

**REPORT AND ISSUER IDENTIFICATION INFORMATION**

Preliminary Annual Report according to art.227 Law 297/2004

Financial year: Year 2013

Report date: 27 February 2014

Company name: **SNGN ROMGAZ SA**

Address: Medias, 4 Constantin I. Motas Square, postal code 551130

Phone/fax no: 004-0269-201020 / 004-0269-846901

Fiscal Registration Number: RO14056826

Trade Register registration number: J32/392/2001

Subscribed and paid in share capital: 385,422,400 lei

**PRELIMINARY ANNUAL REPORT
(issued based on IFRS unaudited financial statements)
ON THE ECONOMIC AND FINANCIAL ACTIVITY
OF SNGN ROMGAZ SA as at 31 December 2013
(period 01.01.2013 – 31.12.2013)**

Overview

SNGN Romgaz SA is the largest natural gas producer and supplier in Romania, and its core business segments are: gas exploration and production, gas supply, underground gas storage and electricity production. In 2013, Romgaz produced 5.65 billion m³ of natural gas and, according to the National Regulatory Authority in the Energy Sector ("ANRE")(as at 30 September 2013), the company had a market share of 50.5 % of sales of domestically produced natural gas.

In Romania, Romgaz currently operates 3,255 gas producing wells which access 148 commercial fields, as well as 35 exploration wells in 9 exploration blocks.

The Company has entered into partnerships and joint venture agreements for the exploration and development of licensed areas both abroad (Slovakia, Poland) and in Romania.

SNGN Romgaz SA is also the largest underground gas storage operator in Romania. The Company owns and operates six underground gas storages with a total working gas volume of 2.76 billion m³, representing a 90% market share in Romania's underground gas storage market.

On 1 February 2013, Romgaz took over CTE Iernut from Electrocentrale Bucuresti. CTE Iernut has an installed capacity of 800 MW. In 2013, CTE Iernut produced 932.7 GWh and delivered 865.4 GWh into the system.

- **EBITDA** increased in 2013 by 7.6% as compared to 2012;
- **EPS** is 2.4 lei/share;
- **E&P** (exploration, production): Production of natural gas was stabilized, the natural decline recorded for the period 2011-2013 was zero (CAGR=0)
- **Capital Expenditure** amounted to 848.2 million lei, representing an increase of 63.4% as compared to the level achieved in 2012;
- **Revenues from the underground storage activity** increased by 41.5% as compared to 2012 due to implementation of new underground storage tariffs in accordance with ANRE Order 26/2013;
- **Revenues obtained in the electric power sector** amounted to 237.4 million lei (due to the takeover of CET Iernut on 01 February 2013), representing 1.3% of total production of Romania.

The company has continuously increased its efforts to stop the annual decline of production by investing in the exploration activity and redevelopment of reservoirs as follows:

- Investments in exploration increased by 133% amounting to 420.1 million lei and include, for the greater part, 3D seismic acquisition campaigns performed in Transylvania (increase of area covered by 261%) and drilling of 22 exploration wells (an increase of 367% as compared to 2012) with a rate of success of over 70%;
- Three new gas accumulations were identified and appraisal works were performed at 8 previously discovered structures;
- Partnership with Lukoil: Rapsodia and Trident – completion of processing and interpretation of acquired 3D seismic data and first steps taken to perform drilling works;
- In February, an Option Agreement was concluded with ExxonMobil and OMV Petrom referring to the Midia Deep block pursuant to which Romgaz acquires a participating interest share of 10% provided that a commercial discovery is made;

- Gas production was stabilized, the recorded **daily average production** being marginally **higher** than the one recorded in 2012, and for the period 2011-2013 the annual production decline was zero (CAGR=0) due to performance of well recompletion and drilling works;
- The reserve replacement ratio was of 70%, mostly due to exploration and appraisal wells and performance of reservoir studies.

PHYSICAL INDICATORS

The table below shows the natural gas quantities which have been produced, delivered, injected/withdrawn into/from underground storages:

Product description	Preliminary 2013 Million cm	Achieved 2012 Million cm	Variance %
1	2	3	4=(2-3)/3*100
Domestic gas produced (including Schlumberger 100%)	5,650.8	5,663.3	-0.2%
Domestic gas deliveries (including joint ventures, excluding deliveries to SPEE Iernut)	5,117.9	5,250.6	-2.5%
Gas withdrawn from storages	2,017.9	1,892.7	6.6%
Gas injected into storages	1,993.1	2,158.0	-7.6%
Import gas deliveries	309.5	605.8	-48.9%
Commodity gas	13.3	8.5	57.5%

The production of extracted gas did not vary significantly in comparison with the previous year. The delivered production was 2.5% lower due to a decrease in consumption.

ECONOMIC AND 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 comprehensive income as at 31 December 2013 (unaudited)

Description	Year 2013 Thousand Lei	Year 2012 Thousand Lei	Variance %
1	2	3	4=(2-3)/3*100
Revenue	3,894,267	3,837,941	1.5%
Cost of commodities sold	(439,178)	(904,580)	-51.4%
Investment income	123,279	148,326	-16.9%
Other gains and losses	(189,916)	(49,806)	281.3%
Changes in inventory of finished goods and work in progress	55,723	110,852	-49.7%
Raw materials and consumables used	(117,668)	(118,364)	-0.6%
Depreciation and amortization	(817,702)	(606,114)	34.9%
Employee benefit expense	(552,962)	(503,044)	9.9%
Finance cost	(13,229)	(24,233)	-45.4%
Exploration expense	(60,567)	(193,304)	-68.7%
Other expenses	(635,974)	(435,705)	46.0%
Other income	53,559	133,672	-59.9%
Profit before tax	1,299,632	1,395,641	-6.9%
Income tax expense	(368,903)	(276,462)	33.4%
Profit for the year	930,729	1,119,179	-16.8%

Revenue

In 2013, the S.N.G.N. Romgaz had recorded revenue of 3.9 billion lei compared to 3.8 billion lei achieved in 2012. Although the domestic gas price increased by 15% as compared with previous year, the Company's revenue increased only by 1.5% due to the decrease of both domestic and import gas deliveries. The decrease of import gas deliveries was generated both by a decrease of the demand on the gas market, and also by the effects of the provisions of ANRE Order No. 24/2013 relating to the approval of the Methodology for the allocation of natural gas obtained from domestic production required for covering the consumption on the regulated market, according to which natural gas producers no longer have the obligation to deliver a blend of domestic and import gas.

Services revenue increased in 2013 by 331.0 million lei, compared with services revenue obtained in 2012. The increase is due to the revenues generated by the storage activity (mainly as a result of an increase of regulated tariffs for this activity according to ANRE Order No. 26/2013), as well as the revenues

generated by the electricity production and provision of services to the sector, following the takeover of CTE Iernut (on 1 February 2013).

Cost of commodities sold

In 2013 the cost of commodities sold decreased by 51.4%, from 904.6 million lei in 2012 to 439.2 million lei, following a decrease of import gas sales.

Investment income

In 2013, investment income decreased by 16.9%, to 123.3 million lei, compared to 148.3 million lei in 2012, due to decrease of both interests rates offered by banks for bank deposits, and of interest received for bank deposits and State bonds owned by the Company.

Other gains or losses

As compared to 2012, during the reporting period the provision expenses related to debts increased by 52 million lei. In 2012 it was recorded a gain generated by reactivation of receivable of Termoelectrica in amount of 115.8 million lei, and in 2013 it was recorded a gain of only 28.9 million lei for updating the debts to the level of inflation, resulting a decrease of gain by 86.9 million lei.

Inventory Variation

The difference between gas extracted from storages and injected into storages in 2013 was smaller than in the previous year.

Raw materials and consumables used

In 2013 the consumption of materials, fuel, inventory goods and spare parts was higher due to takeover of CTE Iernut, as well as to the volume of well workovers and compressor stations maintenance works.

Depreciation and amortization

In 2013, depreciation and amortization expenses increased by 211.6 million lei; the increase was generated by a net depreciation expense in relation with fixed assets resulting from the takeover of CTE Iernut, and by the depreciation of natural gas exploration and production projects either abandoned or in the process to be abandoned.

Employee benefit expense

For the reporting period, employee benefit expenses and the respective taxes and social charges increased to 553.0 million lei as compared to 503.0 million lei in

2012, mainly due to the increase of the number of employees as a result of taking over CTE Iernut on 1 February 2013.

Finance cost

In 2013, finance costs have decreased to 13.2 million lei, compared to 24.2 million lei in 2012, as a result of the unwinding effect on the decommissioning provision which is recognized annually in the statement of profit and loss as financial expense, and also due to full repayment of the loan from the International Bank for Reconstruction and Development ("IBRD"), the last installment being paid in October 2012, leading to a reduced interest expense for the current year. Expenses with exchange rates differences have also been reduced.

Exploration expense

In 2013, exploration expenses decreased to 60.6 million lei, from 193.3 million lei reported in 2012, as a result of a smaller value of abandoned exploration projects.

Other expenses

In 2013, other expenses increased by 200.3 million lei, to 636.0 million lei from 435.7 million lei during 2012, mainly due to transportation costs incurred for gas consumed by CTE Iernut branch, due to increased natural gas royalty costs (extraction of gas from fields with higher production compared to last year) and also due to the introduction starting from 1 February 2013 of an extra tax on additional revenue obtained as a result of deregulation of natural gas prices.

Other income

In 2013, other income decreased by 80.1 million lei, as in 2012 the Company recorded revenues from penalties and from the update by the inflation of a reactivated receivable from Termoelectrica.

Income tax expense

The increase of income tax expense in 2013 as compared to 2012 is mainly due to enforcement of fiscal law provisions related to restatement of financial statements from OMFP 3055/2009 to IFRS.

Profit for the year

In 2013, the Company's preliminary net profit decreased by 188.5 million lei as compared to the previous year, down to 930.7 million lei, compared to the amount of 1,119.2 million lei recorded in 2012, due to the cumulative effect of the items presented above.

Statement of individual financial position (unaudited)

ASSETS	Preliminary Year 2013 thousand lei	Year 2012 thousand lei	Variation (%)
1	2	3	4=(2-3)/3*100
<i>Non-current assets</i>			
Property plant and equipment	5,756,125	5,880,770	-2.1%
Other intangible assets	383,956	230,704	66.4%
Investment in associates	947	7,614	-87.6%
Trade and other receivables	-	52,646	-100.0%
Other financial assets	76,900	1,646	4571.9%
Other assets	17,093	16,926	1.0%
TOTAL NON-CURRENT ASSETS	6,235,021	6,190,306	0.7%
<i>Current assets</i>			
Inventories	463,946	507,849	-8.6%
Trade and other receivables	1,088,455	906,806	20.0%
Other financial assets	970,664	928,235	4.6%
Other assets	150,130	132,434	13.4%
Cash and cash balances	1,563,590	1,739,330	-10.1%
TOTAL CURRENT ASSETS	4,236,785	4,214,654	0.5%
TOTAL ASSETS	10,471,806	10,404,960	0.6%
<i>Equity and Liabilities</i>			
<i>Capital and reserves</i>			
Issued capital	1,892,681	1,890,297	0.1%
Reserves	1,948,605	1,773,651	9.9%
Retained earnings	5,376,474	5,680,812	-5.4%
Total equity	9,217,760	9,344,760	-1.4%
<i>Non-current liabilities</i>			
Retirement benefit obligation	79,241	63,785	24.2%
Deferred tax liabilities	214,271	257,835	-16.9%
Provisions	196,950	164,515	19.7%
Total non-current liabilities	490,462	486,135	0.9%
<i>Current liabilities</i>			
Trade and other payables	202,864	292,685	-30.7%
Current tax liabilities	196,965	68,044	189.5%
Provisions	47,285	28,735	64.6%
Other liabilities	316,470	184,601	71.4%
Total current liabilities	763,584	574,065	33.0%
Total liabilities	1,254,046	1,060,200	18.3%
Total equity and liabilities	10,471,806	10,404,960	0.6%

Non-current assets

Total non –current assets increased by 0.7% from 6,190.3 million lei to 6,235.0 million lei.

Other intangible assets increased in the period ended 31 December 2013 by 153.3 million lei, compared with the period ended 31 December 2012, due to increased amount of prospection works for the discovery of natural gas.

Balance of trade receivables older than one year was cancelled due to expiration of the validity term of the conventions for scheduling overdue payments of some beneficiaries of gas delivered during the previous period.

Other financial assets increased in period ended 31 December 2013, because on 24 January 2013 SNGN ROMGAZ SA acquired shares worth 66,287 thousand lei in Electrocentrale Bucuresti SA.

Current assets

Current assets increased by 0.5% as compared to previous year.

Trade receivables increased by 20% due to higher revenues recorded in December 2013, which will be received at the beginning of 2014.

Cash, cash equivalent and other financial assets at the end of the year were in amount of 2,354.3 million lei compared to 2,667.6 million lei in 2012; the 5% reduction is due to cash payments for geological exploration and existing capacity upgrade.

Capital and reserves

Reserves increased by the amount of 175.0 million lei, representing the distribution of profit for 2012 to Company's fund for development.

Retained earnings decreased by the amount of net profit distributed (dividends and development fund), and increased by the amount of net profit obtained in 2013.

Non-current liabilities

Increase by 19.7% of provisions is due to increase of provisions for decommissioning of fixed assets.

Current liabilities

Current tax liabilities increased due to calculation of a new corporate income tax for the 4th Quarter of 2013 that was influenced by restatement of financial statements from OMF 3055/2009 to IFRS.

Other current liabilities increased due to increase of liabilities to the state budget, especially the VAT and the tax on additional revenue.

Investments

In 2013 capital expenditure were in amount of 848,247 thousand lei, compared to 519,053 thousand lei in previous year, representing an increase of 63.4%. Geological exploration expenses increased compared to previous year by 133%. Capital expenditures for equipment revamping and upgrading increased by 63.2% compared to previous year. In 2013 have been commissioned investment objectives in total amount of 242,835 thousand lei.

**DIRECTOR GENERAL,
Virgil Marius Metea**



**ECONOMIC DIRECTOR
Lucia Ionascu**

A blue ink signature of Lucia Ionascu.