

**IDENTIFICATION DETAILS ON REPORT AND ISSUER****Preliminary annual report according to art. 227 from Law 297/2004****Financial year: 2014****Report date: February 19, 2015****Name of the Company: Societatea Nationala de Gaze Naturale (SNGN) ROMGAZ SA****Headquarter: Medias, P-ta Constantin I. Motas, Nr.4, code 551130****Telephone/fax number: 004-0269-201020 / 004-0269-846901****Fiscal Code: RO14056826****Trade Registry No: J32/392/2001****Subscribed and paid in share capital: RON 385,422,400****Regulated markets where the issued securities are traded: Bursa de Valori Bucuresti (Bucharest Stock Exchange BVB), London Stock Exchange (LSE)**

**PRELIMINARY ANNUAL REPORT**  
**(issued based on IFRS unaudited financial statements, prepared in**  
**compliance with the international financial reporting standards)**  
**ON THE ECONOMIC AND FINANCIAL ACTIVITY**  
**OF SNGN ROMGAZ SA during 2014**

**OVERVIEW**

SNGN Romgaz SA is the Romanian natural gas producer and supplier, its core business segments being: gas exploration and production, gas supply, underground gas storage and electricity production. Romgaz's natural gas production in 2014 was of 5.66 billion cm and, according to the National Regulatory Authority in the Energy Sector ("ANRE")(as at 30 September 2014), the Company had a 47.4 % market share of the gas sales from domestic production.

Summary of the main indicators:

- ↻ **EBITDA** increased in 2014 by 27.04% as compared to 2013 (2,490 million lei in 2014, as compared to 1,960 million lei in year 2013);
- ↻ **EBIT** increased in 2014 by 45.48% as compared to 2013 (1,713 million lei in year 2014, as compared to 1,177 million lei in year 2013);
- ↻ **EPS** (net profit/share) is 3.72 lei/share, recording an increase by approx. 44.2% as compared to the value recorded in 2013, of 2.58 lei/share;
- ↻ **Stabilization of gas production** at 5.66 billion cm for the fourth consecutive year, annulling therefore the production decline;

- ↳ **Investment expenses** are 1,085.5 million lei worth, recording an increase by 27.97% as compared to the amount recorded in 2013;
- ↳ **Revenues from the underground storage activity** increased by 16.69% as compared to 2013, being estimated at 425.83 million lei;
- ↳ **Revenues from the electric power sector** are estimated at 324.6 million lei; electricity production represents 2.4% from the total electric power production of Romania;
- ↳ **The exploration program materialized by 4 new gas discoveries and by confirming 3 previous discoveries.**

The table below shows a comparison of the main indicators related to gas and condensate production, recompletions and workovers and petroleum royalty:

Q3 2014	Q4 2014	Q4 2013	Δ (%)	Main Indicators	2014	2013	Δ (%)
1	2	3	4=(2-3)/3x100	5	6	7	8=(6-7)/7x100
1.362	1.436	1.453	- 1.15	Gross gas production (bln. cm)	5.664	5.651	0.23
0.020	0.021	0.020	7.29	Technological consumption (bln. cm)	0.081	0.078	3.84
1.005	1.202	861	39.71	Condensate production (tonnes)	4.367	3.198	36.56
46	36	45	- 20.00	Recompletions + well workover (no.)	175	166	5.42
12.815	13.507	16.935	- 20.24	Recompletions + well workover (million cm)	152.8	170.4	- 10.35
39.77	38.42	18.63	106.20	Expenses for up-downhole recompletion operations + workover (million lei)	158.22	168.43	- 6.06
0.098	0.105	0.107	- 1.41	Petroleum royalty (bln. cm)	0.415	0.414	0.25
68.94	78.06	65.02	20.06	Petroleum royalty (million lei)	288.77	228.56	26.34

### PHYSICAL INDICATORS

The preliminary natural gas quantities produced, supplied, injected in / withdrawn from the underground storages (UGS) and the electric power production, between January-December 2014, compared to year 2013, are described in the table below:

Description	Preliminary 2014	Achieved 2013	Variance 2014- 2013	Indicators 2014/2013
1	2	3	4=2-3	5=4/3x100
<b>Natural gas from domestic production, (million cm) - total, out of which:</b>	<b>5,663.9</b>	<b>5,650.8</b>	<b>13.1</b>	<b>0.23%</b>
- own gas (million cm)	5,469.0	5,467.8	1.2	0.02%
- Schlumberger 100% (million cm)	194.9	183.0	11.9	6.50%
<b>Technological consumption (million cm)</b>	<b>81.3</b>	<b>78.3</b>	<b>3.0</b>	<b>3.83%</b>
<b>Own gas stored in UGS (million cm)</b>	<b>564.8</b>	<b>799.7</b>	<b>- 234.9</b>	<b>-29.37%</b>
<b>Own gas withdrawn from UGS (million cm)</b>	<b>601.0</b>	<b>621.3</b>	<b>- 20.3</b>	<b>-3.26%</b>
<b>Difference from conversion to Gross Calorific Value (million cm)</b>	<b>9.8</b>	<b>12.5</b>	<b>- 2.7</b>	<b>-21.60%</b>
<b>Gas delivered to Iernut and Cojocna (million cm)</b>	<b>445.0</b>	<b>269.1</b>	<b>175.9</b>	<b>65.37%</b>
<b>Gas delivered from domestic production (including Schlumberger 100%)<sup>1)</sup> (million cm)</b>	<b>5,164.0</b>	<b>5,112.5</b>	<b>51.5</b>	<b>1.01%</b>

Description	Preliminary 2014	Achieved 2013	Variance 2014-2013	Indicators 2014/2013
Gas delivered from domestic production (excluding joint ventures) *) (million cm)	4,969.1	4,929.5	39.6	0.80%
Gas delivered from domestic production (including joint ventures) *) (million cm)	5,149.7	5,117.8	31.9	0.62%
UGS gas extraction services (million cm)	1,915.4	2,017.9	- 102.5	-5.07%
UGS gas injection services (million cm)	1,737.0	1,993.1	- 256.1	-12.84%
Delivered import gas (million cm)	81.1	309.5	- 228.4	-73.79%
Commodity gas (million cm)	17.7	13.3	4.4	33.08%
Delivered electricity (thousand MWh) - total, out of which:	1,710.5	1,068.3	642.2	60.11%
- electricity delivered to third parties (thousand MWh)	1,525.9	973.5	552.4	56.74%
- on the balancing market (thousand MWh)	184.6	94.8	89.8	94.72%

\*) - does not include the gas delivered to Iernut and Cojocna

Encouraged by the results of the previous years, the Company has continued in 2014 the petroleum operations to consolidate the production level both for:

- **the exploration activity:** prospective resources (P50) have been identified of about 2 bln. cm, and confirmed contingent resources (2C) of about 5 bln. cm, 3D seismic has been acquired on a surface of 1200 km<sup>2</sup> and drilling of the first well in the Black Sea - Rapsodia block has been initiated

and

- **the production activity:** 175 wells have been recompleted, 12 new production wells have been connected to the national transmission system and 4 new discoveries are in experimental production (Armeni, Jibert, Mecea and Caragele Est - northern and western blocks ) through 7 new wells.

Further to these operations - experimental production from a number fields, new reserves resulted from well recompletion operations and from updating the resources/reserves from a number of commercial fields, a reserves replacement rate of about 90% has been obtained.

Exploration investments were 427.9 million lei worth, increasing by 1.9% as compared to the previous year and include mainly 2D and 3D seismic surveys performed in Moldova, Muntenia and Oltenia, as well as drilling of 22 exploration wells.

## ***ECONOMIC-FINANCIAL INDICATORS***

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

### ***Summary of unaudited individual comprehensive income as at December 31, 2014***

Description	Preliminary 2014 (thousand lei)	Actual 2013 (thousand lei)	Variance (thousand lei)	Variance (%)
1	2	3	4=2-3	5=4/3 x100
Revenue	4,493,341	3,894,267	599,074	15.38%
Cost of commodities sold	(175,638)	(439,178)	(263,540)	-60.01%
Investment income	78,729	123,279	(44,550)	-36.14%
Other gains and losses	(267,496)	(204,396)	63,100	30.87%
Changes in inventory of finished goods and work in progress	27,743	55,673	(27,930)	-50.17%
Raw materials and consumables used	(66,167)	(79,311)	(13,144)	-16.57%
Depreciation, amortization and impairment	(776,838)	(782,433)	(5,595)	-0.72%
Employee benefit expense	(522,785)	(503,574)	19,211	3.81%
Finance cost	(24,476)	(13,229)	11,247	85.02%
Exploration expense	(43,332)	(59,221)	(15,889)	-26.83%
Other expenses	(1,048,978)	(744,867)	304,111	40.83%
Other income	114,226	53,632	60,594	112.98%
Profit before tax	<b>1,788,329</b>	<b>1,300,642</b>	<b>487,687</b>	<b>37.50%</b>
Income tax expense	(353,883)	(305,088)	48,795	15.99%
Profit for the year	<b>1,434,446</b>	<b>995,554</b>	<b>438,892</b>	<b>44.09%</b>

### ***Revenue***

In 2014, Romgaz estimates revenue of 4.49 billion lei compared to 3.9 billion lei achieved in 2013, due to the positive influence of:

- domestic gas production deliveries and their price;
- tariff of underground gas storage services provided to third parties during Q1 2014 as compared to Q1 2013;
- electric power deliveries and specific services provided in the electric power sector.

A negative influence on the revenue had the reduction of import gas volumes and their delivery as commodity, due to the decrease of demand on the gas market and due to the provisions of ANRE Order No. 24/2013 for approval of Methodology of allocation of internal gas production quantities in order to cover the regulated market consumption, according to which gas producers are no longer bound to deliver a mix of domestic gas and import gas.

### ***Cost of Commodities Sold***

In 2014 cost of commodities sold decreased by 60.01%, mainly due to a reduction in sales of imported natural gas.

### *Investment Income*

In 2014, investment income decreased by 36.14%, to 78.7 million lei, compared to 123.3 million lei in 2013, as a result of interest rate revenue decrease, driven by the reduction of interest rates of the cash placed in state bonds and term deposits.

### *Other Gains and Losses*

In 2014 the Company recorded a higher loss as compared to previous year, generated by adjustments on following:

- financial investments;
- Termoelectrica receivable, in amount of 42.7 million lei;
- inventory, in amount of 21.9 million lei.

### *Changes in Inventory of Finished Goods and Work in Progress*

In 2013 the difference between the quantity of gas extracted from UGSs and the quantity of gas injected in UGSs (evaluated at production cost) generated a positive variation of inventory (revenue).

In 2014 the quantity of gas extracted from UGS was higher than the quantity injected by 37 million cm, but the production cost of gas extracted from UGS was lower than the production cost of gas injected, which generated a positive variation of inventory (revenue), but smaller by 50.17% than previous year.

### *Raw Materials and Consumables Used*

In 2014 the goods, fuel, consumables and spare parts usage was higher due to higher volume of regular well operations and workovers, compressor station works and wells reactivation. The value of consumables for investments performed in-house (especially well reactivation and pipe for well drilling) was higher than previous year, but due to capitalization of these costs as fixed assets costs, this element of cost has been reduced in the profit and loss account.

### *Depreciation, Amortization and Impairment*

In 2014, depreciation, amortization and impairment expense have not changed significantly as compared to previous year.

### *Employee Benefit Expense*

On December 31, 2014 the employee benefit expenses include also other employee benefit expenses provided under Art. 21 of the Fiscal Code and under the Collective Labour Agreement. These expenses have been presented in 2013 under "Other expenses". In 2014 such expenses have been presented under "Employee Benefit Expense". For the purpose of comparing the amounts recorded in 2013 and in 2014, the amounts of the two items recorded in the statement of comprehensive income of 2013 have been adjusted.

### *Finance cost*

In 2014 the finance cost increased by 85% as compared to 2013 due to increase of unwinding costs applied to decommissioning provision for production wells and UGS wells.

### *Exploration expense*

The exploration expenses decreased by 26.83% (from 59.221 million lei to 43.332 million lei) due to a lower value of exploration projects that have been abandoned.



### *Other expenses*

In 2014 *other expenses* recorded an increase by 304 million lei mainly due to the following:

- Increase of transmission cost for the fuel gas used by CTE Iernut (higher gas consumption and higher transmission tariff);
- Increase of natural gas royalty costs and UGS royalty costs, to 299 million lei, as a result of natural gas royalty increase and UGS revenue increase;
- Increase of the tax on additional revenue (windfall tax) obtained for the amount of 370 million lei, as a result of deregulation of natural gas prices in the gas sector (increase of gas delivery price)
- Recording the tax on special construction starting from 2014, in amount of 91.2 million lei.

### *Other income*

In 2014, other income increased by 112.98 %, increase due to penalties applied to the Company's clients who did not pay in due term the gas purchased from Romgaz.

### *Income tax expense*

The increase of income tax expense in 2014 as compared to 2013 is due to the deferred tax (income) recorded in 2013 in amount of 111.4 million lei, as compared to the deferred income tax of 38.46 million lei in 2014. In 2013 the current income tax was higher due to the influence of restatement of the financial statements to IFRS.

### *Profit for the year*

Following the evolution of the revenues and expenses as previously mentioned, in 2014 the preliminary net profit of the Company increased by 438.89 million lei, namely 44.09%.

### *Summary of Statement of individual financial position as of December 31, 2014 (unaudited)*

INDICATOR	Preliminary 2014 (thousand lei)	Actual 2013 (thousand lei)	Variance (%)
1	2	3	4=(2- 3)/3x100
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5,962,720	5,767,267	3.39%
Other intangible assets	407,448	383,956	6.12%
Associates	738	947	-22.07%
Other financial assets	76,889	76,900	-0.01%
Other non-current assets	-	17,093	-100.00%
<b>TOTAL NON-CURRENT ASSETS</b>	<b>6,447,795</b>	<b>6,246,163</b>	<b>3.23%</b>
<b>Current assets</b>			
Inventories	392,111	463,946	-15.48%
Trade and other receivables	1,000,195	1,086,628	-7.95%
Other financial assets	916,333	970,664	-5.60%
Other assets	101,562	146,179	-30.52%
Cash and cash equivalents	1,953,787	1,563,590	24.96%
<b>TOTAL CURRENT ASSETS</b>	<b>4,363,988</b>	<b>4,231,007</b>	<b>3.14%</b>
<b>TOTAL ASSETS</b>	<b>10,811,783</b>	<b>10,477,170</b>	<b>3.19%</b>

INDICATOR	Preliminary 2014 (thousand lei)	Actual 2013 (thousand lei)	Variance (%)
1	2	3	4=(2-3)/3x100
<b>Equity and Liabilities</b>			
<b>Capital and reserves</b>			
Share capital	385,422	1,892,681	-79.64%
Reserves	2,142,348	1,949,600	9.89%
Retained earnings	7,208,814	5,450,493	32.26%
<b>TOTAL EQUITY</b>	<b>9,736,584</b>	<b>9,292,774</b>	<b>4.78%</b>
<b>Non-current liabilities</b>			
Retirement benefit obligation	97,265	79,241	22.75%
Deferred tax liabilities	107,980	146,440	-26.26%
Provisions	202,293	196,950	2.71%
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>407,538</b>	<b>422,631</b>	<b>-3.57%</b>
<b>Current liabilities</b>			
Trade and other payables	216,983	202,796	7.00%
Current tax liabilities	92,352	200,982	-54.05%
Provisions	35,814	47,316	-24.31%
Other liabilities	322,512	310,671	3.81%
<b>TOTAL CURRENT LIABILITIES</b>	<b>667,661</b>	<b>761,765</b>	<b>-12.35%</b>
<b>TOTAL LIABILITIES</b>	<b>1,075,199</b>	<b>1,184,396</b>	<b>-9.22%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>10,811,783</b>	<b>10,477,170</b>	<b>3.19%</b>

#### *Non-current assets*

The total non-current assets increased by 3.23% (202 million lei), due to acquisition of tangible and intangible assets for gas exploration, appraisal and production.

The amount related to other assets was fully impaired.

#### *Current assets*

The total current assets increased by 3.14% as compared to previous year, due to the increase of cash and cash equivalent by 390.2 million lei.

Inventory balance decreased both due to decrease of the value of acquisitions which was lower than the value of inventory used, as well as due to the write-down allowance recorded at the end of 2014 as compared to the same period of the previous year.

Trade receivables increased in 2014 following the increase of gas delivery price, but the increase of the allowance related to doubtful clients generated a decrease of the value provided in the Statement of Financial Position.

Other financial assets consist of the available cash in bank deposits for a period longer than three months and of state bonds; their amount decreased as compared to the balance on December 31, 2013, due to reclassification of cash and cash equivalent following the deposit maturity.

The amount of other assets decreased due to adjustment by 42.7 million lei of Termoelectrica receivable.

**Capital and reserves**

**Share capital**

Following the Resolution of GMS of April 28, 2014 and provisions of OMFP 1690/2012 and OMFP 213/2013 for the change of OMFP 1286/2012, the adjustment for hyperinflation was transferred to the retained earnings.

Reserves increased by 192.7 million lei, representing the allocation of 2013 profit to the development fund of the Company (162 million lei) and recording of reserve from the reinvested profit (30.7 million lei), according to Art. 19<sup>4</sup> of the Fiscal Code.

Retained earnings decreased by the value of allocated net profit of the previous year (dividends and development fund), and increased by the estimated net profit of 2014 and by transfer of share capital adjustment for hyperinflation to the retained earnings account.

**Non-current liabilities**

An increase of retirement benefit obligations and of provisions for decommissioning of fixed assets and a decrease of the deferred income tax liability are estimated.

**Current liabilities**

Trade payables and other payables increased by 7% at the end of 2014 as compared to 2013, following the increase of liabilities to assets suppliers, due to the increase of investment expenses.

Current tax liabilities decreased due to calculation of smaller income tax for Q4 2014 as compared to the same period of previous year, when the income tax was influenced by restatement of the financial statements prepared according to OMF 3055/2009 to the financial statements prepared according to IFRS.

Other current liabilities increased due to increase of liabilities to the state budget, especially the royalty tax and the tax on additional income (windfall tax).

**DIRECTOR GENERAL,**

**Virgil Marius Metea**



**ECONOMIC DIRECTOR,**

**Lucia Ionascu**