

ROMGAZ

nr. 18462/26.06.2015



Societatea Națională de Gaze Naturale Romgaz S.A. - Mediaș - România

To: S.N.G.N. ROMGAZ S.A. General Meeting of Shareholders

Subject: Report related to the increase of S.C. AMGAZ S.A. share capital with the amount of RON 1 900 000

SC AMGAZ SA (AMGAZ) has been set up on 12.09.2003 and Romgaz equity has been approved by the General Meeting of Shareholders Resolution no. 6/2003 and in compliance with the Order of the Ministry of Economy and Commerce no.41/16.07.2003

A. Shareholder Structure, Share Capital

According to the Confirmation of Company Details no. 44567/17.10.2013 the shareholder structure and the share capital of AMGAZ is the following:

Shareholder	Number of shares	Share value (RON)	% of the share capital
SNGN Romgaz SA	854,875	8,548,750	35
G.D.F.International	1,587,625	15,876,250	65
TOTAL	2,442,500	24,425,000	100

B. Scope of Activity

AMGAZ performs natural gas underground storage activities in Nades-Prod-Seleus underground storage (production unit Sarmatian VII).

C. Concession Agreement concluded with the National Agency for Mineral Resources (ANRM)

Amgaz is titleholder of the Concession Agreement (Petroleum Agreement) concluded with the ANMR for the underground storage Nades-Prod-Seleus (production unit Sarmatian VII), approved by the Romanian Government by Government Decision no. 288/12.03.2008.

Note: This Agreement supersedes the Initial Agreement concluded between AMGAZ and ANRM due to the fact that, according to the initial version of the Agreement concluded with ANRM in 2004, Amgaz had, by mistake, the right to produce the natural gas reserves from the Sarmatian VII production unit, such right belongs to SNGN Romgaz SA subject to the agreement concluded in 2008, ANRM awarded AMGAZ, at Romgaz request,

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only the right to perform underground storage petroleum operations, without the right to produce the natural gas reserves from the production unit Sarmatian VII.

D. AMGAZ Development Plan, Minimum Work Program undertaken according to the Concession Agreement

The scope of the development plan was to increase the effective volume of the natural gas underground storage Nades – Sarmatian VII at a capacity of 300 million cm (on the date of the development plan the storage capacity was of 50 million cm).

In compliance with the provisions of the Concession Agreement concluded with ANMR, AMGAZ had the obligation to achieve the following minimum work program:

- To drill 15 new wells with depths between 1,100 and 1,300 m – between years 2008-2012;
- To install surface facilities for gas separation, regulation and metering – between years 2008-2010;
- To install connection pipelines – between years 2008-2010;
- To install gas dehydration, compression and metering stations – between years 2008-2012;
 - Value of committed investments : USD 35,000,000 (about RON 101.7 million at the exchange rate from 2004 of 2.9067RON/USD);
 - term of concession: 15.12.2027;

The development plan began in 2008 with the drilling of two new wells (well 6A and 10A) and the construction of the related surface facilities, and the start of the FEED engineering study respectively, (the most important study for the surface facilities necessary for the development of the storage); investments had to continue until 2011 by drilling other wells and the construction of the surface facilities that allow the Company to exploit independently the storage at a capacity of 300 million cm.

Moreover, AMGAZ has prepared technical projects for the construction of three new wells in compliance with the work program for 2009 sent to ANRM; AMGAZ has also initiated the request for offers for drilling these three wells and received offers from five companies.

Until December 31, 2014, AMGAZ has performed cumulative investments related to this development plan in amount of RON 18 million.

- ⇒ At the end of 2009 there has been an incident at well 7 Nades (well rented from Romgaz and used by AMGAZ for storage) because of landslides in the area that lead to permanent gas emissions. This incident determined AMGAZ, on one hand, to request ANRM the endorsement for temporary abandonment of storage operations (endorsement received from ANRM under no. 404134/01.09.2009), on the other hand not to initiate the contracts for the three wells that had to be drilled in 2009.

Although the works related to the incident had been finalised by September 2009, the storage program for the following storage cycles have been affected due to the necessity to perform all expert valuations and studies necessary to ensure the sustainability of using Sarmatian VII for storage purposes.

Therefore, storage activities remained suspended (based on ANRM endorsement no. S/4/466/19.03.2012 related annual storage petroleum operations – inclusive for 2013) and in 2010 Amgaz prepared a technical-economic study based on 3D seismic data gathered by Romgaz in 2007, such study had to establish the status of the underground storage Nades-Prod-Sefeus (in compliance with ANRM endorsement for 2012 the term for submitting the technical-economic studies has been set for June 1, 2012).

The conclusions and proposals of the Study prepared by Storengy (Amgaz) on 19.12.2011, updated by SC GEO CLASS SRL in June 2012 and expertized by SC Petrolifera Muntenia SRL (the expertise report has been submitted to ANMR on June 29, 2012) were the following:

⇒ Conclusions:

- sealing issues at the storage;
- increase of reservoir pressure;
- considering the uncertainties related to communication between the production units, it is not convenient to continue storage;
- confirmation of the existing gas cushion after ceasing storage operations.

⇒ Proposals:

1. Under unknown geological – physical conditions, that generate uncertainties related to communication between the production units and due to technical faults of the wells, **it is not opportune to continue storage in this reservoir;**
2. Sarmatian VII will be temporarily abandoned with the present gas in place until geological-physical reservoir conditions will be known and storage conditions reviewed, or until the **exploitation process will restart;**
3. All documents for temporary abandoning the only wells belonging to Amgaz, wells 6A and 10A, will be prepared and submitted to ANMR for approval.
4. The expertise report of the technical study, prepared at ANRM request, states that the only way to have an eventual increase of the reserves is to produce the existing gas cushion (by a company that has exploitation rights) considering the vertical communication with other less drained production units;

Considering the above mentioned, Amgaz discussed with ANRM on accepting the termination of the concession agreement by withdrawal, without the obligation to pay any damages to shareholders, by invoking objective arguments to support Amgaz lack of fault (according to the technical reports issued by Storengy, Geo Class and Petrolifera Muntenia that prove the inadequacy of the storage for natural gas underground storage activities, and landslides, etc).

CONCLUSIONS

Bearing in mind that continuing the storage activity was inopportune as well as the potential risk related to not complying with the obligations under the Concession Agreement concluded with ANRM (possible penalties worth \$ 31 M for not complying with the committed minimum work program, plus late payment penalties), the following stages have been set for shutting down the company:

- Termination of the concession in such manner not to incur penalties related to not fulfilling the obligations under the Concession Agreement;
- Increase of the share capital by RON 1 125 000 necessary for financing the well abandonment works and supporting the current activity until the end of the company shut-down procedure.
- Perform all works necessary for abandoning the two wells.
- Return to ANRM the assets related to the storage activity (legal obligation if the Concession Agreement terminates by withdrawal of the concession holder).

- Winding-up the company.

In 2013 the cost estimated for shutting-down the company was of EUR 250 000 including abandonment works at the two wells and administrative expenses.

In September 2013 the share capital of Amgaz has been increased by the amount of RON 1,125,000. Romgaz participated in this increase based on Romgaz Board Resolution no.12/2013 and GMS Resolution no. 15/2013.

The same resolutions provided also the withdrawal of the Concession Agreement, the Underground Gas Storage Nades-Prod-Seleus, Sarmatian VII no. S2/160/2007 concluded between the National Agency for Mineral Resources and SC Amgaz SA.

In order to terminate the concession agreement concluded with the ANMR, Amgaz (SNGN Romgaz SA – SIRCOSS Branch) performed abandoning works for wells 6 and 10 at the end of 2013.

ANRM authorised the commencement of abandonment works by Notice no.283 and 284/18.06.2013 and imposed a deadline, 18.12.2013, for finalising these works.

In February 2014, after inspecting the abandoned wells, ANRM issued the final abandonment notice: Notice no. 45 – ab/10.02.2014 on abandoning injection-withdrawal well 6 and Notice no. 45 – ab/10.02.2014 on abandoning injection-withdrawal well 10.

The Regulatory Authority for Energy, by the resolution no. 2036/10.09.2014 of the chairman, withdrew the Licence for Natural Gas Storage in Nades-Prod-Seleus storage, Sarmatian VII, located in Nades, Mures county. ANRM has been informed of this Resolution.

The estimate cost for abandoning the wells has been exceeded by RON 748 800 because of additional unforeseen works occurred during abandonment works, namely:

- Disarming packers;
- Fluid loss in the wells;
- Renting additional workover equipment ;
- Manufacture parts for workover.

The unforeseen works, that were overcome without any industrial security incidents/accidents, implied additional time for the company hired based on a contract to provide services, SNGN Romgaz SIRCOSS Branch.

The value of the additional unforeseen works, the costs generated by the additional time, penalties incurred from the service provision contract concluded with SIRCOSS are included in the amount of RON 1 900 000, proposed for the share capital increase.

According to the participating interest to this share capital increase, the contribution of the two shareholders would be the following (if the increase will be approved):

- GDF – RON 1 235 000
- Romgaz - RON 665 000

Further to the discussions with SNGN Romgaz SIRCOSS Branch it was concluded that the debts to the service provider SIRCOSS may be compensated with surface facilities and materials recovered from wells based on an assessment performed by an authorised company. Both Amgaz and Romgaz made their own assessments, as agreed.

From the beginning of these procedures, the two shareholders have set that termination of the concession agreement without penalties is a priority action.

Subsequently, further to the discussions with ANRM and based on notification no. 4437/16.04.2015, ANRM informed Amgaz that it has to return all concession goods, including the investments performed there.

We would like to mention that after paying up the outstanding debt and winding-up of the company, the liquidities available shall be returned to the shareholders.

At the end of 2013 financial year the wells have been written off and the surface facilities and materials resulting from well abandonment have been reconsidered in the accounting as inventory. These operations have been performed in accordance with Ernst&Young opinion, the company auditor.

SC AMGAZ SA's assets and the profit and loss account statements on December 31, 2014 is shown in the table below:

	lei
	31.12.2014
Non-current assets	0
Current assets, out of which	364 332
~ Inventory	
~ Receivables	181 780
~ Cash	182 552
Accrued expenses	656
TOTAL ASSETS	364 988
Debts < 1 year	1 329 005
- amounts due to credit institutions	0
Debts > 1 year	0
Provisions for risks and expenses	0
Deferred income	0
Own equity, out of which:	- 964 017
~ share capital	24 425 000
~ legal reserve	60 000
~ other reserves	241 190
TOTAL LIABILITIES	364 988
Net assets	- 964 017

	lei
	31.12.2014
Operating revenues	7
~ Revenue	0
Operating expenses	2 338 760
Operating result	- 2 338 753
Financial revenues	2 783
Financial expenses	0
- interest	0
Financial result	2 783
Total income	2 790
Total expenses	2 338 760
Gross result	- 2 335 970
Tax on profit	0
Net result	- 2 335 970

In March 2015, following the payment reminder no. 2018/10.02.2015 issued by SNGN ROMGAZ – SIRCOSS Branch, AMGAZ paid another quota in amount of RON 150,000 by Payment Order No. 32/27.04.2015 of the total amount due of RON 1.3 million, and the creditor (SIRCOSS) initiated legal proceedings to recover the outstanding amounts.

On March 15, 2015 Sibiu Court approved partially the application on the payment order issued by SNGN ROMGAZ – SIRCOSS Branch as creditor plaintiff, against SC AMGAZ SA, as defendant debtor, and therefore: ordered SC AMGAZ SA, the defendant debtor, to pay RON 781,921.40 representing the equivalent value of services, within 30 days from notification. The court dismissed the head of claim on the defendant liability for payment of penalties for delay in payment of RON 484,694.70 calculated until April 30, 2015.

SIRCOSS is expecting the draft and publication of the Decision of Sibiu Court and within 10 days from its publication intends to bring an appeal to this Decision and to constrain AMGAZ to the payment of penalties provided by the contract for services No. 2229/26.09.2013 and in compliance with the services provided by SIRCOSS for abandonment of 2 AMGAZ wells.

AMGAZ approaches for 2015 –performed and scheduled

- ✓ January 16, 2015 : requested emergency meeting with ANRM (on behalf of AMGAZ the chairman of BD, director general, legal) to clarify all the aspects required for issuing as soon as possible the final decision for termination of the concession agreement;
- ✓ January 22, 2015: meeting held at ANRM Headquarters between ANRM and AMGAZ representatives whereupon, and upon ANRM request, AMGAZ prepared the following documents:
 - Supplement to the Underground Gas Storage Study for Nadeş-Prod- Seleuş-Sarmaţian VII structure, jud.Mureş – prepared by SC GEO CLAS SRL
 - Considerations on the opportunity to continue operation of Nadeş-Prod-Seleuş Sarmaţian VII unit as underground gas storage – prepared by SC GEOPETROL SA .
 - Control survey report on the underground gas storage from Nadeş-Prod-Seleuş-Sarmaţian VII structure, at January 01, 2015 –prepared by SC GEOPETROL SA.
- ✓ February 9, 2015: documents were submitted to ANRM under No. 8 and they were recorded under No. 1510/09.02.2015 requesting possible comments to be communicated in due time in order to be resolved, so that the maximum 45 days term for issue of the final decision for concession agreement termination is not affected.
- ✓ March 12, 2015: the meeting of the Committee for confirmation of petroleum in place and petroleum reserves for analysis of the *Documents for Nades UGS – Key geological uncertainties and steps to be made - 2011, prepared by Storengy and Update of the Study on Underground Gas Storage on Nades – Prod – Seleus structure – 2012, prepared by Geoclas.*
- ✓ Following the submission to ANRM of documents for concession termination, Romgaz received the Certification Minute No. 3-15 for confirmation of present gas in place and UGS capacity in Sarmaţian VII unit, Nades-Prod-Seleus commercial field, on January 1, 2015, providing the following:

- Sarmatian VII unit no longer meets the geological and technical conditions to be used as underground gas storage, as it is not sealed;
- Sarmatian VII unit, did not change from original gas in place and initial reserve assessment perspective (reference date for gas in place confirmation is 1.01.2015)
- ✓ March 31, 2015 : AMGAZ letter no.15 to ANRM requesting the decision to terminate the concession according to the legal provisions, as well as an opinion on the status of the surface facilities at the moment of termination.

Following stages of completion of concession withdrawal from the underground gas storage Nades-Prod-Seleus

- Receiving the final concession withdrawal agreement from ANRM
- Clarification of AMGAZ debt settlement to SIRCROSS
- Adopting EGMS decision for AMGAZ dissolution and appointment of official receiver
- Starting the AMGAZ voluntary dissolution procedure at Mures Trade Register.

AMGAZ Risks (as provided by 2014 AMGAZ Directors' Report)

In 2014 AMGAZ was not exposed to exchange rate risk or to interest rate risk.

Liquidity risk – currently AMGAZ does not hold enough liquidities to pay its debts to SNGN Romgaz -SIRCROSS Branch, and the only viable solution would be a new capital increase.

The risk of non-compliance with the liabilities provided under the concession agreement (the minimum work program commitment) - the Company has significant investment commitments provided by the concession agreement, and breach of such obligations may lead to penalties. Bearing in mind that ANRM has already issued the final approval for abandonment of wells on Nades-Prod-Seleus UGS for withdrawal from the concession agreement, reduces accordingly the risk of penalties applied by ANRM to AMGAZ for the amounts not invested provided in the concession agreement. Such opinion has been confirmed by AMGAZ legal counselors in the meeting of March 24, 2015.

Bearing in mind the following:

- ⇒ The conclusions and proposals of the above mentioned studies submitted to ANRM;
- ⇒ AMGAZ initiated the procedure for withdrawal from the Concession Agreement for Nades-Prod-Seleus, Sarmatian VII underground gas storage;
- ⇒ AMGAZ withdrawal from the Concession Agreement for Nades-Prod-Seleus, Sarmatian VII UGS will eliminate the main scope of activity of AMGAZ, therefore will lead to shut-down of AMGAZ business, and according to Art. 227, letter b of Law 31/1990 it will lead to AMGAZ winding-up;
- ⇒ Art.22.1 letter h of AMGAZ Articles of Incorporation provides that dissolution in advance is made by Resolution of EGMS, therefore the issue in case of voluntary dissolution is in fact to establish the

moment of dissolution, which, probably, is the moment when AMGAZ loses its main scope of activity. In this situation the company should not have debts in order to avoid creditors' opposition within 30 days from publication of Dissolving Decision.

- ⇒ SNGN ROMGAZ SA has the right to produce natural gas reserves from Sarmatian VII production unit;
 - Therefore it has the opportunity to take over Sarmatian VII unit and to include it in the commercial field Nades-Prod-Seleus and to resume production activity in the wells producing from lower or upper production units; such wells will be completed at this production unit as well.
 - The start of Romgaz production activity depends on the termination of the concession Agreement for Nades-Prod-Seleus, Sarmatian VII underground gas storage (AMGAZ should receive from ANRM the final Agreement for withdrawal from concession);

- ⇒ AMGAZ has very limited liquidities because its activity ceased in 2009. On May 31, 2015, according to the analytical balance sheet the liquidities were RON 104,077.24 and AMGAZ debts were:
 - Current debts : RON 2,268 to the state budget
 - Outstanding debts : RON 1,290,855.94 to SNGN ROMGAZ SIRCOSS

- ⇒ AMGAZ BD Resolution of May 20, 2015 for approval of the share capital increase by RON 1,900,000 as contribution in cash by issuing new shares;

- ⇒ This is the easiest solution, if we consider that commercially wise the works have been performed and they have to be paid by contribution of the two shareholders, for Romgaz – SIRCOSS to be able to recover the debts (including interest by the time of payment)

- ⇒ Any other alternative would jeopardize the dissolution in advance of the Company by EGMS Resolution and the start of the winding up /bankruptcy procedures for AMGAZ. In this alternative SIRCOSS will recover only part of the debt (by valorification of materials recovered from wells and after payment of the liability to state budget and payment of the winding up fund) and indirectly, SNGN Romgaz SA, as shareholder, should support this loss all by itself;

- ⇒ The resolutions for modification of main scope of activity of the company, increase of share capital and dissolution of the company have to be adopted by AMGAZ EGMS by majority of votes of at least 2/3 of the voting rights of present shareholders or their representatives.

we consider that ROMGAZ has to approve in AMGAZ GMS the increase of share capital by RON 1,900,000 and ROMGAZ should exercise its preference rights by acquiring the number of shares according to its participation share of 35%.

Considering all the above mentioned we hereby request for the approval of S.N.G.N. Romgaz S.A. General Meeting of Shareholders for:

- a) **The increase of S.C. AMGAZ S.A.'s share capital by RON 1,900,000, as contribution in cash by issuing new nominal shares with nominal value of RON 10 each share, specifying that such increase shall be used prevalently for payment of the outstanding debt to Sucursala de Intervenții, Reparații Capitale și Operații Speciale la Sonde**

(SIRCOSS) Medias, representing the equivalent value of supplied services and late payment penalties calculated until the payment date;

- b) **Exercising the preference right of Societatea Națională de Gaze Naturale „ROMGAZ” – S.A., as provided under Art. 216, paragraph 1 of the Company Law No. 31/1990 related to the increase of share capital of S.C. AMGAZ S.A., by acquisition of nominal shares belonging to S.N.G.N. „ROMGAZ” – S.A. according to its participation share of 35%.**

and the approval of S.N.G.N. „ROMGAZ” – S.A.'s GMS for the proposals related to the above requests will be followed by the approval of S.C. AMGAZ S.A. General Meeting of Shareholders.

The above mentioned requests have been endorsed by the Board of Directors of S.N.G.N. Romgaz S.A. in the meeting of June 25, 2015 under the Report No. 17576/17.06.2015.

Chairperson of the Board of Directors of S.N.G.N. Romgaz S.A.

Negrut Aurora

