

IDENTIFICATION DETAILS ON REPORT AND ISSUER**Preliminary annual report according to Article 227 from Law 297/2004**Financial year: **2015**Report date: **February 15, 2016**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 unaudited individual financial statements,
prepared in compliance with the International Financial Reporting Standards)
ON THE ECONOMIC AND FINANCIAL ACTIVITY
OF SNGN "ROMGAZ" SA during 2015**

OVERVIEW

SNGN Romgaz SA is a Romanian natural gas producer and supplier, its core business segments being: gas exploration and production, gas supply, underground gas storage and electricity production.

In Romania the natural gas consumption decreased by approx. 8% during Quarter IV as compared to the same period of the previous year, and during 2015 natural gas consumption is approx. 4.5% lower than the previous year's consumption, according to the National Regulatory Authority in the Energy Sector ("ANRE") (for January - October) and the company's estimates (November and December).

The unfavourable evolution of natural gas consumption in Romania was determined by the following causes:

- Higher average temperatures as compared to the previous periods;
- Drastic decrease of consumption demand in the chemical industry (especially in the fertiliser industry).

For 2015, Romgaz had a 45% market share from Romania's total natural gas consumption.

Summary of the main indicators:

- ↳ **EBITDA** in amount of RON 2,209 million, although it records a decrease as compared to 2014 (-11.29%), it maintains a significant margin of 54.50% as reported to the revenue;
- ↳ **EBIT margin** of approx. 35% of the revenue is slightly lower than the previous year;
- ↳ **EPS** (net profit/share) is 3.07 RON/share, as compared to the value recorded in 2014, of 3.66 RON/share; it maintains a superior profitability, with a 29.23% net profit rate.

We mention that in order to determine the distributable net profit, the net profit for 2015 shall be increased by the retained earnings of the previous years in amount of approximately RON 200 million;

- ↳ **Stabilization of gas production potential** at 15.6 million cm/day, annulling therefore the natural decline;
- ↳ **Total Investment** achieved in amount of RON 925 million, lower than those recorded in 2014 (RON 1,086 million), following a decrease of specific investments and postponement of some works.

Exploration Investment recorded a significant increase of approx. 31%, from RON 428 million to RON 560 million;

- ↳ **Revenues from the underground storage activity** decreased by 21.88%, being estimated to RON 332.64 million, following a decrease of natural gas stored quantities;
- ↳ **Revenues from the electric power sales and services** increased by approx. 7%, to RON 356 million; electricity production market share represents 2.74%, recording an increase of 10%.

The sale of lower gas quantities by Romgaz as compared to those sold during the same period of the last year is caused by:

- Decrease of Romania's natural gas consumption due to the above-mentioned causes;
- Limitation of consumptions for certain clients using natural gas to produce electric power due to the reduced payment capacity;
- Lower gas quantities extracted from deposits, due to high temperatures during Quarter IV.

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

Q3/2015	Q4/2015 preliminary	Q4/2014	Δ (%)	Main Indicators	2015 preliminary	2014	Δ (%)
1.358	1.428	1.436	- 0.5	Gross gas production (bln.cm)	5.563	5.664	-1.8
0.018	0.021	0.021	-3.0	Technological consumption (bln.cm)	0.079	0.081	-3.3
2,678	2,756	1,202	129.2	Condensate production (tonnes)	10,947	4,367	150.7
43	41	36	13.9	Recompletions + well workover (no.)	183	175	4.6
24.082	15.294	13.507	13.2	Recompletions + well workover (mln.cm)	185.768	152.770	21.6
34.58	27.19	38.42	-29.2	Expenses for up-downhole recompletion operations + workover (RON million)	143.03	158.22	-9.6
0.099	0.106	0.105	0.2	Petroleum royalty (bln.cm)	0.406	0.415	-2.1
75.98	79.02	78.06	1.2	Petroleum royalty (RON million)	297.59	288.77	3.1

For **exploration activities (onshore)** the 3D seismic acquisition works were completed (execution of the last 900 SqKm from a total of 4000 SqKm) engaged towards the Romanian State, followed by assessment and development works, by drilling 10 wells, for valuation of a contingent resource cumulated at approx. 4.5 billion cm as well as the completion of number of exploration drillings which allowed the underlining and (positive) verification of a prospective resource (P50) of approx. 12 billion cm. At the same time, following the works developed within the offshore Trident Block, in the Black Sea, a natural gas reservoir was distinguished with reserves which could exceed 30 billion cm.

The achieved **Production Level** of 5.56 billion cm was sustained by further development of the production rehabilitation projects within the main reservoirs, accomplishment of repair and recompletion of a number of 183 wells, installing new gas compression capacities and putting into operation of new reservoirs. The results were though affected by the weak natural gas demand, especially for Quarters II and IV, which determined a decline of approx. 1.8% as compared to the previous year.

PHYSICAL INDICATORS

The preliminary natural gas quantities produced, supplied, injected in/withdrawn from the underground storages (UGS) and the gas used in electric power production for the period January to December 2015 in comparison to 2014 are described in the table below (million cm):

No.	Specification	2013	2014	2015	Indices
0	1	2	3	4	5=4/3x100
1	Total - gross production , out of which:	5,650.8	5,663.9	5,562.7	98.2%
1.1.	* internal gas production	5,467.8	5,469.0	5,359.7	98.0%
1.2.	* Schlumberger partnership (100%)	183.0	194.9	203.1	104.2%
2	Technological consumption	78.3	81.3	78.6	96.7%
3	Net internal gas production (1.-1.2.-2.)	5,389.5	5,387.7	5,281.1	98.0%
4	Internal gas volumes injected in storages	799.7	564.8	738.4	130.7%
5	Internal gas volumes withdrawn from storages	621.3	601.0	409.5	68.1%
6	Differences resulting from GCV	12.5	9.8	16.1	
7	Volumes supplied from internal production (3.-4.+5.-6.)	5,198.6	5,414.1	4,936.1	91.2%
8	Gas supplied to Iernut and Cojocna Power Plants	269.1	445.0	526.9	118.4%
9	Volumes supplied from internal production to the market (7.-8.)	4,929.5	4,969.1	4,409.1	88.7%
10	Natural gas from partnerships - total , out of which:	188.3	180.6	168.9	93.5%
	*Schlumberger (50%)	91.5	97.5	101.5	104.2%
	*Raffles Energy (37.5%)	3.5	0.8	0.5	59.2%
	*Amromco (50%)	93.3	82.3	66.9	81.2%
11	Purchased internal gas volumes	13.3	17.7	17.1	96.4%
12	Internal gas volumes sold (9.+10.+11.)	5,131.1	5,167.4	4,595.1	88.9%
13	Internal gas volumes supplied (8.+12.)	5,400.2	5,612.4	5,122.1	91.3%
14	Import volumes supplied	309.5	81.1	3.0	3.6%
15	Total gas supplies (13.+14.)	5,709.7	5,693.5	5,125.0	90.0%
*	Invoiced UGS withdrawal services	2,017.9	1,915.4	1,656.7	86.5%
*	Invoiced UGS injection services	1,993.1	1,737.0	1,673.1	96.3%

ECONOMIC-FINANCIAL INDICATORS

The economic-financial indicators are calculated based on unaudited individual preliminary financial statements and may be different from the actual audited results.

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

Summary of unaudited individual comprehensive income for the year ended December 31, 2015

Description	Preliminary 2015 (thousand lei)	Actual 2014 (thousand lei)	Variation (thousand lei)	Variation (%)
1	2	3	4=2-3	5=4/3 x100
Revenue	4,052,635	4,493,341	(440,706)	-9.81%
Cost of commodities sold	(40,228)	(175,638)	(135,410)	-77.10%
Investment income	44,185	78,729	(34,544)	-43.88%
Other gains and losses	(317,066)	(275,141)	41,925	15.24%
Changes in inventory	138,181	27,743	110,438	398.08%
Raw materials and consumables used	(78,256)	(66,167)	12,089	18.27%
Depreciation, amortization and impairment	(793,598)	(776,839)	16,759	2.16%
Employee benefit expense	(518,004)	(522,785)	(4,781)	-0.91%
Finance cost	(20,302)	(24,476)	4,174	-17.05%
Exploration expense	(44,232)	(43,332)	900	2.08%
Other expenses	(1,043,877)	(1,034,627)	9,250	0.89%
Other income	79,842	107,521	(27,679)	-25.74%
Profit before tax	1,459,280	1,788,329	(329,049)	-18.40%
Income tax expense	(274,806)	(378,448)	(103,642)	-27.39%
Profit for the year	1,184,474	1,409,881	(225,407)	-15.99%

Revenue

In 2015, Romgaz estimates revenue of RON 4.05 billion compared to RON 4.49 billion achieved in 2014, a decrease of 9.81% due to:

- a decrease in quantities supplied due to a drop of demand, partially offset by the increase of average delivery price;
- a decrease of quantities stored against slight changes in UGS tariffs approved by ANRE;
- a reduction of purchased import gas quantities sold as commodity.

Cost of Commodities Sold

In 2015, cost of commodities sold decreased by 77.10%, mainly due to a reduction in sales of imported natural gas.

Investment Income

In 2015, investment income decreased with 43.88%, to RON 44.19 million, compared to RON 78.73 million in 2014, driven by the reduction of interest rates of the cash placed in state bonds and term deposits.

Other Gains and Losses

In 2015 the Company recorded a higher loss as compared to previous year, generated by impairment of receivables related to Electrocentrale Bucuresti, in amount of RON 238 million, and to Electrocentrale Galati, respectively, in amount of RON 49 million. The variation of net loss compared to previous year is influenced by the impairment of receivables recorded in 2014 in relation to Termoelectrica (RON 43 million) and by the impairment on loans granted for the Company's investments in Poland, namely for Cybinka and Torzym fields (RON 17.9 million in 2014, as compared to RON 0.9 million in 2015).

Changes in Inventory

In 2015 and 2014 Romgaz's own gas volume injected into UGSs was higher than the volume withdrawn from UGSs, which generated a positive change inventory (revenue). The difference between the volumes injected into/withdrawn from UGSs was higher in 2015 than in previous year, therefore a revenue increase of RON 110.44 million was recorded.

Raw Materials and Consumables Used

The value of consumables used was higher as compared to previous year due to high volume of regular well operations and workovers, and compressor station works.

Depreciation, Amortization and Impairment

In 2015, depreciation and amortization expense was RON 560.07 million, as compared to RON 484.98 million in 2014. The increase is due to higher assets base under depreciation and amortization in 2015 compared with 2014, following the commissioning of fixed assets.

In 2015 the net impairment expense with tangible and intangible assets (the increase in impairment is recorded as an expense, while the decrease in impairment is recorded as income in the moment of actual write-off of previously impaired assets, or in case of resuming investment projects that have been previously considered as abandoned, respectively) was RON 233.53 million, as compared to RON 291.86 million in 2014. The net impairment expense for 2015 includes the impairment of Black Sea projects in amount of RON 176.19 million.

Employee Benefit Expense

In 2015 the employee benefit expenses did not change significantly as compared to previous year.

Finance cost

In 2015 the finance cost decreased with 17.05% as compared to 2014 due to decrease of unwinding of the decommissioning provision for production wells and UGS wells, following the reduction of such provision on December 31, 2015 as compared to December 31, 2014.

Exploration expense

In 2015 exploration expenses did not change significantly as compared to previous year. Said costs were offset by an income posted in 2015 from reversing the impairment for said projects on December 31, 2014, included in the depreciation, amortization and impairment expense, the effect in the 2015 result being nil.

Other expenses

In 2015 *other expenses* recorded an increase by RON 9.25 million mainly due to the following:

- set up on December 31, 2015 of a provision for litigations in amount of RON 15.9 million, related to a National Agency for Fiscal Administration (ANAF) control;
- increase on December 31, 2015 of the provision for retirement benefits as provided under the Collective Labor Agreement, with RON 5.7 million as compared to the increase recorded on December 31, 2014 of RON 18 million.;
- decrease of the decommissioning provision for production and storage wells by RON 19.7 million in 2015 as compared to a decrease of RON 7.9 million in 2014;
- increase of goods and personnel transportation costs as compared to previous year.

Other income

In 2014, other income decreased with 25.74% compared to previous year, mainly due to decrease of penalties applied to the Company's clients with delays in payment of the gas purchased from Romgaz.

Income tax expense

The income tax expense in 2015 comprises the current income tax expense in amount of RON 342.73 million (2014: RON 393.58 million) and the income from deferred income tax of RON 67.93 million (2014: RON 15.13 million).

The decrease of current income tax expenses for 2015 as compared to 2014 is due to the decrease in profit.

As regarding the deferred income tax, it is calculated by applying the income tax rate provided under the tax law to the difference between the accounting and the fiscal value of assets and liabilities. In 2015, tangible and intangible assets generated an income from deferred income tax of RON 32.98 million following the depreciation and amortization applied during the year. Exploration assets generated in 2015 an income from deferred income tax of RON 37.48 million, following the impairment for abandoned projects recorded during the year; when all the documents required for abandonment of projects are obtained, the generated costs will be deductible for current income tax calculation.

Profit for the year

Following the evolution of the revenues and expenses as previously mentioned, the preliminary net profit of the Company decreased in 2015 by RON 225.41 million, namely by 15.99%.

For the calculation of the net profit to be distributed, the net profit for 2015 will be increased by the value of the depreciation of non-current assets, the carrying value of written-off fixed assets and of abandoned works financed by the gas production development and modernization costs quota, as provided under Government Decision 168/1998, estimated at RON 200 million.

Summary of Statement of individual financial position as of December 31,2015 (unaudited)

INDICATOR	Preliminary December 31,2015 (thousand lei)	Actual December 31,2014 (thousand lei)	Variation (%)
1	2	3	4=(2-3)/3x100
Non-current assets			
Tangible assets	5,996,456	5,962,719	0.57%
Other intangible assets	399,859	407,449	-1.86%
Investments in subsidiaries	1,200	-	100.00%
Investments in associates	163	738	-77.91%
Other financial investments	35,300	-	100.00%
Other financial assets	70,080	76,889	-8.86%
TOTAL NON-CURRENT ASSETS	6,503,058	6,447,795	0.86%
Current assets			
Inventories	559,784	392,108	42.76%
Trade and other receivables	601,065	1,000,195	-39.91%
Other financial assets	1,308,165	916,333	42.76%
Other assets	136,312	101,886	33.79%
Cash and cash equivalents	1,568,632	1,953,787	-19.71%
TOTAL CURRENT ASSETS	4,173,958	4,364,309	-4.36%
TOTAL ASSETS	10,677,016	10,812,104	-1.25%
Equity and Liabilities			
Capital and reserves			
Share capital	385,422	385,422	0.00%
Reserves	2,581,230	2,142,347	20.49%
Retained earnings	6,715,759	7,184,249	-6.52%
TOTAL EQUITY	9,682,411	9,712,018	-0.30%
Non-current liabilities			
Retirement benefit obligation	102,959	97,265	5.85%
Deferred tax liabilities	63,379	131,305	-51.73%
Provisions	200,855	202,293	-0.71%
TOTAL NON-CURRENT LIABILITIES	367,193	430,863	-14.78%
Current liabilities			
Trade and other payables	186,937	216,983	-13.85%
Current income tax liabilities	90,301	93,590	-3.51%
Provisions	28,779	35,814	-19.64%
Other liabilities	321,395	322,836	-0.45%
TOTAL CURRENT LIABILITIES	627,412	669,223	-6.25%
TOTAL LIABILITIES	994,605	1,100,086	-9.59%
TOTAL EQUITY AND LIABILITIES	10,677,016	10,812,104	-1.25%

Non-current assets

The total non-current assets increased by 0.86% (namely RON 55.26 million), mainly due to acquisition of tangible and intangible assets for gas exploration, appraisal and production, as well as to setting up bank deposit accounts with a maturity date over 1 year, in amount of RON 35.30 million.

Considering the legal obligation of the Company to separate the underground gas storage activity from the gas production and supply activity, pursuant to Directive 2009/73/CE of the European Parliament and Council of 13 July 2009 and to the provisions of article 141, paragraph (1) of Law 123/2012, in August 2015, S.N.G.N. Romgaz S.A. – Filiala de Inmagazinare Gaze Naturale Depogaz Ploiesti S.R.L., the Underground Gas Storage Subsidiary, was registered at the Trade Register Office, 100% owned by the Company. The above mentioned subsidiary has a share capital of RON 1,200 thousand, divided in 120,000 shares with a nominal value of 10 RON/share. The subsidiary will start its activity in April 2016 in accordance with the license issued by the Regulatory Authority for Energy.

The decrease in other financial assets was due to the impairment of financial investments owned in Lukoil Overseas Atash BV and Panatlantic partnership following the withdrawal from the Rapsodia block in the Black Sea (RON 5.2 million) as well as of the investment in Electrocentrale Titan (RON 1.6 million) following the Company's decision to withdraw from the shareholding.

Current assets

Total current assets decreased by 4.36% as compared to previous year, due to the following variations:

- Inventory increased by 42.76% compared to December 31, 2014, the equivalent of RON 167.68 million, mainly as a result of an increase in natural gas inventories by RON 100.1 million;
- Trade receivables decreased by 39.91% compared to December 31, 2014, as a result of the decrease in the value and quantities of gas delivered in quarter IV 2015 and following an increase of the impairment recorded for receivables of RON 290.71 million, mainly with respect to receivables of Electrocentrale Bucuresti (RON 238 million) and Electrocentrale Galati (additional impairment of RON 49 million in 2015);
- Other financial assets and cash and cash equivalents recorded an insignificant variation compared to the previous year and include cash in bank, fixed term deposits and state bonds;
- Other assets increased with RON 34.43 million (33.79%) compared to December 31, 2014, mainly due to the increase of prepayments related to transporting natural gas to underground storages which will be invoiced to clients as stored gas is delivered.

Capital and reserves

Reserves increased with RON 438.88 million, representing the allocation of part of the 2014 net profit to the development fund (RON 407.03 million) and of part of the current period profit (RON 31.85 million) following the application of fiscal facility pursuant to Government Decision no. 421/2014 on amending and supplementing the Methodological Norms of applying Law 571/2003 on the Fiscal Code.

Retained earnings decreased by RON 468.49 million, negatively influenced by the allocation of net profit of the previous years as approved by the General Meeting of Shareholders, the positive effect being generated by the value of 2015 net profit.

Non-current liabilities

Non-current liabilities decreased by December 31, 2015 compared to the previous year mainly due to a decrease of the deferred income tax liability.

Current liabilities

Trade payables and other payables decreased by 13.85% at the end of 2015 as compared to 2014, following the decrease of liabilities to non-current assets suppliers, due to decrease of investment expenses. At the same time an increase of advance payments from clients for gas sales was recorded.

Current income tax liabilities decreased due to calculation of a smaller income tax for quarter IV 2015 as compared to the same period of previous year, as a result of obtaining a smaller profit compared to the previous year.

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