.

Provisions

As compared to the year ended on December 31, 2017 short-term provisions decreased by 20.01%, as a result of the reversal of the provision for employee's participation to profit further to the GMS approval of its payment.

4.2. Statement of Consolidated Interim Comprehensive Income

The synthesis of the profit and loss account of the Group for the period January 1 - June 30, 2018 as compared to the similar period of 2017 is shown below:

| Description | H1 (restated) (RON thousand) | 2017 H1 (RON thousand) | 2018 H1 (RON thousand) | Differences (RON thousand) | Variation (%) |
|-------------|---------------------------------------|---------------------------------|---------------------------------|----------------------------------|------------------|
| | 2 | 3 | 4 | 4=3-2 | 5=4/2x100 |
| Revenue* | 2,392,217 | 2,474,507 | 2,474,507 | 82,290 | 3.44 |

| Description | H1 (restated) (RON thousand) | 2017 H1 (RON thousand) | 2018 H1 (RON thousand) | Differences (RON thousand) | Variation (%) |
|---|---------------------------------------|---------------------------------|---------------------------------|----------------------------------|------------------|
| Cost of commodities sold | (45,791) | (102,775) | | 56,984 | 124.44 |
| Investment income | 10,705 | 26,192 | | 15,487 | 144.67 |
| Other gains and losses | (64,599) | (45,133) | | (19,466) | -30.13 |
| Net impairment losses on trade receivables | - | (18,947) | | 18,947 | n/a |
| Changes in inventory of finished goods and work in progress | (142,057) | (65,371) | | (76,686) | -53.98 |
| Raw materials and consumables used | (32,128) | (34,917) | | 2,789 | 8.68 |
| Amortization, depreciation and impairment expenses | (268,365) | (246,094) | | (22,271) | -8.30 |
| Employee benefit expense | (261,096) | (285,630) | | 24,534 | 9.40 |
| Finance cost | (8,875) | (12,734) | | 3,859 | 43.48 |
| Exploration expenses | (73,243) | (112,507) | | 39,264 | 53.61 |
| Share of associates' result | 532 | 976 | | 444 | 83.46 |
| Other expenses | (516,461) | (634,104) | | 117,643 | 22.78 |
| Other income | 66,076 | 4,420 | | (61,656) | -93.31 |
| Profit before tax | 1,056,915 | 947,883 | | (109,032) | -10.32 |
| Income tax expense | (169,459) | (150,179) | | (19,280) | -11.38 |
| Net Profit | 887,456 | 797,704 | | (89,752) | -10.11 |

*) as of 2018, International Financial Reporting Standard 15 “Revenue from contracts with customers” (IFRS 15) entered into force. The Group opted for the retrospective application of the standard, the cumulative effect of the initial application being recognised at the application date, as an adjustment to the opening balance of retained earnings. Under this method, previous periods are not restated. The effect of these changes is presented in the consolidated interim financial statements, attached to this Report, in Note 2.

Revenue

In H1 ended on June 30, 2018, the Group’s revenue increased by 3.44% (RON 542.32 million) as compared to the same period of the previous year. Without the influence of IFRS 15, the increase would have been by 0.53%.

The consolidated revenue from gas sales during H1 2018 amounted RON 2,120.6 million, increasing by 11.98% as compared to H1 2017, an increase that compensated the decrease by 26.75% of revenue from gas storage services and decrease by 58.9% of revenue from electricity sale.

Cost of Commodities Sold

The cost of commodities sold increased by 124.44%, compared to H1 2017, as a result of higher import gas quantities purchased for resale, compensated by the purchase of a smaller quantity of gas from internal production during H1 2018 compared to H1 2017. The costs related to imbalances on the electricity market also increased from RON 5.2 million in H1 2017 to RON 19.1 million in H1 2018.

Investment Income

The investment income represents income from placing the Group’s available cash in bank deposits or government securities. The increase by 144.67% as compared to H1 2017 is generated by the increase of interest rates.

Other Gains and Losses

Other Gains and Losses must be analysed together with Net impairment losses on trade receivables. As a result of implementing IFRS 15, these losses were presented separately in the

statement of consolidated interim comprehensive income. As compared to H1 of previous year, these losses decreased only by 0.8%. The net impairment loss on trade receivables is generated mainly by the allowance for doubtful debts recorded for one of the Group's Clients (RON 15.1 million) due to payment delays. The Group concluded a debt repayment agreement with this client in order to recover the doubtful debts.

Changes in Inventory of finished goods and work in progress

In H1 2018 and 2017, gas volumes, Romgaz property, withdrawn from UGSs were higher than those injected, therefore generating a negative change in inventory (loss).

As compared to the similar period of previous year, the decrease is generated by a lower quantity of gas extracted from UGS during current year.

Depreciation, amortization and impairment

Depreciation, amortization and impairment expenses decreased by 8.30% as compared to H1 2017 due to higher net income from the impairment of tangible assets and exploration assets. This net income offsets the losses on disposal of fixed assets, which were not fully depreciated or on the abandonment of some investment projects.

Exploration expenses

Exploration expenses recorded in H1 2018 of RON 112.5 million increased by 53.61% compared to the similar period of previous year. This increase reflects a change in the accounting policy by which the *exploration* expenses related to seismic prospects, geological, geophysical studies and other similar works are recorded as expenses at the time these works are performed, these costs not being capitalized anymore.

In H1 2018 the exploration expenses related to such activities were RON 50.7 million as compared to RON 3.1 million in H1 2017, showing an intensified exploration activity to discover new resources.

The exploration expenses also include the cost of abandoned investments in exploration wells. In H1 2018 the cost of these investments was of RON 50.7 million as compared to RON 70.2 million in H1 2017. These costs are mostly offset by the net income from releasing the impairment, as mentioned above.

Other Expenses

Other Expenses recorded an increase by 22.78% as compared to H1 2017. The increase by RON 117.6 million is mainly due to increase by RON 115.9 million of expenses with taxes and duties, out of which approximately RON 53 million represents the royalty on gas production and storage activity and approximately RON 60 million is related to additional income tax.

Other Income

The decrease of other income is due to the influence of IFRS 15 implementation. Due to application of IFRS 15, the Group has reconsidered its quality for invoicing services provided by third party suppliers; following this analysis, the Group concluded that it acts as a principal, not as agent/commissioner of the supplier, recognizing the related amounts in the revenue.

The table below shows the breakdown of segment interim global result for the period January – June 2018, respectively January - June 2017:

RON thousand

| Description | Gas production and deliveries | UGS | Electricity | Other activities | Consolidation Adjustment | TOTAL |
|--|--|----------|-------------|---------------------|-----------------------------|-----------|
| 1 | 2 | 3 | 4 | | 5 | 6 |
| <i>Revenue</i> | | | | | | |
| * H I 2017 | 1,998,444 | 251,959 | 299,000 | 124,589 | (281,75) | 2,392,217 |
| * H I 2018 | 2,257,866 | 169,853 | 145,153 | 157,277 | (255,642) | 2,474,507 |
| <i>Cost of commodities sold</i> | | | | | | |
| * H I 2017 | (40,182) | (1) | (5,268) | (340) | - | (45,791) |
| * H I 2018 | (85,707) | (142) | (19,143) | (288) | 2,505 | (102,775) |
| <i>Investment income</i> | | | | | | |
| * H I 2017 | 196 | 1,135 | 10 | 9,364 | - | 10,705 |
| * H I 2018 | 39 | 217 | 2 | 25,934 | - | 26,192 |
| <i>Other gains and losses</i> | | | | | | |
| * H I 2017 | (43,714) | (1,459) | (361) | (19,065) | - | (64,599) |
| * H I 2018 | (40,459) | 3,508 | (2,043) | (6,139) | - | (45,133) |
| <i>Net impairment losses on trade receivables</i> | | | | | | |
| * H I 2017 | | | | | | |
| * H I 2018 | (18,951) | - | 4 | - | - | (18,947) |
| <i>Changes in inventory of finished goods and work in progress</i> | | | | | | |
| * H I 2017 | (111,807) | (31,356) | 44 | 1,062 | - | (142,057) |
| * H I 2018 | (45,054) | (21,606) | 46 | 1,243 | - | (65,371) |
| <i>Raw materials and consumables used</i> | | | | | | |
| * H I 2017 | (23,522) | (4,971) | (516) | (5,405) | 2,286 | (32,128) |
| * H I 2018 | (25,485) | (10,523) | (613) | (5,747) | 7,451 | (34,917) |
| <i>Depreciation, amortization and impairment expenses</i> | | | | | | |
| * H I 2017 | (204,305) | (51,678) | (3,660) | (8,722) | - | (268,365) |
| * H I 2018 | (179,273) | (53,653) | (3,531) | (9,637) | - | (246,094) |
| <i>Employees benefit expenses</i> | | | | | | |
| * H I 2017 | (166,816) | (25,151) | (15,722) | (53,407) | - | (261,096) |
| * H I 2018 | (180,473) | (25,332) | (16,419) | (63,406) | - | (285,630) |
| <i>Finance cost</i> | | | | | | |
| * H I 2017 | (8,058) | (817) | - | - | - | (8,875) |
| * H I 2018 | (10,946) | (1,788) | - | - | - | (12,734) |
| <i>Exploration expense</i> | | | | | | |
| * H I 2017 | (73,243) | - | - | - | - | (73,243) |
| * H I 2018 | (112,507) | - | - | - | - | (112,507) |
| <i>Share of associates' result</i> | | | | | | |
| * H I 2017 | - | 532 | - | - | - | 532 |
| * H I 2018 | - | 976 | - | - | - | 976 |
| <i>Other expenses</i> | | | | | | |
| * H I 2017 | (536,594) | (26,298) | (200,610) | (32,809) | 279,850 | (516,461) |
| * H I 2018 | (698,636) | (55,916) | (102,572) | (25,402) | 248,422 | (634,104) |
| <i>Other income</i> | | | | | | |
| * H I 2017 | 66,120 | 28 | 33 | 256 | (361) | 66,076 |
| * H I 2018 | 4,248 | 2,402 | 14 | 492 | (2,736) | 4,420 |
| <i>Profit before tax</i> | | | | | | |
| * H I 2017 | 856,519 | 111,923 | 72,950 | 15,523 | - | 1,056,915 |
| * H I 2018 | 864,662 | 7,996 | 898 | 74,327 | - | 947,883 |

| Description | Gas production and deliveries | UGS | Electricity | Other activities | Consolidation Adjustment | TOTAL |
|------------------------------|-------------------------------|---------|-------------|------------------|--------------------------|-----------|
| 1 | 2 | 3 | 4 | | 5 | 6 |
| <i>Income tax expense</i> | | | | | | |
| * H I 2017 | - | - | - | (169,459) | - | (169,459) |
| * H I 2018 | - | - | - | (150,179) | - | (150,179) |
| <i>Profit for the period</i> | | | | | | |
| * H I 2017 | 856,519 | 111,923 | 72,950 | (153,936) | - | 887,456 |
| * H I 2018 | 864,662 | 7,996 | 898 | (75,852) | - | 797,704 |

4.3. Statement of Consolidated Cash Flows

Statements of consolidated cash flows recorded in H1 2018 and respectively in H1 2017 are as follows:

| INDICATOR | H1 2017 (restated) (RON thousand) | H1 2018 (RON thousand) | Variation (%) |
|---|--|------------------------------|------------------|
| 1 | 2 | 3 | 4=(3-2)/2x100 |
| Cash flow from operating activities | | | |
| Net Profit for the period | 887,456 | 797,704 | -10.11 |
| <i>Adjustments for:</i> | | | |
| Income tax expenses | 169,459 | 150,179 | -11.38 |
| Share of associates' result | (532) | (976) | 83.46 |
| Interest expense | 3 | - | n/a |
| Unwinding of decommissioning provision | 8,872 | 12,734 | 43.53 |
| Interest revenue | (10,705) | (26,192) | 144.67 |
| Loss on disposal of non-current assets | 37,043 | 37,703 | 1.78 |
| Change in decommissioning provision recognized in result for the period, other than unwinding | (838) | (650) | -22.43 |
| Change in other provisions | (15,550) | (21,181) | 36.21 |
| Net impairment of exploration assets | (34,417) | (58,168) | 69.01 |
| Exploration projects written off | 70,181 | 61,776 | -11.98 |
| Net impairment of property, plant and equipment and intangibles | 28,270 | 5,894 | -79.15 |
| Depreciation and amortization | 274,512 | 298,368 | 8.69 |
| Amortization of contract costs | - | 679 | n/a |
| Net impairment of investment in associates | (3,392) | - | n/a |
| Net impairment of other financial assets | (21) | - | n/a |
| (Gain)/Losses in financial assets measured at fair value through profit and loss | - | 5,448 | n/a |
| (Gain)/Loss from disposal of investment in associates | 3,392 | - | n/a |
| Net receivable write-offs and movement in allowances for trade receivables and other assets | 21,882 | 19,165 | -12.42 |
| Net movement in write-down allowances for inventory | 5,401 | 297 | -94.50 |
| Subsidies income | - | (92) | n/a |
| Cash generated from operations, before movements in working capital | 1,441,016 | 1,282,688 | -10.99 |
| Movements in working capital | | | |
| (Increase)/Decrease in inventory | 83,054 | 130,748 | 57.43 |
| (Increase)/Decrease in trade and other receivables | 212,907 | 324,957 | 52.63 |
| Increase/(Decrease) in trade and other liabilities | (260,547) | (360,905) | 38.52 |
| Cash generated from operations | 1,476,430 | 1,377,488 | -6.70 |
| Interest paid | (3) | - | n/a |
| Income tax paid | (181,077) | (226,187) | 24.91 |

| | | | |
|---|------------------|------------------|---------------|
| Net cash generated from operations | 1,295,350 | 1,151,301 | -11.12 |
| Cash flows from investing activities | | | |
| (Increase)/Decrease in other financial assets | 449,835 | 1,698,866 | 277.66 |
| Interest received | 7,618 | 20,378 | 167.50 |
| Proceeds from sale of non-current assets | 66 | 5,162 | 7721.21 |
| Acquisition of non-current assets | (150,024) | (496,727) | 231.10 |
| Acquisition of exploration assets | (91,632) | (98,312) | 7.29 |
| Net cash used in investing activities | 215,863 | 1,129,367 | 423.19 |
| Cash flows from financing activities | | | |
| Dividends paid | (491) | (294) | -40.12 |
| Subsidies received | - | 20,994 | n/a |
| Net cash used in financing activities | (491) | 20,700 | n/a |
| Net Increase/(Decrease) in cash and cash equivalents | 1,510,722 | 2,301,368 | 52.34 |
| Cash and cash equivalents at the beginning of the period | 280,547 | 227,167 | -19.03 |
| Cash and cash equivalents as of June 30 | 1,791,269 | 2,528,535 | 41.16 |

V. PERFORMANCE OF THE MANDATE CONTRACTS/DIRECTORS AGREEMENTS

Director Agreements

Following the expiration of the director agreements of the Board members appointed by the General Meeting of Shareholders in 2013 for a four-year period, interim directors were appointed on successive basis. The director agreements approved by the General Meeting of Shareholders do not include performance indicators and criteria.

The Contracts of Mandate

By Resolution no.37 of December 14, 2017, the Board of Directors appointed Mr. Cindrea Corin Emil as interim CEO for a period of four months with the possibility of extending it by maximum 6 months.

By Resolution no 19 of April 12, 2018, the Board of Directors decided the extension of the Mandate Contract of the CEO with two months, respectively until June 14, 2018.

By Resolution no.29 of June 14, 2018, the Board of Directors decided the appointment of Volintiru Adrian Constantin as Chief Executive Officer for a period of four months.

The mandate contracts concluded between the CEOs with the Board of Directors do not include performance indicators and criteria.

Likewise, the Contract of mandate concluded between the Board of Directors and Chief Financial Officer - Mr. Bobar Andrei, appointed by Resolution no 30 of November 2nd, 2017 does not include performance indicators and criteria. These indicators will be set in an addendum by the Board of Directors appointed following the selection procedure performed in accordance with GEO no 109/2011, pursuant to the management plan.

Attached hereto are the Interim Consolidated Financial Statements for the period ending June 30, 2018 prepared in accordance with the International Financial Reporting Standards (IFRS).



SIGNATURES:

Chairman of the Board of Directors,
NISTORAN DORIN LIVIU

.....

Chief Executive Officer,
VOLINTIRU ADRIAN CONSTANTIN

Chief Financial Officer,

.....

.....

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

**CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX-MONTH AND THREE-MONTH PERIODS ENDED JUNE 30, 2018**

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL ACCOUNTING STANDARD 34**

WITH

THE INDEPENDENT AUDITOR'S REVIEW REPORT

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REPORT ON THE REVIEW OF INTERIM CONSOLIDATED FINANCIAL INFORMATION

To the Shareholders of,
S.N.G.N Romgaz S.A.
Medias, Romania

Introduction

1. We have reviewed the accompanying interim consolidated statement of financial position of S.N.G.N. Romgaz S.A. (the Company) as of June 30, 2018 and the related interim consolidated statements of comprehensive income, consolidated changes in shareholders' equity and consolidated cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this interim consolidated financial information in accordance with the International Financial Reporting Standards as adopted by the European Union. Our responsibility is to express a conclusion on this interim consolidated financial information based on our review.

Scope of Review

2. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial information does not present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2018 and its interim consolidated financial performance and its cash flows for the six-month period then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

4. The Company changed its accounting policy with regard to the criterion to recognize seismic, geological, geophysical and similar activities as exploration expenses as incurred, rather than exploration assets. The policy was changed retrospectively, on voluntary basis, and comparatives have been restated as summarised in notes 2 and 10. Our conclusion is not modified in respect of this matter.

Other Matters

5. We have not reviewed the financial information for the period ended March 31, 2018 and we are not expressing our conclusion regarding this financial information.
6. This report is made solely to the shareholders. Our review work has been undertaken so that we might state to the shareholders, those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the shareholders, for our review work, for this report, or for the conclusion we have formed.

For signature, please refer to the original Romanian version.

Deloitte Audit S.R.L.
Bucharest, Romania
August 13, 2018

CONDENSED STATEMENT OF CONSOLIDATED INTERIM COMPREHENSIVE INCOME FOR THE SIX-MONTH AND THREE-MONTH PERIODS ENDED JUNE 30, 2018

| | Note | Six months ended June 30, 2018 | Three months ended June 30, 2018 | Six months ended June 30, 2017 | Three months ended June 30, 2017 |
|---|------|--------------------------------------|--|--------------------------------------|--|
| | | '000 RON | '000 RON | '000 RON (restated) * | '000 RON (restated) * |
| Revenue | 2, 3 | 2,474,507 | 992,170 | 2,392,217 | 894,682 |
| Cost of commodities sold | | (102,775) | (17,161) | (45,791) | (8,774) |
| Investment income | | 26,192 | 14,885 | 10,705 | 5,741 |
| Other gains and losses | 4 | (45,133) | (22,307) | (64,599) | (59,991) |
| Net impairment losses on trade receivables | | (18,947) | (6,371) | - | - |
| Changes in inventory of finished goods and work in progress | | (65,371) | 31,542 | (142,057) | 21,753 |
| Raw materials and consumables used | | (34,917) | (18,067) | (32,128) | (15,646) |
| Depreciation, amortization and impairment expenses | 5 | (246,094) | (98,858) | (268,365) | (40,176) |
| Employee benefit expense | | (285,630) | (162,089) | (261,096) | (146,845) |
| Finance cost | | (12,734) | (6,361) | (8,875) | (3,988) |
| Exploration expense | | (112,507) | (55,621) | (73,243) | (72,831) |
| Share of associates' result | | 976 | 201 | 532 | (278) |
| Other expenses | | (634,104) | (276,641) | (516,461) | (200,730) |
| Other income | 2, 3 | 4,420 | 1,181 | 66,076 | 14,592 |
| Profit before tax | | 947,883 | 376,503 | 1,056,915 | 387,509 |
| Income tax expense | 6 | (150,179) | (57,292) | (169,459) | (61,226) |
| Profit for the period | | 797,704 | 319,211 | 887,456 | 326,283 |
| Total comprehensive income for the period | | 797,704 | 319,211 | 887,456 | 326,283 |

*) Please see note 10.

These financial statements were approved by the Board of Directors on August 13, 2018.

Adrian Constantin Volintiru
 Chief Executive Officer

 Chief Financial Officer

CONDENSED STATEMENT OF CONSOLIDATED INTERIM FINANCIAL POSITION AS OF JUNE 30, 2018

| <u>Note</u> | <u>June 30, 2018</u> | <u>December 31, 2017</u> | <u>January 1,2017</u> |
|--------------------------------------|----------------------|---------------------------|---------------------------|
| | '000 RON | '000 RON (restated) *) | '000 RON (restated) *) |
| ASSETS | | | |
| Non-current assets | | | |
| | 6,087,907 | 5,842,708 | 5,789,604 |
| Property, plant and equipment | | | |
| | 6,707 | 8,629 | 14,590 |
| Other intangible assets | | | |
| | 23,652 | 22,676 | 21,301 |
| Investments in associates | | | |
| | 72,730 | 66,272 | 21,146 |
| Deferred tax asset | | | |
| | 45,147 | 69,678 | 69,657 |
| Other financial investments | | | |
| Total non-current assets | 6,236,143 | 6,009,963 | 5,916,298 |
| Current assets | | | |
| | 256,001 | 389,515 | 575,983 |
| Inventories | | | |
| | 262,178 | 816,086 | 828,609 |
| Trade and other receivables | | | |
| | 218,947 | - | - |
| Contract assets | 2 | | |
| Contract costs | 2 | - | - |
| Other financial assets | | | |
| | 1,098,020 | 2,787,261 | 2,893,852 |
| Other assets | | | |
| | 182,029 | 305,913 | 141,530 |
| Cash and cash equivalents | | | |
| | 2,528,535 | 227,167 | 280,547 |
| Total current assets | 4,546,686 | 4,525,942 | 4,720,521 |
| Total assets | 10,782,829 | 10,535,905 | 10,636,819 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| | 385,422 | 385,422 | 385,422 |
| Share capital | | | |
| | 2,498,095 | 2,312,532 | 3,020,152 |
| Reserves | | | |
| | 4,967,280 | 6,296,875 | 5,970,023 |
| Retained earnings | | | |
| Total equity | 7,850,797 | 8,994,829 | 9,375,597 |
| Non-current liabilities | | | |
| | 114,247 | 119,482 | 119,986 |
| Retirement benefit obligation | | | |
| | 289,500 | 280,601 | 194,048 |
| Provisions | | | |
| Total non-current liabilities | 403,747 | 400,083 | 314,034 |

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

CONDENSED STATEMENT OF CONSOLIDATED INTERIM FINANCIAL POSITION AS OF JUNE 30, 2018

| | <u>Note</u> | <u>June 30, 2018</u> | <u>December 31, 2017</u> | <u>January 1, 2017</u> |
|-------------------------------------|-------------|----------------------|---------------------------|---------------------------|
| | | '000 RON | '000 RON (restated) *) | '000 RON (restated) *) |
| Current liabilities | | | | |
| Trade payables | | 144,490 | 606,109 | 569,945 |
| Contract liabilities | 2 | 48,897 | - | - |
| Current tax liabilities | | 58,970 | 128,520 | 60,295 |
| Deferred revenue | | 25,681 | 970 | 4,924 |
| Provisions | | 61,024 | 76,290 | 50,437 |
| Other liabilities | 7 | 2,189,223 | 329,104 | 261,587 |
| Total current liabilities | | 2,528,285 | 1,140,993 | 947,188 |
| Total liabilities | | 2,932,032 | 1,541,076 | 1,261,222 |
| Total equity and liabilities | | 10,782,829 | 10,535,905 | 10,636,819 |

*) Please see note 10.

These financial statements were approved by the Board of Directors on August 13, 2018.

Adrian Constantin Volintiru
 Chief Executive Officer

 Chief Financial Officer

CONDENSED STATEMENT OF CONSOLIDATED INTERIM CHANGES IN EQUITY FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2018

| | Share capital | Legal reserve | Other reserves | Retained earnings | Total |
|--|------------------|------------------|-------------------|----------------------|------------------|
| | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON |
| Balance as of January 1, 2018 (before restatement) (note 10) | 385,422 | 77,084 | 2,235,448 | 6,635,380 | 9,333,334 |
| Restatement (note 10) | - | - | - | (338,505) | (338,505) |
| Balance as of January 1, 2018 (restated) (note 10) | 385,422 | 77,084 | 2,235,448 | 6,296,875 | 8,994,829 |
| Total comprehensive income for the period | - | - | - | 797,704 | 797,704 |
| Allocation to dividends (note 7) *) | - | - | - | (1,923,258) | (1,923,258) |
| Allocation to other reserves | - | - | 185,563 | (185,563) | - |
| Change in accounting policies due to new IFRS (note 2) | - | - | - | (18,478) | (18,478) |
| Balance as of June 30, 2018 | 385,422 | 77,084 | 2,421,011 | 4,967,280 | 7,850,797 |
| Balance as of January 1, 2017 (before restatement) | 385,422 | 77,084 | 2,943,068 | 6,291,685 | 9,697,259 |
| Restatement (note 10) | - | - | - | (321,662) | (321,662) |
| Balance as of January 1, 2017 (restated) | 385,422 | 77,084 | 2,943,068 | 5,970,023 | 9,375,597 |
| Total comprehensive income for the period (before restatement) (note 10) | - | - | - | 868,476 | 868,476 |
| Total comprehensive income for the period (restatement effect) (note 10) | - | - | - | 18,980 | 18,980 |
| Allocation to dividends | - | - | - | (1,472,314) | (1,472,314) |
| Allocation to other reserves | - | - | 16,309 | (16,309) | - |
| Balance as of June 30, 2017 (restated) | 385,422 | 77,084 | 2,959,377 | 5,368,856 | 8,790,739 |

*) In 2018 the Company's shareholders approved the allocation of dividends of RON 1,923,258 thousand, dividend per share being RON 4.99.

These financial statements were approved by the Board of Directors on August 13, 2018.

Adrian Constantin Volintiru
Chief Executive Officer

Chief Financial Officer

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

CONDENSED STATEMENT OF CONSOLIDATED INTERIM CASH FLOW FOR THE SIX-MONTH AND THREE-MONTH PERIODS ENDED JUNE 30, 2018

| | Six months ended June 30, 2018 | Three months ended June 30, 2018 | Six months ended June 30, 2017 | Three months ended June 30, 2017 |
|---|--------------------------------------|--|--------------------------------------|--|
| | '000 RON | '000 RON | '000 RON (restated) * | '000 RON (restated) * |
| Cash flows from operating activities | | | | |
| Net profit | 797,704 | 319,211 | 887,456 | 326,283 |
| Adjustments for: | | | | |
| Income tax expense (note 6) | 150,179 | 57,292 | 169,459 | 61,226 |
| Share of associates' result | (976) | (201) | (532) | 278 |
| Interest expense | - | - | 3 | 2 |
| Unwinding of decommissioning provision | 12,734 | 6,361 | 8,872 | 3,986 |
| Interest revenue | (26,192) | (14,885) | (10,705) | (5,741) |
| Net loss on disposal of non-current assets (note 4) | 37,703 | 18,693 | 37,043 | 36,262 |
| Change in decommissioning provision recognized in profit or loss, other than unwinding | (650) | (360) | (838) | (129) |
| Change in other provisions | (21,181) | (19,318) | (15,550) | (13,078) |
| Net impairment of exploration assets (note 5) | (58,168) | (44,367) | (34,417) | (38,342) |
| Exploration projects written off | 61,776 | 44,920 | 70,181 | 70,181 |
| Net impairment of property, plant and equipment and intangibles (note 5) | 5,894 | 1,320 | 28,270 | (52,523) |
| Depreciation and amortization (note 5) | 298,368 | 141,905 | 274,512 | 131,041 |
| Amortization of contract costs | 679 | 321 | - | - |
| Net impairment of investment in associates | - | - | (3,392) | (3,392) |
| Net impairment of other financial assets | - | - | (21) | (21) |
| (Gain)/Losses in financial assets measured at fair value through profit and loss (note 4) | 5,448 | 5,503 | - | - |
| (Gain)/Loss from disposal of investment in associates (note 4) | - | - | 3,392 | 3,392 |
| Net receivable write-offs and movement in allowances for trade receivables and other assets | 19,165 | 6,421 | 21,882 | 20,827 |
| Net movement in write-down allowances for inventory (note 4) | 297 | (2,777) | 5,401 | 2,921 |
| Subsidies income | (92) | (45) | - | - |
| | 1,282,688 | 519,994 | 1,441,016 | 543,173 |
| Movements in working capital: | | | | |
| (Increase)/Decrease in inventory | 130,748 | (21,875) | 83,054 | (90,808) |
| (Increase)/Decrease in trade and other receivables | 324,957 | 276,605 | 212,907 | 485,362 |
| Increase/(Decrease) in trade and other liabilities | (360,905) | (305,726) | (260,547) | 119,459 |
| Cash generated from operations | 1,377,488 | 468,998 | 1,476,430 | 1,057,186 |
| Interest paid | - | - | (3) | (2) |
| Income taxes paid | (226,187) | (97,523) | (181,077) | (120,782) |
| Net cash generated by operating activities | 1,151,301 | 371,475 | 1,295,350 | 936,402 |

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

CONDENSED STATEMENT OF CONSOLIDATED INTERIM CASH FLOW FOR THE SIX-MONTH AND THREE-MONTH PERIODS ENDED JUNE 30, 2018

| | Six months ended June 30, 2018 | Three months ended June 30, 2018 | Six months ended June 30, 2017 | Three months ended June 30, 2017 |
|---|--------------------------------------|--|--------------------------------------|--|
| | '000 RON | '000 RON | '000 RON (restated) * | '000 RON (restated) * |
| Cash flows from investing activities | | | | |
| (Increase)/Decrease in other financial assets | 1,698,866 | 1,538,517 | 449,835 | 519,216 |
| Interest received | 20,378 | 15,195 | 7,618 | 4,394 |
| Proceeds from sale of non-current assets | 5,162 | 106 | 66 | 47 |
| Acquisition of non-current assets | (496,727) | (174,493) | (150,024) | (101,504) |
| Acquisition of exploration assets | (98,312) | (48,796) | (91,632) | (56,225) |
| Net cash generated by investing activities | 1,129,367 | 1,330,529 | 215,863 | 365,928 |
| Cash flows from financing activities | | | | |
| Dividends paid | (294) | (181) | (491) | (466) |
| Subsidies received | 20,994 | 20,813 | - | - |
| Net cash generated by/(used in) financing activities | 20,700 | 21,054 | (491) | (466) |
| Net increase/(decrease) in cash and cash equivalents | 2,301,368 | 1,722,817 | 1,510,722 | 1,301,864 |
| Cash and cash equivalents at the beginning of the period | 227,167 | 805,718 | 280,547 | 489,405 |
| Cash and cash equivalents at the end of the period | 2,528,535 | 2,528,535 | 1,791,269 | 1,791,269 |

*) Please see note 10.

These financial statements were approved by the Board of Directors on August 13, 2018.

Adrian Constantin Volintiru
 Chief Executive Officer

 Chief Financial Officer

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH AND THREE-MONTH PERIODS ENDED JUNE 30, 2018**1. BACKGROUND AND GENERAL BUSINESS*****Information regarding the S.N.G.N. Romgaz S.A. Group (the "Group")***

The Group is formed of S.N.G.N. Romgaz S.A. ("Romgaz"/"the Company"), as parent company, its fully owned subsidiary S.N.G.N. ROMGAZ S.A. - Filiala de Înmagazinare Gaze Naturale DEPOGAZ Ploiești S.R.L. ("Depogaz") and its associates – S.C. Depomures S.A. (40% of the share capital) and SC Agri LNG Project Company S.R.L. (25% of the share capital).

Romgaz is a joint stock company, incorporated in accordance with the Romanian legislation.

The Company's headquarter is in Mediaș, 4 Constantin I. Motaș Square, 551130, Sibiu County.

The Romanian State, through the Ministry of Energy, is the majority shareholder of S.N.G.N. Romgaz S.A. together with other legal and physical persons.

The Group 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, provided by Depogaz starting April 1, 2018 and Depomures;
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 consolidated condensed interim financial statements ("financial statements") of the Group have been prepared in accordance with the provisions of IAS 34 "Interim financial reporting". For the purposes of the preparation of these financial statements, the functional currency of the Group 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 Group's financial statements for the periods presented.

In 2018, the Group modified on voluntary basis, the criterion to recognize seismic, geological, geophysical and similar activities as exploration expenses as incurred, rather than exploration assets, in accordance with the successful efforts method. This approach is widely used in the oil and gas business. The management believes that by adopting this method the Group's financial statements are better comparable to those of its competitors. The effect of the change in accounting policy is presented in note 10.

Except for change in accounting for the exploration expenses and the effects of IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial Instruments", presented below, the same accounting policies and methods of computation are used in these financial statements as compared with the most recent annual individual financial statements issued by the Company.

Basis of preparation

The financial statements have been prepared on a going concern basis.

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

These 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 financial statements must not be used as sole source of information by a potential investor or other users interested in a specific transaction.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH AND THREE-MONTH PERIODS ENDED JUNE 30, 2018

Standards and interpretations valid for the current period

The following standards and amendments or improvements to existing standards issued by the IASB and adopted by the EU have entered into force for the current period:

- Amendments to IAS 40 Transfers of Investment Property (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);
- Annual Improvements to IFRS Standards 2014–2016 Cycle (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);
- Clarifications to IFRS 15: Revenue from Contracts with Customers (effective for annual periods beginning on or after January 1, 2018);
- IFRS 9: Financial Instruments (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 (effective for annual periods beginning on or after January 1, 2018);
- IFRIC 22: Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after January 1, 2018).

The adoption of these amendments, interpretations or improvements to existing standards has not led to changes in the Group's accounting policies except the ones outlined below.

The impact of adopting IFRS 15: Revenue from Contracts with Customers

Beginning with 2018 the Group applies IFRS 15 for the recognition of revenue from contracts with customers. The Group elected to apply the standard retrospectively, with the cumulative effect of initial application recognized at the application date as an adjustment to the opening balance of retained earnings. Under this method, previous periods are not restated. The cumulative effect of the initial application of IFRS 15 was recognized as an adjustment to the opening balance of retained earnings for contracts that were not finalized at the date of initial application, i.e. January 1, 2018.

The adoption of the new standard did not generate any changes in the timing and how revenue is recognized, but generated reclassification of various elements of the financial statements.

The cumulative effect of the retrospective restatement of IFRS 15 is presented below:

Statement of consolidated interim comprehensive income:

| | Six months ended June 30, 2018 (before IFRS 15) | Effect of applying IFRS 15 at June 30, 2018 | Six months ended June 30, 2018 (after IFRS 15) |
|--------------------|---|---|--|
| | '000 RON | '000 RON | '000 RON |
| Revenue *) | 2,404,959 | 69,548 | 2,474,507 |
| Other expenses **) | (634,474) | 370 | (634,104) |
| Other income *) | 73,968 | (69,548) | 4,420 |
| Profit before tax | 947,513 | 370 | 947,883 |

*) Due to the application of IFRS 15, the Group has reconsidered the income obtained by invoicing services provided by third party suppliers, included in the selling price of the goods delivered. Thus, starting 2018, income previously recorded as "Other income" is presented as revenue, considering that the Group acts as a principal.

***) According to the new standard, the costs of obtaining contracts are recognized as current assets, to be amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates; previously, these were recognized directly in the period's result.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH AND THREE-MONTH PERIODS ENDED JUNE 30, 2018

Statement of consolidated interim financial position:

| | June 30, 2018 (before IFRS 15) | The effect of applying IFRS 15 at June 30, 2018 | June 30, 2018 (after IFRS 15) |
|--------------------------------|-----------------------------------|--|----------------------------------|
| | '000 RON | '000 RON | '000 RON |
| Current assets | | | |
| Trade and other receivables *) | 555,534 | (293,356) | 262,178 |
| Contract assets *) | - | 218,947 | 218,947 |
| Contract costs **) | - | 976 | 976 |
| Equity | | | |
| Retained earnings | 4,966,304 | 976 | 4,967,280 |
| Current liabilities | | | |
| Trade payables ***) | 267,796 | (123,306) | 144,490 |
| Contract liabilities ***) | - | 48,897 | 48,897 |

*) Contract assets represent the right of the Group to collect the value of goods and services delivered to customers for which no invoices were issued by the end of the period. Previously, these amounts were presented as trade receivables. These amounts are presented net of advances received from customers for deliveries during the reporting period. Contract assets will become trade receivables at the time the invoice is issued, following the completion of formalities as per contract provisions.

***) According to the new standard, the costs of obtaining contracts are recognized as current assets, to be amortized on a systematic basis that is consistent with the transfer to the customer of goods and services to which the asset relates; previously, these were recognized directly in the period's result.

***) Contract liabilities are amounts received from customers, in accordance with the contract provisions, for goods and services to be delivered or rendered in the following period. These amounts will be recognized as revenue when those goods or services are delivered. Advances received up to the end of the reporting period relating to deliveries during the period, not offset, have been reclassified to contract assets; previously, contract liabilities were presented as trade payables.

The impact of adopting IFRS 9: Financial Instruments

Starting with 2018, the Group applies IFRS 9. According to this Standard, after initial recognition, financial assets are recognized at amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on the business model of the Group; financial liabilities are recognized at amortized cost.

At the time of transition, the Group analyzed the financial assets held in terms of its business model and the contractual cash flows. As a result, financial investments previously recognized at cost less accumulated impairment losses are measured at fair value through profit or loss from January 1, 2018. The differences between the previous carrying amount and the fair value determined in accordance with IFRS 9 were recognized in the opening retained earnings, without restating previous financial statements. Except for this, no other significant differences between previous standards and IFRS 9 were identified.

| | Financial assets measured at cost at December 31, 2017 | Differences recorded in opening retained earnings | Financial assets measured at fair value through profit or loss |
|-------|--|---|--|
| | '000 RON | '000 RON | '000 RON |
| Total | 69,678 | (19,083) | 50,595 |

Seasonality and cyclicity

Natural gas and electricity consumption is seasonal and affected by weather conditions. Natural gas consumption is highest in winter time. Electricity consumption also depends on climatic conditions, being impacted both by cold weather, as it can be used to produce heat, but also by high temperatures, as air conditioning systems rely on it. Consequently, the results of the Group may vary according to the seasonal character of the demand for natural gas and electricity.

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

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH AND THREE-MONTH PERIODS ENDED JUNE 30, 2018

Regarding the gas storage activity, injection normally happens during the period April-October, while gas is usually being extracted during the period October-April.

Comparative information

For each item of the statement of financial position, the statement of comprehensive income and, where is the case, for the statement of changes in equity and for the statement of cash flows, for comparative information purposes is presented the value of the corresponding item for the previous period ended, unless the changes are insignificant and except for the changes resulting from the adoption of IFRS 9 and IFRS 15. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements, which has a material impact on the Group.

3. REVENUE AND OTHER INCOME

| | Six months ended June 30, 2018 | Three months ended June 30, 2018 | Six months ended June 30, 2017 | Three months ended June 30, 2017 |
|---|---|---|---|---|
| | '000 RON | '000 RON | '000 RON | '000 RON |
| Revenue from gas sold - domestic production | 1,961,542 | 781,009 | 1,790,405 | 702,426 |
| Revenue from gas sold - joint operations | 73,190 | 35,206 | 61,813 | 33,033 |
| Revenue from gas acquired for resale – import gas | 79,149 | - | 22,404 | - |
| Revenue from gas acquired for resale – domestic gas | 6,699 | 1,834 | 19,082 | 2,551 |
| Revenue from storage services-capacity reservation | 113,287 | 27,766 | 165,334 | 53,774 |
| Revenue from storage services-extraction | 22,325 | 199 | 22,712 | 2,830 |
| Revenue from storage services-injection | 17,588 | 11,638 | 21,111 | 11,256 |
| Revenue from electricity | 108,889 | 52,279 | 264,942 | 73,099 |
| Revenue from services | 80,484 | 76,188 | 14,286 | 9,976 |
| Revenue from sale of goods | 7,699 | 4,208 | 5,358 | 2,610 |
| Other revenue from contracts | 142 | 104 | - | - |
| Total revenue from contracts with customers | 2,470,994 | 990,431 | 2,387,447 | 891,555 |
| Other revenue | 3,513 | 1,739 | 4,770 | 3,127 |
| Total revenue | 2,474,507 | 992,170 | 2,392,217 | 894,682 |
| Other operating income *) | 4,420 | 1,181 | 66,076 | 14,592 |
| Total revenue and other income | 2,478,927 | 993,351 | 2,458,293 | 909,274 |

*) Other operating income decreased compared to prior year following the transition to IFRS 15. Based on analysis performed, the Group concluded that it acts as a principal for services acquired from third party suppliers, invoiced to customers, so that the income obtained is recognized as revenue starting 2018 (note 2).

All Group's revenue is recognized over time, as the customer simultaneously receives and consumes the benefits provided by obtaining the goods and services.

Revenues from gas and electricity are recognized when the delivery has been made at the prices fixed in the contracts with customers.

Revenues from storage services are recognized when they are provided at the rates set by the regulatory authority. Usually, injection services are provided in the period April – October, and those for extraction in October – April. The capacity reservation services are being provided each month of the storage cycle, which begins on April 1 and ends on March 31 of the next year.

In measuring the revenue from gas, electricity and storage services, the Group uses output methods. According to these methods, revenues are recognized based on direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. The Group recognizes the revenue in the amount it has the right to charge.

The Group does not disclose information about the remaining performance obligations, applying the practical expedient in IFRS 15, since the contracts with the customers are generally signed for periods less than one year and the revenues are recognized at the amount which the Group has the right to charge.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH AND THREE-MONTH PERIODS ENDED JUNE 30, 2018

4. OTHER GAINS AND LOSSES

| | Six months ended June 30, 2018 | Three months ended June 30, 2018 | Six months ended June 30, 2017 | Three months ended June 30, 2017 |
|---|--------------------------------------|--|--------------------------------------|--|
| | '000 RON | '000 RON | '000 RON | '000 RON |
| Forex gain | 2,027 | 692 | 139 | 44 |
| Forex loss | (3,494) | (1,530) | (433) | (46) |
| Net loss on disposal of non-current assets | (37,703) | (18,693) | (37,043) | (36,262) |
| Net receivable allowances *) | (204) | (50) | (2,515) | (1,460) |
| Impairment of financial investments | - | - | 3,413 | 3,413 |
| Gain/(loss) from changes in the value of financial assets recognized at fair value through profit or loss | (5,448) | (5,503) | - | - |
| Net write down allowances for inventory | (297) | 2,777 | (5,401) | (2,921) |
| Gain/(Loss) on disposal of financial investments | - | - | (3,392) | (3,392) |
| Losses from trade receivables | (14) | - | (19,367) | (19,367) |
| Total | (45,133) | (22,307) | (64,599) | (59,991) |

*) Following the adoption of IFRS 15, net receivable allowances from contracts with customers are presented separately in the statement of comprehensive income. Previous period was not restated.

5. DEPRECIATION, AMORTIZATION AND IMPAIRMENT EXPENSES

| | Six months ended June 30, 2018 | Three months ended June 30, 2018 | Six months ended June 30, 2017 | Three months ended June 30, 2017 |
|--|---|--|---|--|
| | '000 RON | '000 RON | '000 RON (restated) *) | '000 RON (restated) *) |
| Depreciation | 298,368 | 141,905 | 274,512 | 131,041 |
| out of which: | | | | |
| - depreciation of property, plant and equipment | 296,152 | 140,836 | 270,126 | 128,980 |
| - amortization of intangible assets | 2,216 | 1,069 | 4,386 | 2,061 |
| Net impairment of non-current assets | (52,274) | (43,047) | (6,147) | (90,865) |
| Total depreciation, amortization and impairment | 246,094 | 98,858 | 268,365 | 40,176 |

*) Please see note 10.

6. INCOME TAX

| | Six months ended June 30, 2018 | Three months ended June 30, 2018 | Six months ended June 30, 2017 | Three months ended June 30, 2017 |
|--------------------------------------|--------------------------------------|--|--------------------------------------|--|
| | '000 RON | '000 RON | '000 RON (restated) *) | '000 RON (restated) *) |
| Current tax expense | 156,637 | 58,970 | 182,510 | 61,728 |
| Deferred income tax (income)/expense | (6,458) | (1,678) | (13,051) | (502) |
| Income tax expense | 150,179 | 57,292 | 169,459 | 61,226 |

*) Please see note 10.

7. OTHER LIABILITIES

The increase in other liabilities to RON 2,189,223 thousand is due allocation of dividends of RON 1,923,258 thousand, as approved by shareholders.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH AND THREE-MONTH PERIODS ENDED JUNE 30, 2018
8. RELATED PARTY TRANSACTIONS AND BALANCES
(i) Sales of goods and services

| | Six months ended June 30, 2018 | Three months ended June 30, 2018 | Six months ended June 30, 2017 | Three months ended June 30, 2017 |
|---------------------|--------------------------------------|--|--------------------------------------|--|
| | '000 RON | '000 RON | '000 RON | '000 RON |
| Romgaz's associates | 8,030 | 5,084 | 11,321 | 8,842 |
| Total | 8,030 | 5,084 | 11,321 | 8,842 |

ii) Trade receivables

| | June 30, 2018 | December 31, 2017 |
|---------------------|---------------|-------------------|
| | '000 RON | '000 RON |
| Romgaz's associates | 1,518 | 111 |
| Total | 1,518 | 111 |

9. 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 Group have chosen to organize the Group around differences in activities performed.

Specifically, the Group is organized in the following segments:

- upstream, which includes exploration activities, natural gas production and trade of gas extracted by Romgaz or acquired from domestic production or import, for resale; these activities are performed by Medias, Mures and Bratislava branches;
- storage activities, performed by Ploiesti branch until March 31, 2018; after April 1, 2018 the storage activity is carried out by Depogaz. The Company's associate Depomures is also operating in the gas underground storage business;
- electricity production and distribution activities, performed by Iernut branch;
- other activities, such as technological transport, operations on wells and corporate activities.

Except for Bratislava branch, all operations are in Romania. As of June 30, 2018, Bratislava branch's exploration assets were entirely depreciated, as a result of difficulties encountered during the exploration activity.

b) Segment assets and liabilities

| June 30, 2018 | Upstream | Storage | Electricity | Other | Consolidation adjustments | Total |
|-------------------|-----------|-----------|-------------|-----------|------------------------------|------------|
| | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON |
| Total assets | 4,556,964 | 1,585,322 | 699,861 | 4,003,477 | (62,795) | 10,782,829 |
| Total liabilities | 598,391 | 120,201 | 91,183 | 2,185,052 | (62,795) | 2,932,032 |

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

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH AND THREE-MONTH PERIODS ENDED JUNE 30, 2018

| December 31, 2017 (restated) *) | <u>Upstream</u> '000 RON | <u>Storage</u> '000 RON | <u>Electricity</u> '000 RON | <u>Other</u> '000 RON | <u>Consolidation adjustments</u> '000 RON | <u>Total</u> '000 RON |
|---------------------------------------|-----------------------------|----------------------------|--------------------------------|--------------------------|--|--------------------------|
| Total assets | 5,200,826 | 1,620,060 | 298,384 | 3,416,635 | - | 10,535,905 |
| Total liabilities | 989,936 | 57,756 | 95,656 | 397,728 | - | 1,541,076 |

*) Please see note 10.

c) Segment revenues, results and other segment information

| Six months ended June 30, 2018 | <u>Upstream</u> '000 RON | <u>Storage</u> '000 RON | <u>Electricity</u> '000 RON | <u>Other</u> '000 RON | <u>Consolidation adjustments</u> '000 RON | <u>Total</u> '000 RON |
|---|-----------------------------|----------------------------|--------------------------------|--------------------------|--|--------------------------|
| Revenue | 2,257,866 | 169,853 | 145,153 | 157,277 | (255,642) | 2,474,507 |
| Less: revenue between segments | (46,096) | (18,673) | (36,438) | (154,435) | 255,642 | - |
| Third party revenue | 2,211,770 | 151,180 | 108,715 | 2,842 | - | 2,474,507 |
| Segment profit before tax profit/(loss) | 864,662 | 7,996 | 898 | 74,327 | - | 947,883 |
| Three months ended June 30, 2018 | <u>Upstream</u> '000 RON | <u>Storage</u> '000 RON | <u>Electricity</u> '000 RON | <u>Other</u> '000 RON | <u>Consolidation adjustments</u> '000 RON | <u>Total</u> '000 RON |
| Revenue | 920,384 | 54,513 | 71,966 | 97,479 | (152,172) | 992,170 |
| Less: revenue between segments | (19,821) | (16,942) | (19,756) | (95,653) | 152,172 | - |
| Third party revenue | 900,563 | 37,571 | 52,210 | 1,826 | - | 992,170 |
| Segment profit before tax profit/(loss) | 363,614 | (22,743) | (858) | 36,490 | - | 376,503 |
| Six months ended June 30, 2017 (restated) *) | <u>Upstream</u> '000 RON | <u>Storage</u> '000 RON | <u>Electricity</u> '000 RON | <u>Other</u> '000 RON | <u>Consolidation adjustments</u> '000 RON | <u>Total</u> '000 RON |
| Revenue | 1,998,444 | 251,959 | 299,000 | 124,589 | (281,775) | 2,392,217 |
| Less: revenue between segments | (83,937) | (42,787) | (33,965) | (121,086) | 281,775 | - |
| Third party revenue | 1,914,507 | 209,172 | 265,035 | 3,503 | - | 2,392,217 |
| Segment profit before tax profit/(loss) | 856,519 | 111,923 | 72,950 | 15,523 | - | 1,056,915 |

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

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH AND THREE-MONTH PERIODS ENDED JUNE 30, 2018

| Three months ended June 30, 2017 (restated) *) | Upstream | Storage | Electricity | Other | Consolidation adjustments | Total |
|--|----------|----------|-------------|----------|---------------------------|----------|
| | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON |
| Revenue | 789,608 | 67,240 | 92,489 | 67,338 | (121,993) | 894,682 |
| Less: revenue between segments | (37,315) | 629 | (19,260) | (66,047) | 121,993 | - |
| Third party revenue | 752,293 | 67,869 | 73,229 | 1,291 | - | 894,682 |
| Segment profit before tax profit/(loss) | 366,474 | 10,292 | 16,191 | (5,448) | - | 387,509 |

*) Please see note 10.

10. EFFECTS OF VOLUNTARY CHANGE IN ACCOUNTING POLICY

In the second quarter of 2018 the management of the Group modified on voluntary basis the accounting for seismic, geological, geophysical and other similar exploration activities, effective January 1, 2018.

Until March 31, 2018 these activities were accounted as intangible exploration assets, in accordance with the accounting policy used before transition to IFRS, as permitted by IFRS 6. Starting with the second quarter of 2018 these are expensed as incurred, in line with the successful efforts method. This way of accounting is more consistent with the international practice, making the financial statements more relevant to the users.

In accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors", this is a voluntary change in accounting policy explained by the alignment with an accounting standard largely adopted by oil & gas companies and as such it has been applied retrospectively.

The retrospective application of the new accounting policy has required an adjustment of the opening balance of the consolidated retained earnings and other comparative amounts as of January 1, 2017. Specifically, the opening balance of the carrying amount of intangible assets was decreased by RON 383,273 thousand and retained earnings by RON 321,662 thousand. Other adjustments related to deferred tax (after the change in accounting policy Romgaz reported an asset of RON 21,146 thousand, while before Romgaz reported a liability of RON 40,123 thousand) and other minor line items.

To reflect the change and ensure comparability of information presented in this set of financial statements, previous periods were restated, as if the new accounting policy had always been applied.

The table below sets forth the amounts of the comparative periods of 2017 which have been restated following the voluntary change in accounting policy.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH AND THREE-MONTH PERIODS ENDED JUNE 30, 2018

| Item | CONSOLIDATED, BEFORE CHANGE IN ACCOUNTING POLICY | | | | CONSOLIDATED, RESTATED | | | |
|---|--|---------------------------------|-----------------|-------------------|-------------------------------|---------------------------------|-----------------|-------------------|
| | Six months ended Jun 30, 2017 | Three months ended Jun 30, 2017 | January 1, 2017 | December 31, 2017 | Six months ended Jun 30, 2017 | Three months ended Jun 30, 2017 | January 1, 2017 | December 31, 2017 |
| | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON |
| Statement of consolidated financial position items | | | | | | | | |
| Property, plant and equipment | - | - | 5,789,262 | 5,842,366 | - | - | 5,789,604 | 5,842,708 |
| Other intangible assets | - | - | 397,864 | 412,284 | - | - | 14,591 | 8,629 |
| Deferred tax asset | - | - | - | 1,464 | - | - | 21,146 | 66,272 |
| Total non-current assets | - | - | 6,278,084 | 6,348,468 | - | - | 5,916,299 | 6,009,963 |
| Total assets | - | - | 10,998,604 | 10,874,410 | - | - | 10,636,819 | 10,535,905 |
| Retained earnings | - | - | 6,291,685 | 6,635,380 | - | - | 5,970,023 | 6,296,875 |
| Total equity | - | - | 9,697,259 | 9,333,334 | - | - | 9,375,597 | 8,994,829 |
| Deferred tax liability | - | - | 40,123 | - | - | - | - | - |
| Statement of consolidated interim comprehensive income | | | | | | | | |
| Depreciation, amortization and impairment expenses | (294,053) | (66,053) | - | - | (268,365) | (40,176) | - | - |
| Exploration expense | (70,181) | (70,181) | - | - | (73,243) | (72,831) | - | - |
| Profit before tax | 1,034,290 | 364,282 | - | - | 1,056,915 | 387,509 | - | - |
| Income tax expense | (165,814) | (57,485) | - | - | (169,459) | (61,226) | - | - |
| Profit for the period | 868,476 | 306,797 | - | - | 887,456 | 326,283 | - | - |
| Statement of consolidated interim cash flow items | | | | | | | | |
| Net cash generated by operating activities | 1,298,411 | 939,051 | - | - | 1,295,350 | 936,402 | - | - |
| Net cash generated by investing activities | 212,802 | 363,279 | - | - | 215,863 | 365,928 | - | - |

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

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH AND THREE-MONTH PERIODS ENDED JUNE 30, 2018

11. COMMITMENTS UNDERTAKEN

In 2017, Romgaz signed a credit agreement with Raiffeisen Bank SA representing a facility for issuing letters of guarantee, and opening letters of credit for a maximum amount of USD 100,000 thousand. On June 30, 2018 are still available for use USD 65,238 thousand.

As of June 30, 2018, the Company's contractual commitments for the acquisition of non-current assets are of RON 1,057,592 thousand (December 31, 2017: RON 1,551,675 thousand), of which, the contract for CET Iernut development represents RON 692,125 thousand.

12. EVENTS AFTER THE BALANCE SHEET DATE

No events after the balance sheet date which impact upon the condensed consolidated financial statements were identified.

13. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on August 13, 2018.

Adrian Constantin Volintiru
Chief Executive Officer

Chief Financial Officer

STATEMENT

in accordance with the provisions of art. 65 (2) c) of Law No. 24/2017
regarding issuers of financial instruments and market operations

Entity: Societatea Nationala de Gaze Naturale ROMGAZ S.A.
County: 32--SIBIU
Address: MEDIAȘ, 4 C.I. Motaș Square, tel. +40269201020
Registration Number in the Trade Register: J32/392/2001
Form of Property: 14--State owned companies and enterprises
Main activity (CAEN code and denomination): 0620—Natural Gas Production
Tax Identification Number: 14056826

The undersigned, DORIN LIVIU NISTORAN as
Chairman of The Board of Directors and
ADRIAN CONSTANTIN VOLINTIRU as CEO,

hereby confirm that according to our knowledge, the interim condensed consolidated financial statements for the half year ended June 30, 2018, prepared in accordance with the International Financial Reporting Standards, as adopted by the European Union, namely IAS 34, offer a true and fair view of the assets, liabilities, financial position, statement of profit and loss of the S.N.G.N. ROMGAZ S.A. Group and that the Board of Directors' report comprises a fair analysis of the development and performance of the Group, as well as a description of the main risks and uncertainties specific to its activity.

**Chairman of the Board of Directors,
DORIN LIVIU NISTORAN**

**CEO,
ADRIAN CONSTANTIN VOLINTIRU**