



**Societatea Nationala de Gaze  
Naturale "ROMGAZ" SA**

# **Board of Director's Report**

*1H 2014*





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# I. Romgaz 1H 2014 - Overview

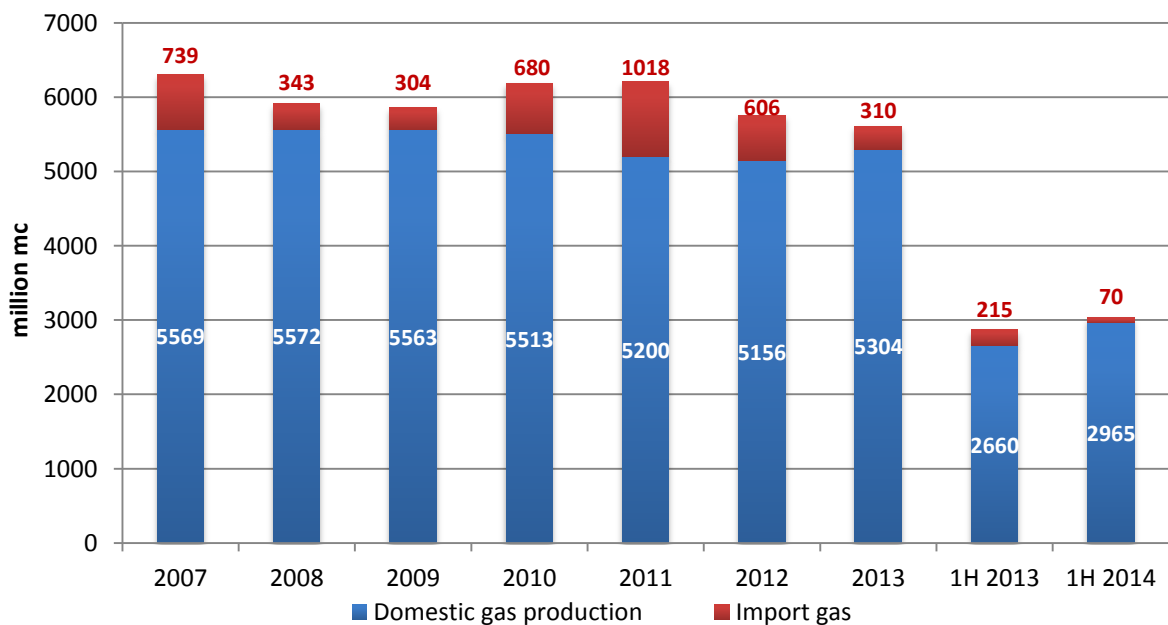
## 1.1. Results

Operational results (million cm):

Specifications	1H 2013	1H 2014	Ratio
<b>1</b>	<b>2</b>	<b>3</b>	$4=3/2 \times 100$
Produced gas, out of which:	2,862.5	2,862.5	100.11
*internal production	2,773.0	2,772.6	99.99
*Schlumberger (100%)	89.6	93.0	103.84
Internal gas deliveries (including 50% Schlumberger), out of which:	2,660.1	2,964.9	111.46
Internal gas deliveries (partnerships excluded)	2,615.3	2,918.4	111.59
Gas withdrawn from the storages	1,291.1	1,169.4	90.57
Gas injected in the storages	865.7	609.6	70.42
Import gas deliveries	214.7	69.9	32.56

\*) including gas consumption of CTE Iernut

Romgaz is the largest gas supplier in Romania. The evolution of gas supplies during 2007-2013 and 1H 2014, respectively, is indicated below:

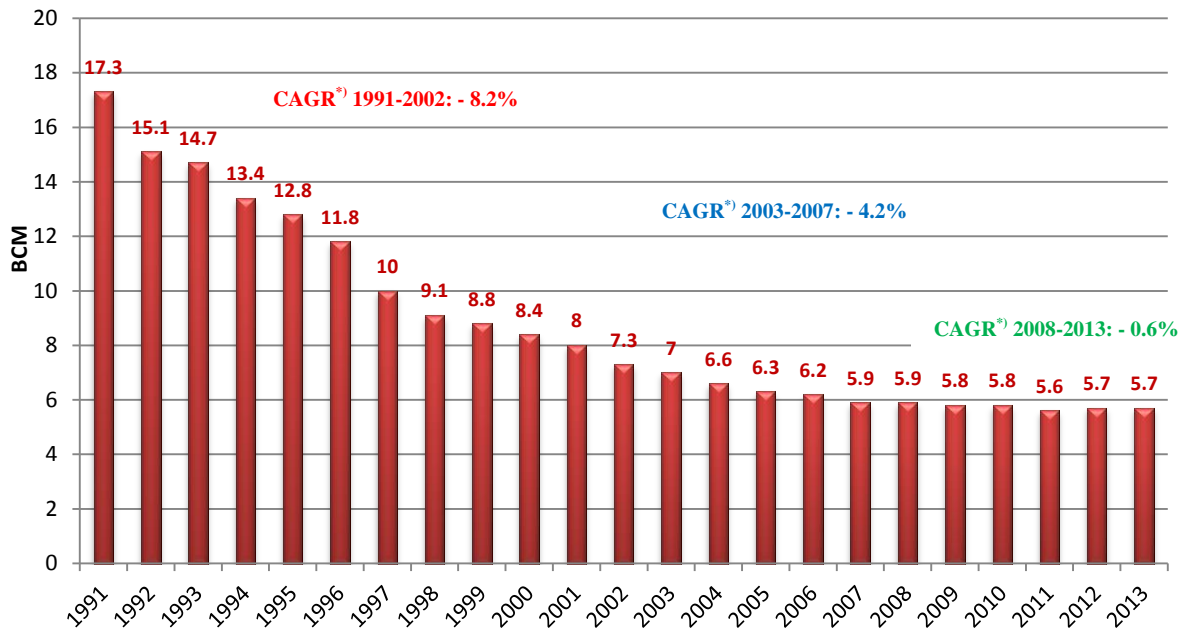


Although most reservoirs are mature because they have been producing for more than 30 years and the produced volumes have significantly decreased, during the past years the production decline rate has been stabilized at around 1% due to a mix of measures taken by the company, such as:

- ↳ gas compressor stations;

- ↳ rehabilitation/enhancement of production, 3D seismic data, static and dynamic reservoir modelling;
- ↳ bringing into production of new discoveries.

The natural gas production during 1991-2013 is shown below:



\*) CAGR = Compound Annual Growth Rate

### Financial results:

\* RON million \*

Crt. No.	Indicator	1H 2013	1H 2014	Ratio (2014/2013)
0	1	2	3	$4=3/2 \times 100$
<b>1</b>	<b>Income - total, out of which:</b>	<b>2,024.3</b>	<b>2,560.3</b>	<b>12</b>
2	*operating income	1,960.9	2,518.1	128.42
3	*financial income	63.4	42.2	66.51
4	Revenue	1,901.1	2,526.3	132.89
<b>5</b>	<b>Expenses - total, out of which:</b>	<b>1,298.7</b>	<b>1,470.7</b>	<b>113.25</b>
6	*operating expenses	1,278.4	1,460.3	114.23
7	*financial expenses	20.3	10.4	51.35
<b>8</b>	<b>Gross profit</b>	<b>725.6</b>	<b>1,089.5</b>	<b>150.15</b>
9	Profit tax	103.2	2018.6	211.73
<b>10</b>	<b>Net profit</b>	<b>622.4</b>	<b>871.0</b>	<b>139.94</b>
11	EBITDA	1,115.7	1,414.4	126.78
12	Earnings per share-EPS (RON)	1.61	2.26	139.94
13	Return on sale (Gross profit/Revenue)	38.17%	43.13%	112.99

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

For the 1H 2014, Romgaz scheduled investments worth RON 560 million and invested RON 532 million, approximately 63% more, i.e. RON 179 million more, than the investments made in the similar period of 2013. The company financed all investments from own sources.

The value of fixed assets commissioned during the 1H 2014 was approx. RON 122 million.

The table below shows the achieved investments in the 1H 2014, in relation to the scheduled ones, on main investment chapters:

\* RON thousand \*

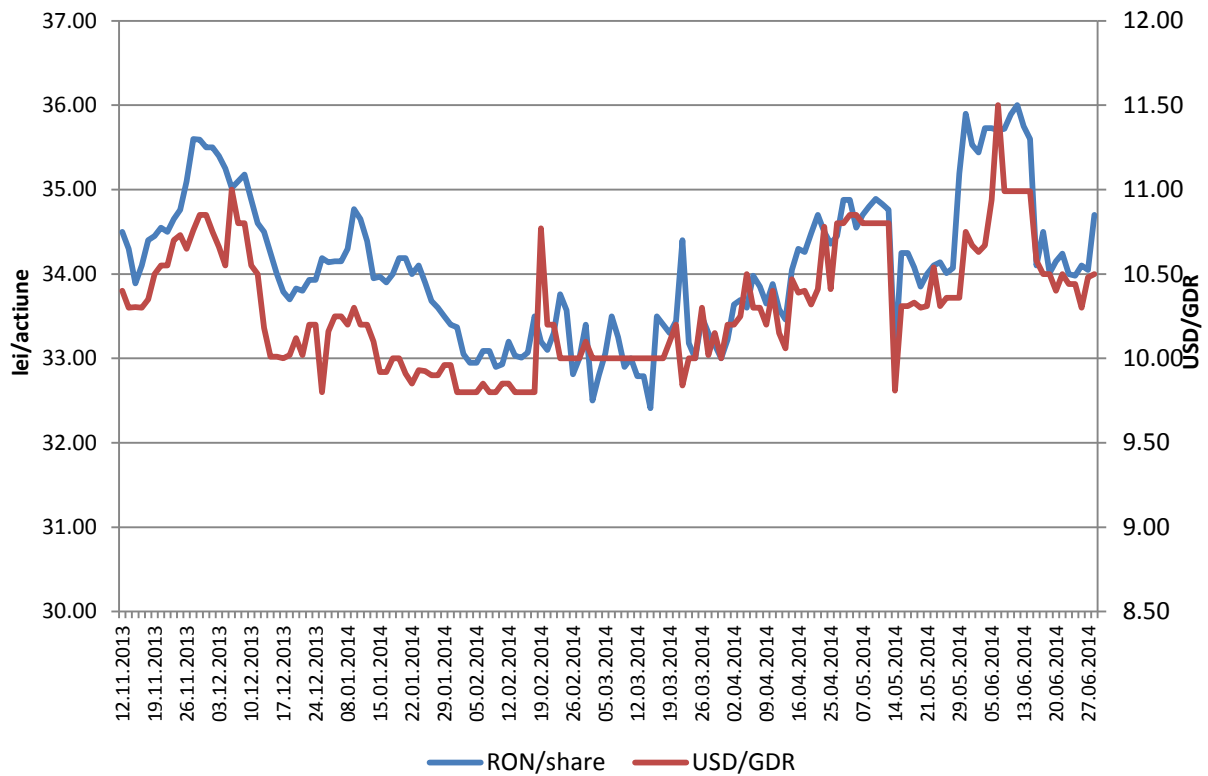
Investment chapter	Scheduled 1H 2014	Results 1H 2014	%
1	2	3	4=3/2x100
I. Geological exploration works for the discovery of new gas reserves	245.109	168.414	68,71
II. Exploitation drilling works, putting into production of wells, infrastructure and utilities	85.355	93.685	109,76
III. Maintaining the UGS capacity	69.958	130.559	186,62
IV. Environment protection works	6,792	1.442	21,23
V. Revamping and modernization of installation and pieces of equipment	97.693	117.100	119,87
VI. Independent equipment and installations	38.790	9.826	25,33
VII. Expenses in connection with studies and projects	16.546	11.264	68,08
<b>TOTAL</b>	<b>560.243</b>	<b>532.290</b>	<b>95,01</b>

\*) as of May 20, 2014, the capitalizable reparirs were also included in the investment plan

As of November 12, 2013 the company's shares are traded on the regulated market governed by Bucharest Stock Exchange - the symbol is "**SNG**" -, and its GDRs on the regulated market governed by London Stock Exchange - the symbol is "**SNGR**".

At the closing of the first trading day, Romgaz shares were quoted at RON 34.5, 15% higher than the price paid by the institutional investors, and the closing price for GDRs was USD10.4, 13.66% higher than the subscription price.

The evolution of Romgaz shares' quotations and of the GDRs since the listing and up to June 30, 2014 is shown below:



## 1.2. Highlights

### March 26, 2014

The Government issued Order no. 13/2014 for the amendment of Annex to the Ordinance of the Government no. 7/2013 on the establishment of tax on additional revenues as the result of deregulation of prices of natural gas.

### April 9, 2014

ANRE (National Energy Regulatory Authority) issued *Order no. 29/2014* approving the regulated income of the third year of the third regulatory period (April 2014- March 2015) and the regulated tariffs to be applied during April 2014- March 2015.

A comparison of the UGS approved tariffs and the existing UGS tariffs as of March 31, 2014, is shown below:

<i>Tariff component</i>	<i>M.U.</i>	<i>Tariffs (April 1, 2013- March 31, 2014)</i>	<i>Tariffs (April 1, 2014- March 31, 2015)</i>
<b>Volumetric component for the natural gas injection</b>	RON/MWh	2.37	2.53
<b>Fixed component for capacity reservation</b>	RON/MWh/full storing cycle	13.12	13.14
<b>Volumetric component for the natural gas withdrawal</b>	RON/MWh	1.80	1.80



***June 11, 2014***

Government Ordinance no. 35/2014 for supplementing Law no. 123/2012 for electricity and natural gas, according to which as of July 15, 2014 and until December 31, 2018, natural gas producers in Romania or affiliates, if any, are required to enter into transactions on centralized markets in Romania, transparent and non-discriminatory, for the sale of minimum quantities of gas from own production for domestic consumption in accordance with regulations issued by the National Regulatory Authority for Energy.

***June 13, 2014***

By Resolution no. 4/2014 of the Ordinary General Meeting of Shareholders, Mr. Dumitru Chisalita was appointed as Director for a mandate valid until May 14, 2017. Mr. Dumitru Chisalita was appointed for the vacancy following the resignation of Mr. Doros Dragos Eugen.

***June 26, 2014***

The Government issued Government Ordinance no. 511/2014 on determining the purchase price of natural gas from domestic production for the regulated market. Thus, the timetable of liberalization continues with the price of RON 89.4/MWh for the third Quarter 2014 and shall be updated until the fourth Quarter 2014 for non-domestic customers, except heat producers for the amount of natural gas used to heat production in CHP plants and heating plants for consumption.

***July 11, 2014***

ANRE issued the Ordinance no. 62/2014 on establishing the obligation of natural gas producers and suppliers to enter into transactions in Romania centralized markets.

***July 30, 2014***

By Resolution no. 6/2014 of the Ordinary General Meeting of Shareholders, Mr. Manea Sergiu Cristian was appointed as Director, for a mandate valid until May 17, 2017. Mr. Manea Sergiu Cristian was appointed for the vacancy following the resignation of Mr. Volintiru Adrian Constantin.

## II. Company OVERVIEW

### 2.1. Identification Data

*Name:* Societatea Nationala de Gaze Naturale "ROMGAZ" SA

*Main scope of activity:* natural gas production and UGS

*Address:* Medias, 4 Constantin I. Motas Square, 551130, Sibiu County, Romania

*Sole registration number:* 14056826

*Trade Registry registration number:* J32/392/2001

*Fiscal registration number:* RO14056826

*Legal form of establishment:* joint-stock company

*Subscribed and paid share capital:* RON 385,422,400

*Number of shares:* 385,422,400 each having a nominal value of RON 1

*Regulated market where the company's shares are traded:* Bucharest Stock Exchange (shares) and London Stock Exchange (GDRs)

*Phone:* 0040 269 201020

*Fax:* 0040 269 846901

*Web:* [www.romgaz.ro](http://www.romgaz.ro)

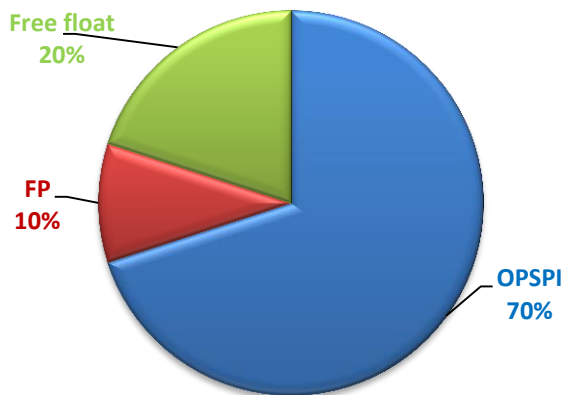
*E-mail:* [secretariat@romgaz.ro](mailto:secretariat@romgaz.ro)

*Bank accounts opened with:* Banca Comerciala Romana, Banca Romana de Dezvoltare-Groupe Societe Generale, MKB Nextebank, Banca Transilvania, RBS (The Royal Bank of Scotland).

#### Shareholder structure

	Number of shares	%
The Romanian State through the Ministry of Economy <sup>1</sup>	269,823,080	70.01
SC "Fondul Proprietatea" SA	38,542,960	10.00
Free float	77,056,360	19.99
<b>Total</b>	<b>385,422,400</b>	<b>100.00</b>

<sup>1</sup> Ministry of Economy through the Department of Energy



## 2.2. Company Organization

The structural organization of Romgaz is specified in the company's organization documents. Romgaz organization chart shows a pyramid structure, which is specific for organization structures of hierarchy-functional type.

The company's organization chart has six hierarchy levels:

- ↳ General Meeting of Shareholders
- ↳ Board of Directors
- ↳ Director General
- ↳ Deputy Directors General
- ↳ Heads of functional and operational compartments subordinated to the Director General and the Deputy Directors General
- ↳ Execution Personnel.

The key people in the structure and for the functionality of the company are the Director General, the Deputy Directors General, Economic Director, as well as the branches' directors. The heads of compartments (branches/departments/directions/offices etc.) representing the connection between the upper structure and the employees of the respective compartment are directly subordinated to the afore-mentioned.

Each compartment has its own well-defined attributions in the company's Organization and Operating Regulation.

For the execution personnel there is the job description containing tasks, competencies and responsibilities.

The company has 7 branches, as follows:

- ↳ Sucursala Medias (Medias Branch) having its office in Medias, 5 Garii Street, postal code 551025, Sibiu County, territorially organized in 8 sections;
- ↳ Sucursala Tirgu Mures (Tirgu Mures Branch) having its office in Tirgu Mures, 23 Salcamilor Street, postal code 540202, jud.Mures, territorially organized in 8 sections;
- ↳ Sucursala Ploiesti (Ploiesti Branch) having its office in Ploiesti, 184 G. Cantacuzino Street, 100492, Prahova County, territorially organized in 2 sections and 2 workshops;
- ↳ Sucursala de Interventii, Reparatii Capitale si Operatii Speciale la Sonde Medias (SIRCOSS – Branch for Well Workover, Recompletions and Special Well

Operations) having its office in Medias, 5 Soseaua Sibiului Street, 551009, Sibiu County, territorially organized in 3 sections and 5 workshops;

- ✎ Sucursala de Transport Tehnologic si Mentenanta Tirgu Mures (STTM – Technological Transport and Maintenance Branch) having its office in Tirgu Mures, 6 Barajului Street, 540101, Mures County, territorially organized in 3 sections and 3 workshops;
- ✎ Sucursala de Productie Energie Electrica Iernut (SPEE – Iernut Power Generation Branch) having its office in Iernut, 1 Energeticii Street, 545100, Mures County;
- ✎ Sucursala Bratislava (Bratislava Branch) having its office in Bratislava, City Business Centre V.-Karadžičova 16, cod 82108, Slovacia.

During the 1<sup>st</sup> half year 2014, there were a number of changes in the structural organization of Romgaz, as follows:

- The decision no. 135/May 09, 2014 of the Director General concerning the change of structural organization of STTM (The Technological Transport and Maintenance Branch) and the establishment of the Monitoring Fleet of vehicles Office and Commercial Office, respectively;
- The decision no. 67/March 3, 2014 of the Director General concerning the change of the structural organization of Medias Branch and the reorganization of gas production formations within Agnita Natural gas Production Unit, respectively;
- The decision no. 165/June 13, 2014 on reorganization of the work formations within AMC and PRAM section of the Iernut Power Generation Branch

## 2.3. The Company's Mission, Vision and Values

*Societatea Nationala de Gaze Naturale "ROMGAZ" SA is a company which accepts performance and which is determined to generate performance by undertaking all optimum efforts for meeting its objectives.*

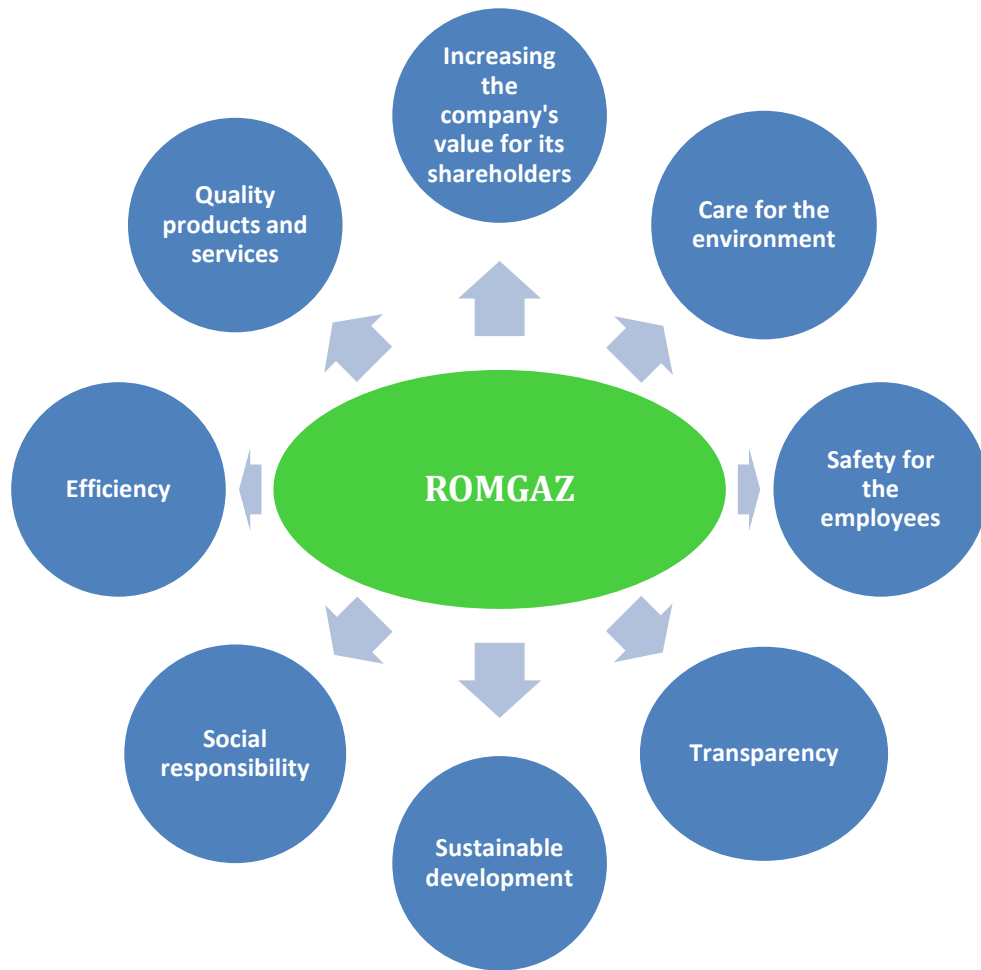
### **Mission**

Performance, competition and continuous growth of the company's value both for us and for the shareholders by means of a better valuation of the human potential and assets, of predictable and profitable business deals and of a better risk management.

### **Vision**

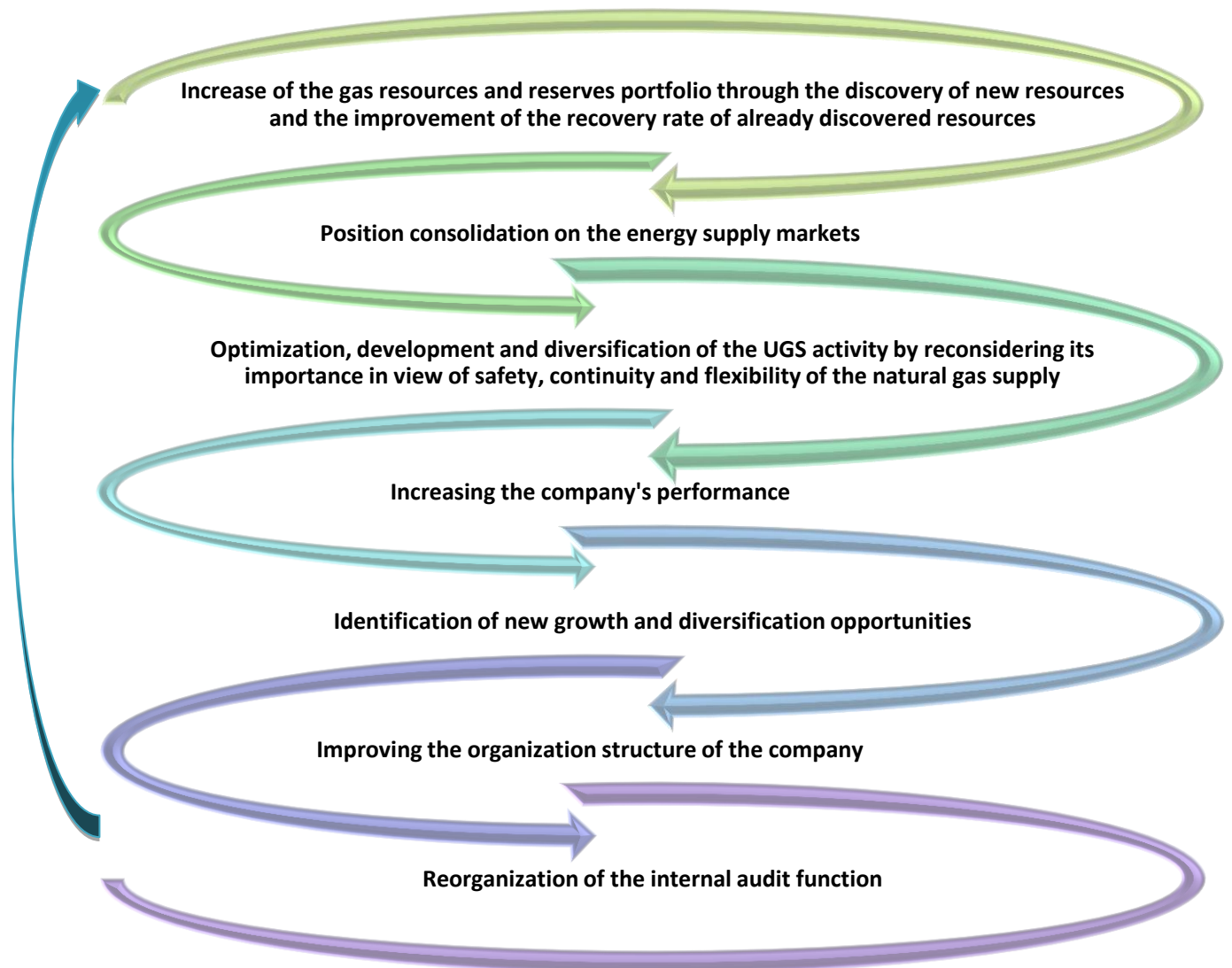
ROMGAZ has the potential and the ambition to consolidate and to develop its position as the most important natural gas company in Romania and to become a leading player on important Central and Eastern European markets by means of an efficient and competitive production able to face the increasing pressure exercised by regional and international companies.

## Our values



## 2.4. Strategic Objectives

In order to meet its main scope of activity through an efficient use of material, financial, informational and human resources, the company set the following **strategic objectives**:



## III. Review of the Company's Business

### 3.1. Business Segments

The company 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;
- ✎ power generation and supply;
- ✎ natural gas distribution.

#### **Exploration-Production**

Romgaz is titleholder or co-titleholder of the following petroleum agreements:

- ✎ petroleum operations for exploration-development-production in 9 blocks with 100% participation interest and in 4 blocks as co-titleholder, in accordance with concession contracts;
- ✎ 143 commercial fields;
- ✎ 5 reservoirs recording experimental production;
- ✎ exploration and production rights in Slovakia and Poland.

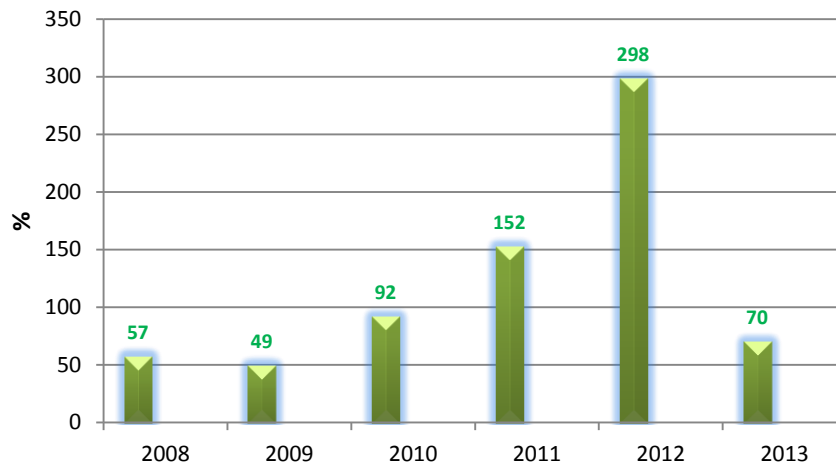
#### ***Exploration***

As of October 1997, exploration activity is carried out in 8 blocks in Transylvania, Moldova, Muntenia, and Oltenia in accordance with the Concession Contract approved by Gov. Decision no. 23/2000. During 2008-2012, 15 new structures were discovered with 7.4 BCM of geological resources.

Romgaz designs, plans and carries out all exploration works based on its own concepts by using modern specialized software, evaluations of the geological area's prospectivity with focus on the specific features of the blocks under concession, and specific surface exploration methods for the identification of the areas with hydrocarbon accumulations (prospects), followed by exploration drilling to verify the existence of accumulations.

The results led to a reserves replacement ratio of maximum 298% in 2012.

The table below shows the evolution of the reserves replacement ratio during 2008-2013:



### Production



The valuation of Romgaz potential was possible through:

- ↳ redevelopment of natural gas fields through new reservoir modelling and simulation technology assisting in the identification of gas saturated areas, and through well completion and stimulation;
- ↳ resizing and upgrading surface installations to align such to the exploitation conditions and to the regulations on operation safety, natural gas quality and environmental protection;
- ↳ introduction of a process monitoring system;
- ↳ extending and generalizing the production rehabilitation program to the main reservoirs;
- ↳ valuation of experience gained from the partnerships concluded for rehabilitating the production;
- ↳ increase of efficiency in managing operation and development expenses.

The restructuring and modernization made during the past 5 years consolidated the exploration and production activity thanks to:

- ↳ continuous investments in modernizing the wells;
- ↳ acquisition of 3D seismic for outlining exploration and development targets in blocks Caragele-Faurei, Nades-Prod-Seleus, Deleni, Bazna, Filitelnic, Laslau (total seismic profiles in Romgaz blocks – 1,091.35 km<sup>2</sup> of 2D seismic and 1,498.331 km<sup>2</sup> of 3D seismic);
- ↳ increase of gas quality by commissioning 71 gas drying stations. This resulted in an increase of gas drying percentage from 70% in 2008 to 99% in 2012;
- ↳ upgrading the infrastructure of compressing stations Filitelnic, Cristur, Delenii, Balda, Sinmartin, Grebenis and development of compressing capacity by commissioning 17 booster compressors and 7 group compressors;
- ↳ partnerships concluded with Schlumberger, Amromco and Aurelian Oil&Gas.



Thus, the reservoir decline was largely mitigated; the average annual decline is around 1-2% as compared to the natural decline of approx. 7-10%.

### Underground Gas Storage (UGS)



Currently, in Romania there are 8 UGSs constructed in depleted gas reservoirs out of which 7 are in operation. Romgaz operates 6 UGSs having a total capacity of 3.925 BCM and a working gas volume of 2.760 BCM.

On national level, the ratio between the working gas volume and the annual consumption was at 21.7% in 2009 and of about 16% in 2012. This level is median in relation to international values (Great Britain 7%, Spain 12%, Holland, Poland 13%, Italy 22%, Germany 25%, France 29%, Austria 74%, Hungary 76%).

The UGS activity is a regulated business segment and can only be performed by operators licensed by ANRE (National Authority for Energy Regulation). The access to UGS is regulated. The tariffs in connection with the UGS activity are regulated and approved by ANRE.

### Natural Gas Supply



After a thorough restructuring, the natural gas sector is currently split into independent activities. The Romanian natural gas market includes a NTS operator (Transgaz), producers (Romgaz and Petrom have a 97% market share), UGS operators, companies for the distribution and supply of gas to captive consumers, and suppliers on the en-gross market.

The natural gas market in Romania consists of the *competition segment*, which includes gas trading activities between suppliers and between suppliers and eligible consumers, and the *regulated segment*, which includes monopoly-like activities performed in accordance with framework contracts (transmission, UGS, distribution) and supply at a regulated price.

As of July 1, 2007 the gas market is fully open for all consumers. They may freely choose a gas supplier from the ones licensed by ANRE and directly negotiate the gas supply clauses and price. The consumer may directly exercise its quality of eligible consumer without an obligation to carry out any kind of administrative procedure.

Law no. 123/2012 sets the legal framework to converge the domestic gas price to the import gas price. Government Decision no. 22/2013 provides for a calendar of domestic gas price increase with respect to the regulated market.

Until the convergence of prices is reached and for the insurance of equal access of all consumers to cheap natural gas sources from the domestic production, the supply of gas to the consumers is carried out according to ANRE Order no. 15/2013 as an import/domestic gas mixture monthly established according to the different consumer categories (households and thermal power generation for the population and non-households).

The volumes below include gas from internal production, domestic gas procured from third parties, gas 100% by the partnership with Schlumberger and import gas. For comparison purposes with the previous years, the 2013 annual deliveries include also the gas volumes supplies to CTE Iernut.

In terms of supply, Romgaz held during 2006-2013 a national market share ranging between 39% and 46%:

	M.U.	2006	2007	2008	2009	2010	2011	2012	2013
<b>National consumption</b>	BCM	17.3	16.4	15.5	13.3	14.0	14.4	13.8	12.8
<b>Romgaz traded volumes (internal+ import)</b>	BCM	7.1	6.4	6.0	6.1	6.4	6.3	5.9	5.7
<b>Romgaz market share</b>	%	41.04	39.02	38.71	45.86	45.81	43.87	42.82	44.5

### Special Well Operations and Services

SIRCOSS was established in 2003 in accordance with the GSM Resolution No.5/June 13, 2003.

The branch performs two types of activities:

- ↳ well interventions, overhaul and production tests;
- ↳ special well operations.

All *well interventions, overhaul and production tests operations* are performed by means of rig installations.

The second activity consists of *special well operations* and of services supplied by means of different transportable pieces of equipment for well or surface operations.

During the past years most of services were supplied for the wells within the company's portfolio, yet, well interventions and special well operations were also supplied to other companies in Romania.

### Transportation and Maintenance

STTM was established in October 2003, by taking over the means of transportation from Medias, Târgu-Mures si Ploiesti production branches.

The branch's scope of activity is the transportation of goods and people, the specific technological transportation particularly, and the maintenance activity for the benefit of the company and third parties.

### Power Generation and Supply

CTE Iernut is an important junction point in the National Power Grid located in the center of the country, in Mures County on the left bank of Mures River between towns Iernut and Cuci. Gas supply, industrial water and power discharge facilities are forthcoming.

CTE Iernut is Romgaz Power Generation Branch (SPEE).

It has an installed capacity of 800 MW split into 6 energy groups: four 100 MW energy units of Czechoslovakian origin and two 200 MW energy Soviet origin. The groups have been commissioned between 1963 and 1967. The global efficiency of the power plant is 39.5%.

#### Natural Gas Distribution

The natural gas distribution activity is regulated and the company's activity is currently limited to Ghercesti and Piscu Stejari areas. Romgaz has concession agreements with the Ministry of Economy for Ghercesti area and with Piscu Stejari Town Hall for Piscu Stejari distribution. The activity is carried out by Tirgu-Mures Branch.

## 3.2. Company Business Performance

### 3.2.1. Company Overall Performance

Company revenues are generated mainly from gas production and delivery (internal gas production and delivery, gas produced by joint ventures, import gas deliveries and deliveries from other domestic gas producers), from supply of underground gas storage services, from production and supply of electric energy (starting from February 1, 2013) and from other specific services.

Revenues

*\*thousand RON\**

No.	Indicator	1 H 2013	1 H 2014	Ratios (2014/2013)
0	1	2	3	$4=3/2 \times 100$
<b>1</b>	<b>Total income, out of which:</b>	<b>2,024,308</b>	<b>2,560,279</b>	<b>126.48</b>
2	*operating income	1,960,925	2,518,122	128.42
3	*financial income	63,384	42,157	66.51
4	Revenue	1,901,139	2,526,342	132.89
<b>5</b>	<b>Expenses - total, out of which:</b>	<b>1,298,693</b>	<b>1,470,747</b>	<b>113.25</b>
6	*operating expenses	1,278,427	1,460,341	114.23
7	*financial expenses	20,266	10,406	51.35
<b>8</b>	<b>Gross Profit</b>	<b>725,616</b>	<b>1,089,532</b>	<b>150.15</b>
9	Income Tax	103,231	218,574	211.73
<b>10</b>	<b>Net Profit</b>	<b>622,385</b>	<b>870,958</b>	<b>139.94</b>

Total income for 1 H 2014 has been higher than the income during the same period of 2013 by 26.48%, variation which is explained in this chapter.

Financial ratios structure by business segments for reporting period as compared to the same period of the previous year, are presented in the following table:

\*thousand RON\*

Description	1H 2013	Production and gas delivery	Underground Gas Storage	Other Business	Settlement between Segments
1	2	3	4	5	6
<b>Revenue</b>	<b>1,901,139</b>	<b>1,723,905</b>	<b>149,340</b>	<b>193,551</b>	<b>- 165,657</b>
Cost of sold commodities	- 302,048	- 302,048			
Investment income	59,003	4,220	685	54,098	
Other gains or losses	32,418	4,357	234	27,827	
Changes in inventory of finished goods and work in progress	33,055	42,904			- 9,849
Raw materials and used consumables	- 56,976	- 30,974	- 5,048	- 21,555	601
Depreciation and amortization	- 449,043	- 326,199	- 45,043	- 77,801	
Employee benefit expense	- 244,607	- 140,677	- 21,793	- 82,137	
Finance cost	- 15,230	- 15,230			
Exploration expense	- 17,453	- 17,453			
Other expense	- 240,927	- 299,304	- 47,581	- 68,947	174,905
Other income	26,285	24,144	417	1,724	
<b>Profit before tax</b>	<b>725,616</b>	<b>667,645</b>	<b>31,211</b>	<b>26,760</b>	
Income tax expense	- 103,231			- 103,231	
<b>Profit for the year</b>	<b>622,385</b>	<b>667,645</b>	<b>31,211</b>	<b>- 76,471</b>	

\*thousand RON\*

Description	1 H 2014	Production and gas delivery	Underground gas storage	Other business	Settlement between segments
1	2	3	4	5	6
<b>Revenue</b>	<b>2,526,344</b>	<b>2,246,233</b>	<b>217,373</b>	<b>322,684</b>	<b>- 259,946</b>
Cost of commodities sold	- 132,596	- 100,011	- 22	- 32,563	
Investment income	41,458	2,027	1,728	37,703	
Other gains or losses	- 183,194	- 181,430		- 1,764	
Changes in inventory of finished goods and work in progress	- 98,991	- 75,661	- 24,328	998	
Raw materials and used consumables	- 30,024	- 5,688	- 4,557	- 21,261	1,482
Depreciation and amortization	- 366,340	- 286,111	- 43,152	- 37,077	
Employee benefit expense	- 212,504	- 102,570	- 19,601	- 90,333	
Finance cost	- 7,964	- 7,956		- 8	
Exploration expense	- 21,140	- 21,140			
Other expense	- 516,279	- 574,610	- 56,631	- 189,595	304,557
Other income	90,761	8,314	196	128,344	- 46,093
<b>Profit before tax</b>	<b>1,089,531</b>	<b>901,397</b>	<b>71,006</b>	<b>117,128</b>	
Income tax expense	- 218,573			- 218,573	
<b>Profit for the year</b>	<b>870,958</b>	<b>901,397</b>	<b>71,006</b>	<b>- 101,445</b>	

Revenue

The structure of the operating income comprises revenues that represent income invoiced to clients.

Actual revenue of 1 H 2014 by business activities as compared to actual revenue of 1 H 2013 is shown in the table below:

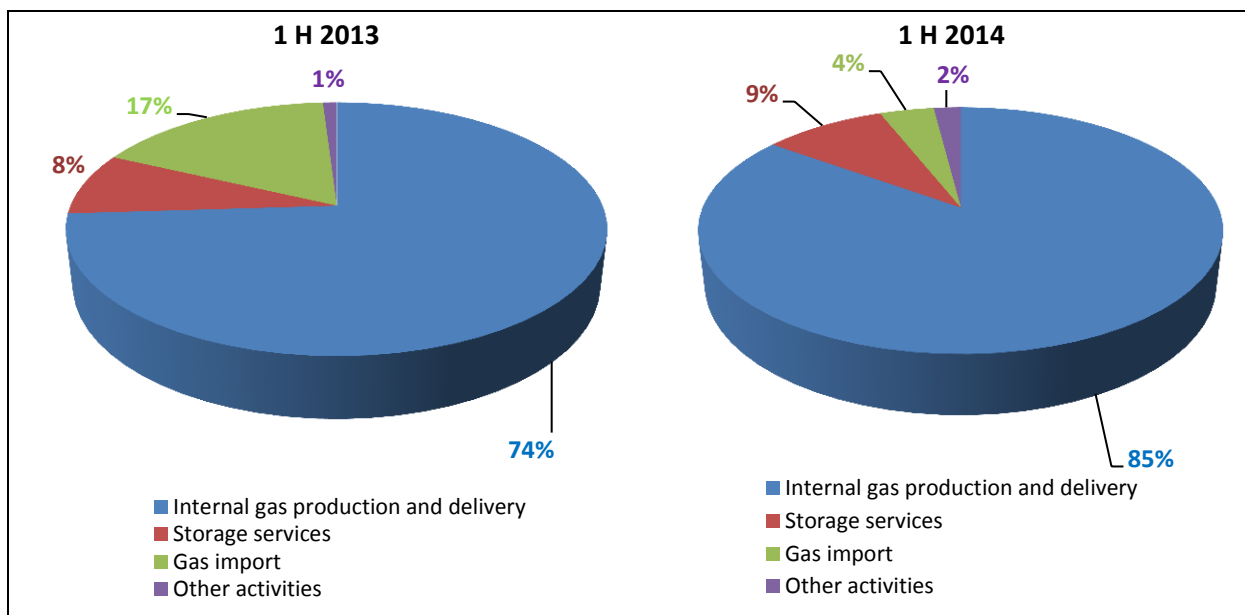
*\*thousand RON\**

Description	1 H 2013	1 H 2014	Ratios (2014/2013)
1	2	3	4=3/2x100
Revenue – total, out of which:	<b>1,901,139</b>	<b>2,526,344</b>	<b>132.89</b>
↪ gas production and delivery, out of which:	1,723,905	2,246,233	130.30
- sale of internal gas production	1,329,360	1,946,839	146.45
- sale of internal gas produced by joint ventures	48,099	68,670	142.77
- sale of import gas	320,573	99,881	31.16
- distribution	118	135	113.99
- other revenues from production	25,754	130,708	507.52
↪ underground gas storage business	149,340	217,373	145.56
↪ other businesses*), out of which:	27,894	62,738	224.92
- electric energy production	28,549	164,065	574.67

\*) – it includes settlements between segments

Revenue was greater than the previous year actual revenue by aprox. 33%.

Structure by business of actual revenue during the two comparing periods is shown in the figures below:



### Revenue from Internal Production

Revenue from internal gas production and trade was analysed in detail considering influential factors and using chain substitution method. The results are shown in the table below:

Revenue from trade of internal gas production (excluding joint ventures)	1H 2013 ( $q_0 \cdot p_0$ )	1H 2014 ( $q_1 \cdot p_1$ )	Ratios (2014/2013)
1	2	3	4=3/2x100
Volume (million cm)	2,615.3	2,918.4	111.59
Price (RON/1000 cm)	508,3	667.1	131.24
Value (thousand RON)	1,329,360	1,946,839	146.45
Difference (2014 - 2013)	<b>617,479</b>		
Quantity influence ( $q_1 \cdot p_0 - q_0 \cdot p_0$ )	154,072		
Price influence ( $q_1 \cdot p_1 - q_1 \cdot p_0$ )	463,407		

Actual revenue for 1 H 2014 from trade of internal gas production compared to 1 H 2013 was higher by RON 617,479 thousand.

Influential factors were as follows:

- quantity of sold gas production was higher by 11.59%, which resulted in higher revenues from gas deliveries to clients compared to the previous year revenue by RON 154,072 thousand. Gas delivery quantities in 1 H 2014 do not include internal gas delivery for electric energy production;
- gas sale average price was greater by 31.24% than the previous year sale price which resulted in an increase of revenue by RON 463.407 thousand. The price is higher than the previous year price due to the implementation of the gas price deregulation calendar.

### Revenue from Joint Ventures Internal Gas Production

Actual revenue from joint ventures obtained in 1 H 2014 as compared to the previous year revenue is shown in the table below:

	1H 2013			1H 2014			Difference	
	Quantity	Price	Value	Quantity	Price	Value	mill.cm	thous. RON
	mill.cm	RON/th. cm	thous. RON	mill.cm	RON/th. cm	thous. RON		
1	2	3	4	5	6	7	8=5-2	9=7-4
<b>TOTAL</b>	92.02	522.73	48,099	98.81	764.64	68,670	-2.2	20,571

Actual revenues from joint ventures obtained in 1 H 2014 have been greater than the previous 1st half revenue although the delivered quantities have decreased by 2.2 %, due to an average higher price by approx. 47.3%, as a result of application gas price deregulation calendar.

### Revenue from Sale of Import Gas

Revenue from sale of import gas	1H 2013 ( $q_0 * p_0$ )	1H 2014 2013 ( $q_1 * p_1$ )	Ratios (2013/2012)
1	2	3	4=3/2x100
Quantity (million cm)	214.7	69.9	32.53
Price (RON/1000 cm)	1,493.1	1,429.9	95.77
Value (thousand RON)	320,573	99,881	31.16
Difference (2014 - 2013)	- 220,692		
Quantity influence ( $q_1 * p_0 - q_0 * p_0$ )	- 216,278		
Price influence ( $q_1 * p_1 - q_1 * p_0$ )	- 4,415		

Revenue from sale of import gas was less than the previous period with RON 220,692 thousand. This decrease is due to volume and price variation, as follows:

- ↳ sale of import gas volume was less than the previous year revenue by 67.47% which resulted in less import revenues by RON 216.278 thousand. The decrease of delivered gas volume is due to the decrease of gas demand on the market as well as to ANRE Order No. 24/2013 for approval of Allocation Methodology for internal gas production that is required to cover the regulated market demand;
- ↳ average sale price (RON/thousand cm) of the import gas by 4.23 %, which resulted in less import gas revenues by RON 4,415 thousand.

### Revenue from Gas Storage

Revenues invoiced for gas storage have the following structure:

Revenues from gas storage	1 H 2013	1 H 2014	Ratios (2014/2013)
1	2	3	4=3/2x100
Capacity reservation services	88,999	167,184	187.85
Gas injection services	22,482	27,752	123.44
Gas delivery services	37,831	22,304	58.96
Other revenues from storage	27	133	490.07
<b>TOTAL</b>	<b>149,340</b>	<b>217,373</b>	<b>145.56</b>

\*thousand RON\*

Applied gas storage tariffs:

- ↳ For the period January 1<sup>st</sup> - March 31<sup>st</sup>, 2013 the tariffs were approved by ANRE Order No.63/2009, extended according to Order No. 18/May 11, 2012 until September 30, 2012, according to Order No. 36/2012 until December 31, 2012 and according to Order No. 49/2012 until the end of the 2012/2013 storage cycle; and
- ↳ For the period April 1<sup>st</sup> - December 31<sup>st</sup>, 2014 the tariffs were approved by ANRE Order No.29 of April 9, 2014.



Storage tariffs for the two comparing periods are shown in the table below:

Tariff Components	M.U.	Tariffs (Jan. 1 - March 31, 2013)	Tariffs (April 1, 2013-March 31, 2014)	Tariffs (April 1 - June 30, 2014)
<b>Volumetric component for the natural gas injection</b>	RON/MWh	2.76	2.37	2.53
<b>Fixed component for storage capacity reservation</b>	RON/MWh/ full storage cycle	5.65	13.12	13.14
<b>Volumetric component for the natural gas withdrawal</b>	RON/MWh	2.76	1.80	1.80

Revenue from storage business is greater than the previous year revenue by 45.56% due to the increase of storage tariff.

### **Revenue from Gas Distribution**

Revenue from distribution is shown in the table below:

Description	1H 2013			1H 2014			Ratios 2014/ 2013
	Thous. MWH	RON/ MWh	Thous. RON	Thous. MWH	RON/ MWh	Thous. RON	
1	2	3	4	5	6	7	8=7/4x100
<b>Total revenue, out of which:</b>			<b>118.02</b>			<b>134.53</b>	<b>113.99</b>
Distribution revenue	1.22	21.47	26.27	1.27	22.52	28.63	108.96
Supply revenue	1.22	16.54	20.24	1.27	20.65	26.25	129.69
Access revenue			24.37			12.71	52.16
Internal gas value	1.00	47.10	47.14	1.13	59.46	66.94	142.01

### **Revenue from Supply of Services Related to Gas Production and Gas Delivery**

Actual revenues come from other services specific to gas extraction and delivery come from compression services provided to third parties, condensate deliveries, sale of gas purchased from other producers (Foraj Sonde Craiova) and rental of specific fixed assets.

### **Revenues from Other Activities**

Revenues from other activities were generated by supply of various services to third parties, electric energy production and settlement between business segments.

Results of electric energy production activity in 1 H 2014 were as follows:

Description	Value (thousand RON)
Total revenues, out of which:	214,790
*Revenue	164,065
Total expenses	207,674
Gross result	7,116

### Financial Revenues

Actual financial revenues are less than the previous reporting period by 33.5%. Financial revenues consist mainly of interest related to bank deposits and state bonds.

### Expenses

Description	1 H 2013	1 H 2014	Ratios (2014/2013)
1	2	3	$4=3/2 \times 100$
Operating expense	1,278,427	1,460,341	114.23
Financial costs	20,266	10,406	51.35
<b>Total expenses</b>	<b>1,298,693</b>	<b>1,470,747</b>	<b>113.25</b>

Costs incurred in 1 H 2014 have been greater than the costs during the same period of previous year by 13.25%.

The main elements generating the expense increase are:

- ↳ Increase of additional tax on profit (windfall tax) obtained from deregulation of gas prices in natural gas sector;
- ↳ Increase of costs with royalties for gas due to price increase;
- ↳ Registration of tax on special constructions.

### Financial Costs

Financial costs for 1 H 2014 are less than the financial costs of the same period of 2013 due to unfavourable lower exchange rates.

## Financial Results

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

Description	1 H 2013	1 H 2014	Ratios (2014/2013)
1	2	3	4=3/2x100
Operating results	682,498	1,057,781	154.99
Financial results	43,118	31,750	73.64
<b>Gross result</b>	<b>725,616</b>	<b>1,089,532</b>	<b>150.15</b>
Income tax	103,231	218,573	211.73
<b>Net result</b>	<b>622,385</b>	<b>870,958</b>	<b>139.94</b>

Gross result for the period January – June 2014 of **RON 1,089,532 thousand** is higher than the actual gross result of the same period of 2013 by 50.15%.

Income tax calculated for 1 H 2014 is 111.73% higher than in 1 H 2013. The increase of expenses related to income tax is due mainly to the increase of gross profit.

Gross result structure by businesses is as follows: (thousand RON):

Description	1 H 2013	1 H 2014	Ratios (2014/2013)
1	2	3	4=3/2x100
Gas production and delivery activity	667,645	901,397	135.01
Gas storage activity result	31,211	71,006	227.50
Electric energy production activity result	- 1,186	7,116	
Other activity result	27,946	110,012	393.66
<b>Gross result</b>	<b>725,616</b>	<b>1,089,531</b>	<b>150.15</b>
Income tax	- 103,231	- 218,573	211.73
<b>Net result</b>	<b>622,385</b>	<b>870,958</b>	<b>139,94</b>

During January-June 2014 the gross profit increased by 50.15% as compared to the same period of 2013, and net profit increased by 39.945 as compared to the same period of 2013.

Financial performance of the company is also emphasized by the evolution of indicators presented in the table below:

Indicators	Calculation formula	M.U.	1H 2013	1H 2014
1	2	3	4	5
<b>Working Capital (WC)</b>	$C_{lt}-A_f = E+L_{nc}+Pr+S_i-A_f$	Million RON	3,233	3,211
<b>Working Capital Requirements (WCR)</b>	$(A_c-L+P_p) - (L_{crt}-Cr_{ts}+I_{df})$	Million RON	1,205	231
<b>Net Cash Flow</b>	$WC-WCR=L-Cr_{ts}$	Million RON	2,029	2,980
<b>Economic Rate of Return</b>	$P_g/C_{lt} \times 100$	%	7.74	11.36
<b>Return on Equity</b>	$P_n/E \times 100$	%	6.99	9.49
<b>Return on Sales</b>	$P_g/R \times 100$	%	38.17	43.13
<b>Return on Assets</b>	$P_n/A \times 100$	%	6.35	7.84
<b>EBIT</b>	$P_g+EX_i-I_i$	Million RON	667	1,048
<b>EBITDA</b>	$EBIT+Am$	Million RON	1,116	1,414
<b>ROCE</b>	$EBIT/C_{emp} \times 100$	%	7.11	10.93
<b>Current Liquidity</b>	$A_{crt}/L_{crt}$	-	8.50	3.11
<b>Asset Solvency</b>	$E/L \times 100$	%	90.86	82.56

where:

$C_{lt}$	long-term capital;
$A_f$	fixed assets;
$E$	equity;
$L_{nc}$	non-current liabilities;
$Pr$	provisions;
$S_i$	investment subsidies;
$A_c$ ( $A_{crt}$ )	short-term assets;
$L$	liquidity assets;
$P_p$	Prepayments;
$L_{crt}$	current liabilities;
$Cr_{st}$	short-term credit;
$I_{df}$	deferred income;
$P_g$	gross profit;
$P_n$	net profit;
$R$	revenue;
$A$	total assets;
$EX_i$	interest expense;
$I_i$	interest income;
$Am$	amortization and depreciation;
$C_{emp}$	capital employed (total assets – current liabilities);
$A_{crt}$	current assets;
$L$	total liabilities.

### 3.2.2. Trading

#### Gas Production

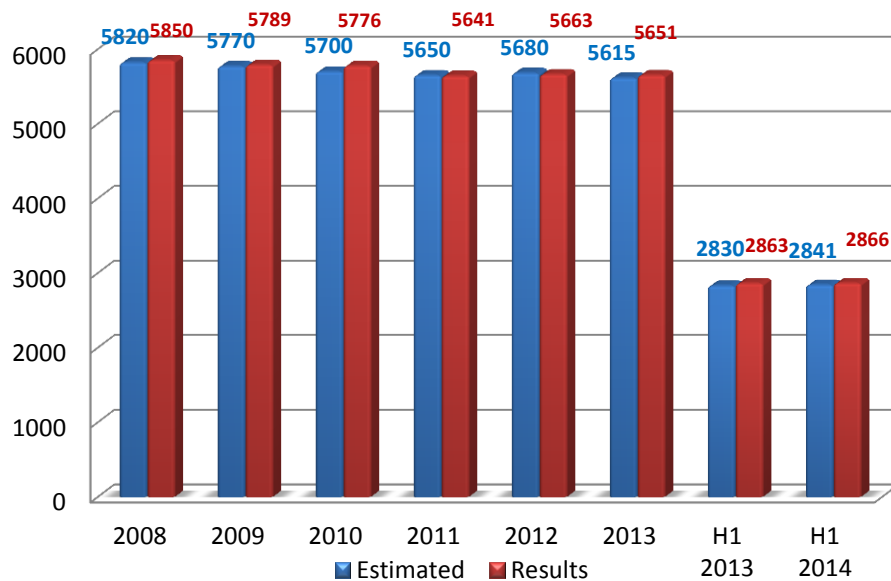
##### *Production History*

Romgaz production branches, Medias and Tirgu-Mures, operate 148 commercial fields located in Transylvania Basin, Moldavia, Muntenia and Oltenia. About 80% of the total production of Romgaz is delivered by approximately 30 mature fields which are in advanced stage of depletion and have been in operation for more than 30 years.

A review of gas production between 2008– 2013 is shown below:

Description		2008	2009	2010	2011	2012	2013
1		2	3	4	5	6	7
<b>Estimated (million cm)</b>		5,820	5,770	5,700	5,650	5,680	5,615
<b>Actual (million cm)</b>		5,850	5,789	5,776	5,641	5,663	5,651
<b>Differences (Actual-Estimated)</b>	mill. cm	+30	+19	+76	-9	-17	+36
<b>Actual</b>	[%]	100.5	100.3	101.3	99.8	99.7	100.7

The graph below presents the evolution of the gas volumes produced during January 1, 2008 – June 30, 2014, program versus results:



The analysis of production data shows that from 2008 the actual gas volumes have been above the estimates, reached a maximum in 2010 and then decreased in 2011. We could say that during this period the reservoirs' natural decline was largely stopped (during the last years the average decline was 1-2% per year).

Restructuring and modernization performed during the past five years have strengthened the production business and the company, implicitly, by means of:

- ↳ Sustained investment effort for surface infrastructure modernization;
- ↳ Modernization of compressor station infrastructure (upgrade or new stations), decrease of flow line gas pressure by installing booster compressors (currently 17

booster compressors are installed in the field and 7 mobile cluster compressors are in operation).

During this period Delenii, Cristur, Filitelnic, Balda, Sanmartin, Grebenis compressor stations have been modernized and new, high performance units have been installed;

- ↳ Flow computers have been installed in all fiscal delivery points, providing possibility of remote control of main parameters (pressure, temperature, flow rate);
- ↳ Gas quality improvement by modernization of existing dehydration stations and installation of new stations, using modern technology and higher efficiency in operation (currently there are 71 sylicagel, glycol and deliquescent salts dehydration stations in operation). Romgaz provides dehydration for 99% of delivered gas.

The table below shows the comparative status of gas volumes produced during 1 H of 2012, 2013 and respectively 2014:

Description		1 H 2012	1 H 2013	1 H 2014
1		2	3	4
Estimated (mill.cm)		2,878	2,830	2,841
Actual (mill.cm)		2,894	2,863	2,866
Differences (Actual- Estimated)	mill.cm	16	33	25
Actual	[%]	100.56	101.17	100.88

### Gas Supply

Gas volumes for national consumption are supplied in proportion of 70-80% from domestic production and the rest from import. Romania does not have yet physical export capability due to technical impediments as well as due to non-liberalized prices of domestic gas production.

### Trade of Internal Gas Production

The following table shows the annual summary of revenues from trade of Romgaz internal gas production, excluding gas delivered to CTE Iernut and including Romgaz interest share in the joint venture with Schlumberger (50%).

Description	Quantity (thous. MWh)	Price (RON /MWh)	Quantity (mill.cm)	Price (RON /1000 cm)	Value (thousand RON)
1	2	3	4	5	6
1 H 2013	27,773	48.72	2,648	511.12	1,353,237
1 H 2014	31,136	63.54	2,965	667,24	1,978,318
Differences					
*absolute	3,363	14.82	317	156.12	625,081
*relative	8.90%	30.42%	11.97%	30.54%	46.19%

**Note:** internal gas from current production plus gas withdrawn from its own storages, excluding domestic gas acquired from third parties.

### *Trade of Import Gas*

The traded import gas quantities, their corresponding sale prices and the resulting revenues are compared in the table below:

Description	M.U.	1 H 2013	1 H 2014	Differences	
				absolute	relative
1	2	3	4	5=4-3	6=5/3x100
<b>Quantity</b>	thous. MWh	2,286.8	757.7	-1,529.1	-66.87
<b>Price</b>	RON/MWh	140.18	131.82	-8.36	-59.64
<b>Value</b>	thous. RON	320,573	99,881	-220,692	-68.84

### *Electric Power*

Electric power trading has a specific characteristic, the seasonality, namely periods of higher demand and periods of lower demand; therefore the following classification of daily delivery profiles can be made:

- a) base load delivery (constant average hourly capacity over the delivery period, between 00:00 – 24:00 hours);
- b) peak load delivery (between 06:00-22:00 hours);
- c) off-peak load delivery (between 22:00-06:00 hours).

Romgaz produces and supplies electric power starting from 2013.

Electric power delivered quantity, average sale price and resulting revenues are the following:

1. electric power quantity delivered to the National Energy Grid: 618,200 MWh;
2. sold electric power: 977,400MWh, out of which:
  - on different markets: 857,950 MWh;
  - self-supplied: 119,457MWh;
3. supply of system technology services (secondary regulation band, fast reserve of tertiary regulation): 94,608 MWh.

During 1 H 2014, in spite of the fact the delivered electric energy was approx. 40% lower than the budgeted volume, the sold volume was only 15% lower than the budget (1,067,704 MWh).

This achievement was possible because of the specificity of the Balancing Market, a mandatory market for all power producers. On this market, the balancing market operator sells and purchases to/from all market participants in order to ensure the balance between power production and consumption which is vital for the stability of the National Power Grid.

During heavy rain periods with high renewable energy production which must be taken over by the National Energy Grid, the market operator may order shut-downs, discharges of the thermal units; although such are scheduled for operation as energy supply contracts need to be complied with.

Value of the electric energy sold on the energy markets is RON 159,843 thousand and the value for the technological system services is RON 4,059.6 thousand.

Prices of the company are:

- Average sale price on the Day Ahead Market (DAM): RON 185/MWh;
- Average market price (OPCOM) on the Day Ahead Market: RON 144/MWh;
- Average sale price on the Balancing Market (BM): RON 279/MWh;
- Average sale price on the Balancing Market: RON 261/MWH (January – May 2014).

Average electric power sale price:

- subject to the discharged electric power: RON 258.57/MWh;
- subject to the sold electric power: RON 186.3/MWh.

SPEE Iernut gas consumption was 188,168 thousand cm.

#### *Underground Gas Storage (UGS)*

Romgaz operates 6 of the 8 existing underground gas storages in Romania. The annual storage capacity of the 6 storages is **3.925 billion cm**, the annual working capacity is **2.760 billion cm** and the maximum daily delivery flow rate is about **30 million cm**.

The table below presents the status of the injected and respectively extracted gas volumes from the storages during 1 H, 2014, and respectively during 1 H 2013:

	M.U.	1 H 2013	1 H 2014	Differences (2014/2013)	Ratios (2014/2013)
1	2	3	4	5=4-3	6=4/3x100
<b>Injected Volume</b>	mill.cm	865.7	609.6	-256,1	-29.58
<b>Extracted Volume</b>	mill.cm	1,291.1	1,169.4	-121.7	-9.43

### 3.2.3. Human Resources

On June 30, 2014 the company had 6,391 employees.

The evolution of the number of company employees during January 1, 2011-June 30, 2014 is shown in the table below:

Description	2011	2012	2013	1 H 2014
1	2	3	4	5
<b>Employees at the beginning of year</b>	5,975	5,945	5,921	6,472
<b>New hired employees</b>	80	129	681	33
<b>Employees who terminated their labour relationship with the company</b>	110	153	130	114
<b>Employees at the end of the year</b>	5,945	5,921	6,472	6,391

Employees' structure on June 30, 2014 was as follows:

#### *a) by level of education*

- University 22.45 %
- Secondary education 25.02 %



- Foreman school 4.24 %
- Vocational school 35.10 %
- Middle school 13.19 %

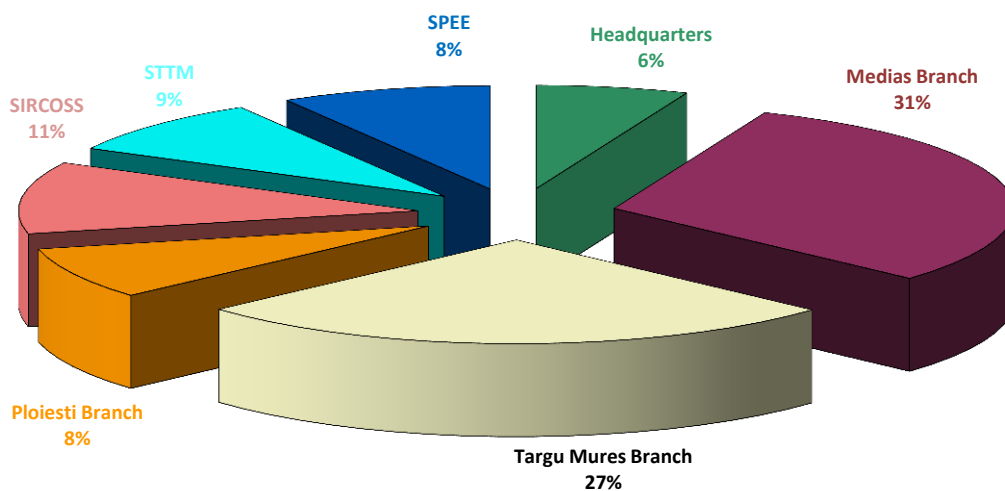
*b) by age*

- Below 30 years 4.46 %
- 30-40 years 17.62 %
- 40-50 years 41.11 %
- 50-60 years 29.80 %
- above 60 years 7.01 %

*c) by business*

- gas production 62.07 %
- Production tests/well special operations 11.23 %
- Health 1.32 %
- Transportation 8.81 %
- Gas storage 8.04 %
- Electric energy production 8.53 %.

Romgaz employee distribution by headquarters and by branches is shown in the figure below:



Headquarters and branches' employee structure is shown in the table below:

Entity	Labourer	Foreman	Administrative	Entity
1	2	3	4	5
Headquarters	31		363	<b>394</b>
Medias Branch	1,514	85	358	<b>1,957</b>
Târgu-Mures Branch	1,365	55	277	<b>1,697</b>
Ploiesti Branch	333	27	157	<b>517</b>
SIRCROSS	522	48	148	<b>718</b>
STTM	438	16	109	<b>563</b>

Iernut Branch	366	50	129	<b>545</b>
<b>TOTAL</b>	<b>4,569</b>	<b>281</b>	<b>1,541</b>	<b>6,391</b>

The main areas of training are:

- Administrative employees training – in various areas of activity, in cooperation with training suppliers from the country and abroad;
- Authorization/re-authorization, for various specializations and depending on the work place;
- Workers training and retraining through internal training courses.

During 1 H 2014 a number of 886 persons were trained and the costs of such training courses amounted to RON 670,936 thousand.

The Annual Training Plan for 1H 2014 was fulfilled as follows:

- 203 persons participated in training programs with professional themes required by the nature of activity, such as courses in the filed of „Risk Management”, where 23 persons were trained;
- In accordance with the Labor Code, a total number of 411 persons that have not been trained during the last two years were trained, out of which 160 administrative employees and 251 workers, and 272 persons have been reauthorized and authorized according to their specialization and work place.

In accordance with the legal provisions and the Collective Labor Agreement of the company, internal training courses have also been organized for workers, as well as training courses for “*special operations*” and “*gas operator*”.

During the reference period, training courses for workers were organized by company's branches and conducted by company's professionals, according to their jobs, where a number or 251 employees were trained.

Internal training courses have also been organized for workers, as well as training courses at the workplace for “*special operations*” and “*gas operators*” speciality by SIRCOSS Branch and Medias Branch, where 6 employees were trained.

### 3.2.4. Environmental Aspects

Environment protection activity in the first half of 2014, as well as in the previous period, focused on compliance of Romgaz activities with the requirements of environment law.

Environmental activities and actions performed in the first half of 2014 envisaged the following:

- compliance with legal requirements for environmental authorization of the 138 units. Among those, 113 units have valid authorizations, one unit is currently in the process of authorization, 20 units in the process of re-authorization, for one unit an authorization revision has been requested, and for one unit an authorization updating;
- disposal of waste generated from own activity, in accordance with the legal requirements in force. In H1 2014, waste was recovered by recycling 569.927 tons,

3.413 tons were disposed by incineration and 36,107.963 tons were disposed by storage;

- monitoring compliance with legal requirements for environmental protection, by performing monitoring programs required by authorizations. Such monitoring was made by applications developed within the organization. To the same effect, a procurement procedure was initiated for 8 injection pumps to replace the used ones from the waste water (formation water) injection stations and to prevent brine seepage. The performance of a study was initiated regarding Equivalent Noise Level Reduction below the Maximum Permitted Level at the outer limit of the operating unit premises for SC Sânmartin (county of Mures);
- action plans/preventive measures and/or environment impact mitigations:
  - o anti-polluting discharge systems at Filitelnic groups 131, 271, 122, 61, Roman group 234 and Laslău groups 7 and 8;
  - o well conversion into injection well: 433 Roman;
  - o impurity discharge system: 3 Glăvănești;
  - o Non-polluting installations at the Glavanesti and Tazlau dehydration stations;
  - o Well-head equipment at injection wells: group 283 Roman and group 1 Comănești;
  - o Waste water injection system: group 10 Prod;
  - o Oil product discharge channel and separator at the Craiova Workshop;
  - o Treatment/disposal of non-hazardous waste, discharge of treatment station settling tanks, laboratory services;
  - o Implementation of measures identified in the DUE DILIGENCE report.

For SPEE Iernut there have been obtained the Integrated Environment Authorization, the Water Management Authorization and the CO<sub>2</sub> Authorization. The CO<sub>2</sub> Validation Report was also performed in H1 2014, and the CO<sub>2</sub> certificates relating to H1 and H2 2014 have been obtained.

As regards environment expenses, following expenses were made in H1 2014:

✂ Investment works:	RON 13,532,580;
✂ Supply of services:	RON 913,722;
✂ Environment Fund taxes:	RON 36,961;
✂ Authorization taxes:	RON 113,064;
✂ Procurement of products:	RON 47,680;
✂ Equivalent Value of CO <sub>2</sub> Certificates:	RON 7,153,215.

In the first half of 2014, the Environment Police made 25 inspections in Romgaz locations. Following inspections no penalty was imposed on Romgaz for non-conformity with the environmental law.

No environmental protection notice or complaint was registered by Romgaz in the first half of 2014.

### 3.2.5. Risk Management and Internal Control

#### Risk Management Policies and Objectives

In accordance with the Corporate Governance Code, one important role played by the company's management is to ensure that an efficient management system is in place.

Because the implementation process is relatively young within the company – it started a year ago – one major concern of the management is to raise the awareness on the objectives of the risk management process, the necessity of direct implication in the risk management process, as well as the alignment to the newest practices in the sector by complying with the effective laws, standards and norms.

The company's risk management system is implemented in accordance with:

- 📄 the Order of the Ministry of Public Finance no.946 of July 4, 2005 (updated) on the development of the internal/management control system which refers to risk management (Standard 11: "Risk Management");
- 📄 Government Ordinance no.119/2009 (art.4) on the internal control and the preventive financial control;
- 📄 Law no. 234 of December 7, 2010 amending and supplementing Order no. 119/1999,
- 📄 International Standard ISO 31010:2009: "Risk management – risk assessment techniques";
- 📄 International Standard ISO 31000:2009: "Risk management/Principles and guidelines";
- 📄 Romanian Standard SR Guidelines 73:2009:"Risk management-Vocabulary".

Consequently, in compliance with the risk management process, the company systematically analyses, at least once a year, the risks related to its objectives and activities and prepares adequate treatment plans in order to mitigate the possible consequences of such risks and appoints employees responsible for implementing those plans.

Moreover, the risk management system implemented within the company is an integrated part of the decision making process by setting the requirement to use a risk management analysis when drafting a complex document related to:

- well drilling projects;
- technical projects related to the execution of investment objects;
- feasibility studies;
- assessment studies of geological resources and reservoir production performances.

Any major project, internally or externally prepared, on gas exploration, development and/or production as well as on electric energy production or delivery undergoes a risk management assessment.

The main benefit of the risk management process is the improvement of the company's performance by identifying, analyzing, assessing and managing all risks that may occur, in order to minimize the negative risk consequences, or as the case may be, increase the positive risk consequences.

A risk management department has been established for an efficient assessment of the company's risks. Some of the main aspects of the risk management implementation process are: risk identification, analysis, assessment and treatment. One major task of this department is drafting the final risk management documents: Final Risk Register, Final Risk Report, Final Measure Implementation Plan and the Company's Risk Profile.

There are **three role levels** set up in the risk management system:

- *base level*, represented by those who identify risks and who are responsible for preparing risk management documents (head of each organizational unit);
- *middle level*, represented by the company's middle management, who together with the heads of the organizational units compose the Risk Management Commission that facilitates and coordinates the management process in the respective direction/department/division;
- *high level*, represented by the executive management through the Risk Analysis and Management Commission that approves the company's risk appetite and risk profile according to its objectives.

*General scope of the risk management activity:*

1. setting the general uniform framework for risks identification, analysis and management;
2. providing the appropriate tool for a controlled and efficient risk management;
3. providing a description of the manner in which control measures are set and implemented in order to prevent the occurrence of negative risks.

Some of the analyzed risk categories are: financial risks, market risks, risks related to occupational health and safety, personnel risks, risks related to information systems, legal and regulating risks.

All risks were analyzed from following perspectives:

- the specific objective the risk refers to;
- causes of risk occurrence;
- consequences further to risk materialization;
- occurrence probabilities;
- risk materialization impact;
- risk exposure;
- risk response strategy;
- recommended control measures (approach);
- residual risks remained further to initial risks treatment.

## Internal Control

*“Internal control means the assembly of control forms exercised at the level of public entities, established by the management in accordance with its scope and the legal regulations, with the aim of ensuring economic, efficient and effective fund management; this also includes the organizational structures methods and procedures”* (Article 2 item d of the Government Ordinance No. 119/1999 on internal control and preventive financial control, republished).

In a broader sense, internal control is the answer to the question *“what can be done to gain best control over the activities?”*

Order No. 946/2005 of the Minister of Public Finances approving the Internal Control Code establishes the required provisions for preparing and developing management control systems, applicable to all public entities.

In the sense of existing regulations on internal control, internal/management control systems have been prepared and developed within the company on Romgaz management demand as of 2010, and a process of line up with internal control standards was initiated, which are grouped in five main categories:

- control environment;
- risk management and performance;
- information and communication
- control activities;
- audit and evaluation

The Commission for monitoring and development coordination of the internal/management control system has been established within the company in order to review and identify the actions necessary to ensure the compliance with the internal/management control standards. The latest change in membership occurred in 2014 under Decision 78/12.03.2014. The Management Control Office ensures the secretary of this commission as well as the relation between the commission and the company's organizational structures.

The commission drafted a Program for the development of the internal/management control system for the years 2014-2015. The commission reviews quarterly implementation of the program, reviews and/or approves the drafted measures, acts or documents according to the minutes taken further to each meeting.

In accordance with the above mentioned program, approved for the period 2014-2015, first semester, and the results of the annual assessment, review of the requirements of the standards included in the Order No. 946/2005 of the Minister of Public Finances, republished, have been carried forward, and several actions have been performed with the aim of improving the internal/management control system, as follows::

- *Standard 1 - Ethics, Integrity* – monitoring compliance of personnel with the Code of Conduct in accordance with internal regulations in force, and the results of such monitoring have been quarterly reported;
- *Standard 2 – Responsibilities and Duties, Positions, Assignments* – the job descriptions have been updated/reviewed, ensuring compliance with the internal control requirements (incompatibilities, conflict of interests, delegation, etc.)

At the Târgu Mures Branch, an analysis at the level of each organizational unit has been performed as regards review of correlation between the Organization & Operation Regulation - Procedures – Job Descriptions. The results of such analysis are comprised in analysis questionnaires. In the following period, a synthesis of such shall be escalated to the related hierarchical level in order to establish the necessary actions and to ensure compliance with the organizational reality.

- *Standard 3 – Competence, Performance* – the IT application “Training Needs” has been reviewed, identifying aspects to be improved, and application development and improvement measures have been set. Hence, when assessing the 2015 training needs, the updated application will be available, that could also be used to generate periodical reports, which represent input data for the analysis performed by the management.  
Also within this standard, the employee performance assessment methodology has been updated/improved, and the new working procedure came into effect in June 2014.
- *Standard 4 – Sensitive Functions* – updating of sensitive functions at the level of each organizational unit has been initiated;
- *Standard 7 – Objectives* – the general and specific objectives of the company have been reviewed, and such action resulted in a document registered under No. 12420/06.05.2014;
- *Standard 11 – Risk Management* – the risk management system is currently being redesigned. For the first semester, all initially identified risks have been reviewed in relation to the updated objectives. This action is reflected in the Final Risk Register of Romgaz;
- *Standard 16 – Note of Irregularities* – as regards fulfilment of requirements of this standard, following actions have been already performed:
  - Assignment of responsibilities for irregularity treatment (irregularities noted from outside the organization, which need to be treated by a structure having control responsibilities);
  - Construction of a centralized data base at the level of the entire organization to include all irregularities (noted from outside as well as from inside the organization), currently in progress.

In order to assess compliance of the system with the legal requirements, a self-assessment of the development status of the internal/management control system is performed at the headquarters at the end of each year.

As regards this stage, further to the self-assessment performed at the end of 2013, the present development status of the internal/management control system is partially implemented, and from the compulsory 25 standards, 22 are fully implemented and 3 partially. For these 3 standards, namely Standard 4 - Sensitive Functions, Standard 20 – Deviation Management and Standard 21 – Business Continuity, there have been proposed improvement actions included in the System Development Program for 2014-2015. These actions were in progress as of the reporting date. Partially implementation of those three standards is also due to the organizational structure changes in 2013.



## IV. INVESTMENTS

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

The company invested during 2011-2013 approximately **RON 2 billion**.

Year	2011	2012	2013	Total
<b>Amount (RON thousand)</b>	609,241	519,053	848,247	1,976,541

For 1H 2014, Romgaz scheduled investments worth *RON 560 million* and made RON 532 million, approximately 63% more, i.e. RON 179 million more than the investments made in the similar period of 2013. Investments were financed exclusively from the company's own sources.

The value of fixed assets commissioned in 1H 2014 amounted to RON 122 million.

The Board of Directors approved the investment program for 2014 by Resolution no.29 of 16 December 2013 and the related budget, as Annex 5 to the income and expenditures budget, by Resolution of the General Meeting of Shareholders no.6 of 30 July 2013 (Government Decision no. 570/09.07.2014).

The priority directions of the investment program are aiming projects such as:

- Continuing with geological research works by new drillings and geological surveys with an aim to discovering new gas reserves;
- Production potential development by adding new capacities in existing facilities;
- Improving the performance of facilities and equipment, and production safety enhancement;
- increase of underground storage capacities, flexibility and security of the existing storages;
- acquiring new machinery or modernizing the existing one to sustain the production activity;
- elaboration of studies and projects necessary for the future development of the company.



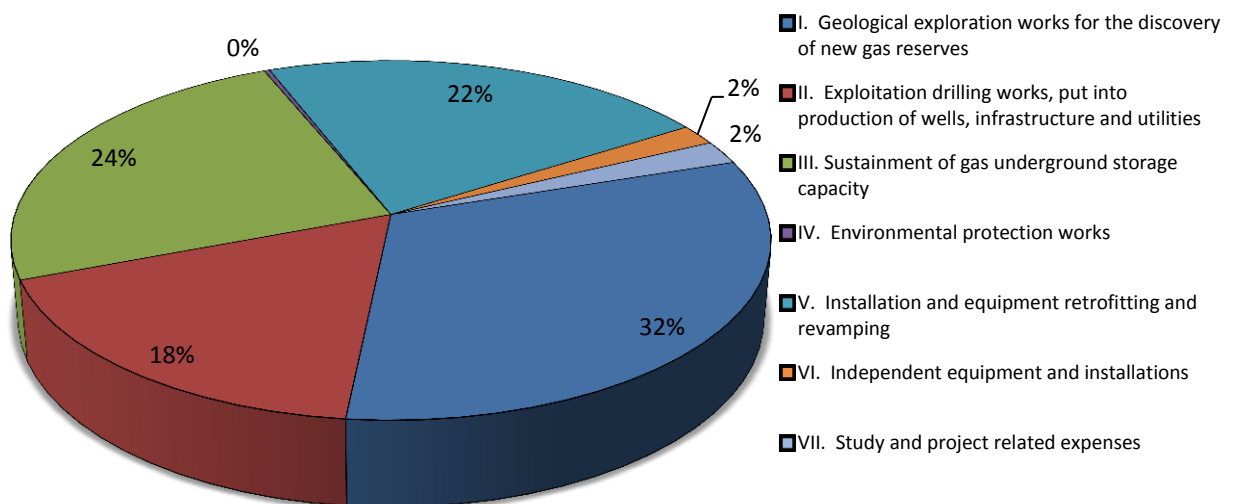
Investments made in 1H 2014 as compared to the scheduled ones are shown in the table below, detailed on main chapters:

*\*thousand RON\**

Investment Chapter	Scheduled 1H 2014	Results 1H 2014	%
1	2	3	4=3/2x100
<b>I. Geological exploration works for the discovery of new gas reserves</b>	245,109	168,414	68.71
<b>II. Exploitation drilling works, put into production of wells, infrastructure and utilities</b>	853,55	93,685	109.76
<b>III. Sustainment of the gas underground storage capacity</b>	69,958	130,559	18.62
<b>IV. Environmental protection works</b>	6,792	1,442	21.23
<b>V. Installation and equipment retrofitting and revamping</b>	97,693	117,100	119.87
<b>VI. Independent equipment and installations</b>	38,790	9,826	25.33
<b>VII. Study and project related expenses</b>	16,546	11,264	68.08
<b>TOTAL</b>	<b>560,243</b>	<b>532,290</b>	<b>95.01</b>

\*) since 20 May 2014, capitalizable repairs are also included in the investment program

The structure of investments made during the reporting period is shown in the figure below:



From the beginning of the year, service/delivery contracts ensured 63.4% of the budget, including the value of projects performed by the company itself.

Contracts concluded in 2013 were a major premise for recording high level results. Such value of results also implied recording of significant physical results.

A summary of project results shows that set objectives have been achieved to a large extent:

Item no.	Main Projects	Planned 2014	Results 1H 2014
1.	Drilling exploration	35 wells	16 wells
2.	Surveys 2D seismic	600 km	362 km
	3D seismic	2.100 km <sup>2</sup>	571 km <sup>2</sup>
	geochemical	2,000 modules	Service contract concluded
	magneto	500 units	in course of purchase
3.	Production drilling	6 wells	5 wells
4.	Surface facilities – gas wells	33 wells	<ul style="list-style-type: none"> <li>• 10 wells</li> <li>• 10 wells in progress</li> </ul>
5.	Compressor stations in gas fields	Compressor station Roman	Partially achieved (47%)
		Compressor station Ernei	Completed
6.	Sustainment of storage capacity	Sărmășel UGS: - drilling of 3 wells - compressor station	- completed - 50%
		Urziceni UGS - Compressor Station	- Prepared for technological tests
7.	Well modernization	125 wells	63 wells
8.	Well capitalizable repairs	140 wells	91 wells
9.	Electric power production	Feasibility Study	completed
10.	Partnerships	Aurelian Petroleum - 3D seismic processing	- 84%
		Lukoil: - drilling 2 wells in the Black Sea	contract performance in progress
		Schlumberger: - 2 wells	- completed
		Amromco	
		Slovakia: -G&G studies	in progress
11.	Studies	Reservoir Study	- approx. 50%

Before the end of 1H 2014, procurement contracts to be performed in 2014 were concluded with a value amounting to RON 1,015,300 thousand, including works to be rendered by the company.

In 1H 2014, investments amounting to RON 122,000 thousand were put into operation, the main ones being mentioned below:

- Drillings : 11 wells;
- Technological installations at wells: 5 installations;
- Well modernization: 63 well;
- Well Capitalizable Repairs: 90 wells;
- Coiled Tubing Rig modernization;
- Cementing Rig modernization;
- Independent plant items.

***Very complex issues highly influencing implementation of the investment plan relate to obtaining land, permits, approvals, agreements and authorizations necessary for the performance of works. In order to solve the above-mentioned issues, the company constantly approaches the state institutions in order to have simple and short procedures for obtaining the approvals.***

## V. SECURITIES MARKET

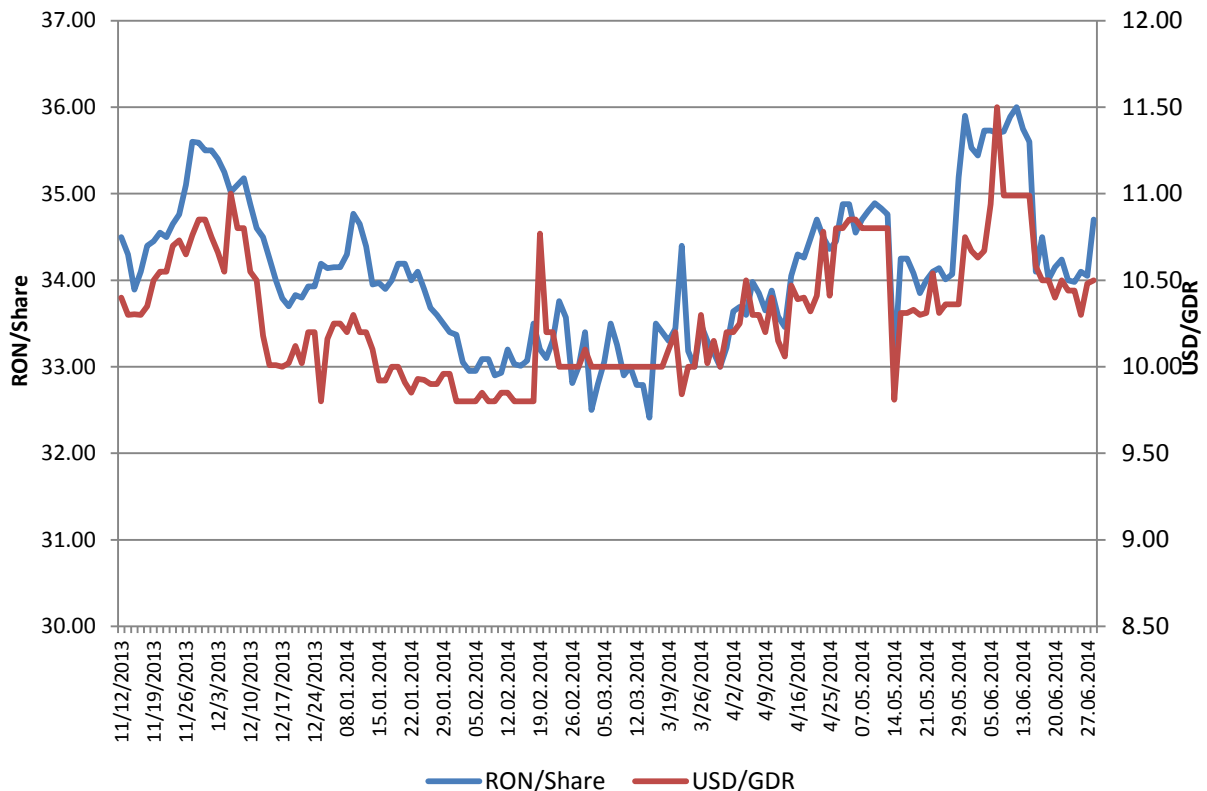
### Romgaz – company listed on Bucharest Stock Exchange (BVB) and London Stock Exchange

*Government Decision no.831/August 4, 2010 on the approval of the privatization strategy by public offering of Societatea Nationala de Gaze Naturale "Romgaz" S.A. Medias and of the mandate of the public institution involved in the development of such process, approved "the trading by the Ministry of Economy, Trade and Business Environment, through the Office of State Ownership and Privatization in Industry by secondary initial public offering of shares representing 15% of S.N.G.N. "Romgaz" S.A. share capital".*

Since November 12, 2013, the company's shares are being traded on the regulated market managed by BVB under the symbol "**SNG**". The shares issued by the company are also underlying the GDRs issued by The Bank of New York Mellon with Romgaz acceptance, and such GDRs are traded on the regulated market managed by the London Stock Exchange under the symbol "**SNGR**".

On the first trading day, the closing price of Romgaz shares was RON 34.5, by 15% higher the price paid by institutional investors and by investors which subscribed more than 10000 shares (30 RON/share). The share price was also by 18.55% and 21% respectively, above the price paid by retail investors with discount (3% and 5%, respectively). On LSE, the closing price for GDR's was USD10.4 - 13.66% higher than the subscription price.

Performance of Romgaz shares and GDRs between listing and June 30, 2014 is shown below:



## VI. MANAGEMENT

### 6.1. Board of Directors

Taking into account that the Government *Emergency Ordinance no.109/November 30, 2011 on corporative governance in state-owned enterprises* was implemented within the company in 2013, as regards selection and appointment of members in the board of directors based on cumulative vote, and bearing in mind that the number of members of the board increased from 5 to 7, Romgaz Board of Directors underwent several changes between January 1, 2014 and the reporting date, as follows:

#### ***Between January 1 and April 28, 2014***

Item no.	Name	Institution of employment	Position in the Board
1	Diaconu Gelu Stefan	Ministry of Economy, Trade and Business Environment	Chairman
2	Musat Eufemia	Office of State Ownership and Privatization in Industry	Member
3	Cosmeanu Stefan	Ministry of Economy, Trade and Business Environment	Member
4	Cindrea Corin Emil	SNGN "Romgaz" SA	Member
5	Cighi Adrian	SC "Fondul Proprietatea" SA	Member

Board members have been appointed by the General Meeting of Shareholders:

- ✎ Chigi Adrian – by Resolution no.12 of November 9, 2011;
- ✎ Musat Eufemia – by Resolution no.14 of November 27, 2012;
- ✎ Diaconu Gelu Stefan, Cosmeanu Stefan and Cindrea Corin Emil – by Resolution no.10 of August 7, 2012.

#### ***Between April 29 and December 29, 2013***

Item no.	Name	Institution of employment	Position in the Board
1	Negrut Aurora	Office of State Ownership and Privatization in Industry	Chairman
2	Musat Eufemia	Office of State Ownership and Privatization in Industry	Member
3	Doros Eugen Dragos	Nestor&Nestor Diculescu Kingston Petersen Consultanta Fiscala	Member
4	Metea Virgil Marius	SNGN "Romgaz" SA	Member
5	Volintiru Constantin Adrian	Authority for State Assets Recovery	Member

Board members have been appointed following the selection procedure by cumulative voting, in compliance with the applicable legal requirements and further to Resolution no.5 dated April 29, 2013 of the General Meeting of Shareholders.

***Between December 30, 2013 and June 12, 2014***

Item no.	Name	Institution of employment	Position in the Board
1	Negrut Aurora	Office of State Ownership and Privatization in Industry	Chairman
2	Popescu Ecaterina	SC "Chimforex" SA	Member
3	Doros Eugen Dragos	Nestor&Nestor Diculescu Kingston Petersen Consultanta Fiscala	Member
4	Metea Virgil Marius	SNGN "Romgaz" SA	Member
5	Volintiru Constantin Adrian	Authority for State Assets Recovery	Member
6	Jansen Petrus Antonius Maria	Associate Lecturer London School of Business and Finance	Member
7	Davis Harris Klingensmith	Independent consultant	Member

Board members have been appointed further to the selection procedure by cumulative voting, in compliance with the applicable legal requirements and under Resolution no.21 of December 30, 2013 of the General Meeting of Shareholders.

***Between June, 13 and July 29, 2014***

Item no.	Name	Institution of employment	Position in the Board
1	Negrut Aurora	Office of State Ownership and Privatization in Industry	Chairman
2	Popescu Ecaterina	SC "Chimforex" SA	Member
3	Chisăliță Dumitru	Universitatea Transilvania Brasov	Member
4	Metea Virgil Marius	SNGN "Romgaz" SA	Member
5	Volintiru Constantin Adrian	Authority for State Assets Recovery	Member
6	Jansen Petrus Antonius Maria	Associate Lecturer London School of Business and Finance	Member
7	Davis Harris Klingensmith	Independent consultant	Member

On June 13, 2014, by Resolution no.4/2014 of the Ordinary General Meeting of Shareholders, Mr. Chisăliță Dumitru was appointed as member of the Board for a mandate valid until May 14, 2017. Mr. Chisăliță Dumitru was appointed on the position left vacant after the resignation of Mr. Doros Dragos Eugen.

**Since July 30, 2014**

Item no.	Name	Institution of employment	Position in the Board
1	Negrut Aurora	Office of State Ownership and Privatization in Industry	Chairman
2	Popescu Ecaterina	SC "Chimforex" SA	Member
3	Chisăliță Dumitru	Universitatea Transilvania Brasov	Member
4	Metea Virgil Marius	SNGN "Romgaz" SA	Member
5	Manea Sergiu Cristian	Executive Vice President Banca Comerciala Romana SA	Member
6	Jansen Petrus Antonius Maria	Associate Lecturer London School of Business and Finance	Member
7	Davis Harris Klingensmith	Independent consultant	Member

On July 30, 2014, by Resolution no.6/2014 of the Ordinary General Meeting of Shareholders, Mr. Manea Sergiu Cristian was appointed as member of the Board for a mandate valid until May 17, 2017. Mr. Manea Sergiu Cristian was appointed on the post left vacant after the resignation of Mr. Volintiru Adrian Constantin.

## 6.2. Executive Management

### Virgil Marius Metea - Director General (CEO)

The Board of Directors appointed Mr. Virgil Marius Metea by Resolution no. 8 of June 12, 2013, as director general and delegated him responsibilities and duties related to internal management and representation.

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

Name	Position
<b>ROMGAZ - headquarters</b>	
<b>Cindrea Corin Emil</b>	Deputy Director General
<b>Rotar Dumitru Gheorghe</b>	Deputy Director General
<b>Dobrescu Dumitru</b>	Deputy Director General
<b>Ionascu Lucia</b>	Economic Department Director
<b>Ciolpan Vasile</b>	Energy Trade Department Director
<b>Birsan Mircea Lucian</b>	Procurement Department Director
<b>Stefanescu Dan Paul</b>	Exploration-Production Director
<b>Stan Ioan</b>	Human Resource Management Director
<b>Prisca Maria Magdalena</b>	Financial Director
<b>Stancu Lucian Adrian</b>	Corporative Management, Quality, Environment Director
<b>Bodogae Horea Sorin</b>	Procurement Direction Director
<b>Pavlovschi Vlad</b>	Business Development Director
<b>Balasz Bela Atila</b>	Energy Management Director
<b>Morariu Dan Nicolae</b>	Information Technology and Telecommunication Director
<b>Medias Branch</b>	
<b>Totan Costel</b>	Director
<b>Achimet Teodora Magdalena</b>	Economic Director
<b>Sutoiu Florinel</b>	Production Director
<b>Man Ioan Mihai</b>	Technical Director
<b>Tirgu Mures Branch</b>	
<b>Avram Pantelimon</b>	Director
<b>Caraivan Viorica</b>	Economic Director
<b>Matei Gheorghe</b>	Production Director
<b>Stefan Ioan</b>	Technical Director
<b>Ploiesti Branch</b>	
<b>Carstea Vasile</b>	Director
<b>Ionescu Viorica Maria</b>	Economic Director
<b>Scarlatescu Virgil</b>	Commercial Director
<b>Vecerdea Dan Adrian</b>	Storage Director
<b>Iernut Branch</b>	



<b>Bircea Angela</b>	Director
<b>Vlassa Susana Ramona</b>	Economic Director
<b>Oprea Maria Aurica</b>	Commercial Director
<b>David Stefan</b>	Technical Director
<b>SIRCOSS</b>	
<b>Dinca Ispasian Ioan</b>	Director
<b>Bordeu Viorica</b>	Economic Director
<b>Gheorghiu Sorin</b>	Technical Director
<b>STTM</b>	
<b>Rusu Gratian</b>	Director
<b>Dimbean Gheorghe</b>	Economic Director
<b>Cioban Cristian Augustin</b>	Operation-Development Director

According to the Articles of Incorporation, appointment and dismissal of executive directors is made by the Board of Directors; “*executive director*” means “*the person to whom the Board of Directors delegated authority to manage the Company*” – art. 24, paragraph (15).

Members of the executive board, except the director general, are employees of the company, having an individual labour contract for an indefinite period.

The managing and execution personnel is employed, promoted and fired by the director general subject to the authority delegated by the Board of Directors.

## VII. FINANCIAL- ACCOUNTING INFORMATION

### 7.1. Statement of Financial Position

The individual financial statements of the Company have been prepared in accordance with the provisions of the International Financial Reporting Standards as adopted by the European Union (IFRS). For the purposes of the preparation of these financial statements, the functional currency of the Company is deemed to be the Romanian Leu (RON). IFRS, as adopted by the EU, differs in certain respects from IFRS as issued by the IASB, however, the differences have no impact on the Company's individual financial statements for the years presented.

For all periods up to and including the year ended 31 December 2012, the Company prepared statutory individual financial statements in accordance with generally accepted accounting principles (local standards), represented by the Ministry of Finance Order no. 3055/2009, for the years 2012, 2011 and 2010.

Starting with the financial year ended at December 31, 2013, the statutory financial statements are prepared in accordance with *Ministry of Public Finance Order no. 881/2012 from June 25, 2012, applied to companies that are listed on a regulated stock market that must prepare IFRS financial statements, and that states the following: „Starting with the financial year ended at December 31, 2012, companies whose securities are admitted for trading on a regulated market are required to apply International financial reporting standards (IFRS) in the individual annual financial statements” -Article 1, para. (1).*

The obligation of the company for preparing statutory financial statements in accordance with IFRS derives from Romgaz's listing starting with November 12, 2013.

Consequently, the Company has prepared financial statements in accordance with IFRS as adopted by the EU for the period ending June 30, 2014, together with comparative data for the same period of 2013.

The individual financial statements have been prepared on a going concern basis under the historical cost convention adjusted for hyperinflation effects until December 31, 2003 for share capital. For items of property, plant and equipment, the Company selected the deemed cost method allowed for by IFRS 1. The deemed cost as of January 1, 2010, the date of transition to IFRS, was determined based on a valuation report prepared by an independent appraiser. These financial statements are prepared based on the statutory accounting records prepared by the Company in accordance with Romanian accounting principles which have been adjusted for to comply with IFRS.

The table below presents a summary of the statement of individual financial position as of June 30, 2014:

*\*Thousand RON\**

INDICATOR	30.06.2014 (RON thousand)	31.12.2013 (RON thousand)	Variation (%)
1	2	3	$4=(2-3)/3 \times 100$
<b>ASSETS</b>			
<i>Non-current assets</i>			
Property plant and equipment	5,911,823	5,767,267	2.51
Other intangible assets	371,276	383,956	-3.30
Associates	789	947	-16.68
Other financial assets	76,900	76,900	0.00
Other non-current assets	17,102	17,093	0.05
<b>Total non-current assets</b>	<b>6,377,890</b>	<b>6,246,163</b>	<b>2.11</b>
<i>Current assets</i>			
Inventories	280,766	463,946	-39.48
Trade and other receivables	571,983	1,086,628	-47.36
Other financial assets	722,373	970,664	-25.58
Other assets	177,569	146,179	21.47
Cash and cash equivalents	2,980,036	1,563,590	90.59
<b>Total current assets</b>	<b>4,732,727</b>	<b>4,231,007</b>	<b>11.86</b>
<b>TOTAL ASSETS</b>	<b>11,110,617</b>	<b>10,477,170</b>	<b>6.05</b>
<b>EQUITY AND LIABILITY</b>			
<i>Capital and reserves</i>			
Issued capital	385,422	1,892,681	-79.64
Reserves	2,111,679	1,949,600	8.31
Retained earnings	6,675,994	5,450,493	22.48
<b>Total equity</b>	<b>9,173,095</b>	<b>9,292,774</b>	<b>-1.29</b>
<i>Non-current liabilities</i>			
Retirement benefit obligation	79,241	79,241	0.00
Deferred tax liabilities	131,344	146,440	-10.31
Provisions	205,468	196,950	4.32
<b>Total non-current liabilities</b>	<b>416,053</b>	<b>422,631</b>	<b>-1.56</b>
<i>Current liabilities</i>			
Trade and other payables	118,561	202,796	-41.54
Current tax liabilities	109,405	200,982	-45.56
Provisions	32,795	47,316	-30.69
Other liabilities	1,260,708	310,671	305.80
<b>Total current liabilities</b>	<b>1,521,469</b>	<b>761,765</b>	<b>99.73</b>
<b>Total liabilities</b>	<b>1,937,522</b>	<b>1,184,396</b>	<b>63.59</b>
<b>TOTAL EQUITY AND LIABILITY</b>	<b>11,110,617</b>	<b>10,477,170</b>	<b>6.05</b>

### *Non-current assets*

The total non-current assets increased by 2.11%, i.e. RON 132 million, from RON 6,246 million as of December 31, 2013 to RON 6,378 million at the end of first half-year of 2014. The increase is mainly due to procurement of tangible assets used especially in gas exploration, appraisal and production activities.

### *Other intangible assets*

Other intangible assets decreased by RON 12.7 million in the period ended June 30, 2014, as compared to December 31, 2013, due to adjustments for impairment of intangible assets in progress.

### *Current assets*

Current assets have increased by RON 502 million on June 30, 2014 mainly as a result of the increase of cash and cash equivalent.

### *Inventories*

The decrease by 39.48% (RON 183 million) at the end of the reporting period is due to the decrease of the gas stock as a result of increased deliveries of gas from internal production to Romgaz clients and to SPEE Iernut, and the decrease of purchased import gas quantities.

### *Trade receivables and other receivables*

Trade receivables decreased by RON 514.6 million as of June 30, 2014 compared to December 31, 2013, due to adjustments for doubtful clients and to reduction of accounts receivable balance as a result of lower gas consumption during the summer months compared to winter months.

### *Cash and cash balances. Other financial assets*

Cash, cash equivalent and other financial assets increased during the first half year of 2014 by RON 1,168 million. This is due to the fact that in the first half-year the equivalent value of gas delivered in the first months of winter is cashed, while at the end of the year collections are related to gas delivered in the period of autumn. Statistically, the largest gas quantities are requested and delivered in the winter months.

## **Equity**

### *Issued capital*

Following the GMS Resolution of April 28, 2014, the adjustment for hyperinflation was transferred to the retained earnings.

### *Retained earnings*

Retained earnings increased mainly by the value of net profit made in the first half-year of 2014 and by the transfer of the account "Share-capital adjustments" to the retained earnings.

### *Non-current liabilities*

Decrease of non-current liabilities by 1.56% is due to the decrease of deferred tax liabilities.

### *Current liabilities*

Current liabilities increased by RON 759.7 million, as compared to the beginning of the year following the resolution on payment of dividends in amount of RON 990.6 million.

*Trade and other payables*

The decrease by 41.54% is mainly due to the fact that the beneficiaries of gas delivered by the Company made lower advance payments as compared to the end of the year 2013, and the fact that import quantities continued to decrease in 2014, due to lower accounts payable balances related import gas suppliers on June 30, 2014 as compared to December 31, 2013.

*Current tax liabilities*

Current tax liabilities decreased by RON 91.2 due to the reduction of the tax base.

*Provisions*

Provisions on short term decreased mainly due to the existence in the balance of the 2013 year-end of a provision for certificates of greenhouse gas emissions, and such certificates have been paid and used by the Company during 2014.

*Other liabilities*

The increase by RON 950 million of other liabilities is due to payable dividends in amount of RON 990.6 million. At the same time the due VAT decreased as of June 30 compared to the end of 2013, which is correlated with the decrease of trade receivables.

## 7.2. Statement of Comprehensive Income

Statement of comprehensive income for the period January 1- June 30, 2014 compared to the similar period of 2013, is set below:

\*thousand RON\*

Indicator	H1 2014	H1 2013	Variation
			(%) (2014/2013)
	2	3	4=(2-3)/3X100
Revenue	2,526,344	1,901,139	32.89
Cost of commodities sold	(132,596)	(302,048)	-56.10
Investment income	41,458	59,003	-29.74
Other gains and losses	(183,194)	32,418	-665.10
Changes in inventory of finished goods and work in progress	(98,991)	33,055	-399.47
Raw materials and consumables used	(30,024)	(56,976)	-47.30
Depreciation, amortization and impairment expenses	(366,340)	(449,043)	-18.42
Employee benefit expense	(212,504)	(244,607)	-13.12
Finance cost	(7,964)	(15,230)	-47.71
Exploration expense	(21,140)	(17,453)	21.13
Other expenses	(516,279)	(240,927)	114.29
Other income	90,761	26,285	245.30
<b>Profit before tax</b>	<b>1,089,531</b>	<b>725,616</b>	<b>50.15</b>
Income tax expense	(218,573)	(103,231)	111.73
<b>Profit for the year</b>	<b>870,958</b>	<b>622,385</b>	<b>39.94</b>

### Revenue

For the first half of 2014 the Company generated revenue of RON 2.53 billion compared to RON 1.9 billion generated for the first half-year of 2013, resulting in increase of the revenue by 33%.

The increase is due mainly to the increase, in absolute amount, of the *revenue from sale of gas from internal production*, as can be seen from the breakdown of the revenue shown below.

### Detailed Breakdown of Revenue

(Thousand RON)

	H1 2014	H1 2013	Absolute variation	Relative variation
1	2	3	4=2-3	5=4/3x100
Revenue from gas sale – internal production	2,015,536	1,377,459	638,077	46.32
Revenue from underground gas storage services	217,240	149,313	67,927	45.49
Revenue from import gas resale	99,881	320,573	(220,692)	-68.84
Revenue from sale of electric power	163,879	28,423	135,456	476.57
Other revenues	29,808	25,371	4,437	17.49
<b>TOTAL</b>	<b>2,526,344</b>	<b>1,901,139</b>	<b>625,205</b>	<b>32.89</b>

The analysis by factors of the revenue *from sale of internal production* during the period January – June 2014 as compared to the revenue of the same period of 2013 is shown below:

Revenue from sale of internal production	H1 2014	H1 2013	Ratios 2014 / 2013
- Quantity (million m <sup>3</sup> )	3,008.2	2,707.3	111.11
- Price (RON/thousand m <sup>3</sup> )	670.01	508.79	131.69
- Value (thousand RON)	2,015,536	1,377,459	146.32
<b>Difference 2014-R 2013</b>	<b>638,077</b>		
Quantity influence(q1*p0-q0*p0)	153,096		
Price influence (q1*p1-q1*p0)	484,981		

The revenue from sale of internal production for the period January – June 2014, compared to the same period of 2013 was higher by RON 638,077 thousand. The influences by factors are the following:

- ✎ higher production sale by 11.11 % which led to higher revenues from sale of internal production gas by RON 153,096 than in 2013. The increase of gas delivery was generated by higher demand of beneficiaries for the scope of consumption and UGS injection.
- ✎ gas sale at a higher average price by 31.69 % than in 2013, which had a positive influence on revenue increase from sale of internal production by RON 484,981 thousand.

*Revenue from underground gas storage services* was highly influenced by the changes of applied underground storage tariffs starting from April 1<sup>st</sup> 2013, as shown in the table below:

Tariff component	M.U.	Tariff (1.01-30.06.2013)	Tariff (1.04.2013-today)
Volumetric component for natural gas injection	RON/MWh	2.76	2.37
Fixed component for capacity booking	RON/MWh/full storage cycle	5.65	13.12
Volumetric component for natural gas withdrawal	RON/MWh	2.76	1.80

*Import gas delivery volumes* decreased during the first half of 2014 compared to the same period of last year, generating less revenue by 68.84%. The reduction of import gas delivery volumes is due both to a decrease of gas demand on the market, as well as to provisions of ANRE Order No. 24/2013 on approving the allocation methodology for domestic gas production that is required for covering the regulated market consumption, according to which gas producers are no longer bound to deliver domestic gas mixed with import gas.

*Revenues from electric power sale* increased during the first quarter of 2014 by RON 135 million compared to 2013. This increase is due to Iernut power plant take over starting from February 1<sup>st</sup> 2013; Iernut power plant (CTE Iernut) integration within the Company required complex works and obtaining operation authorizations, therefore CTE Iernut started its activity at the end of the first quarter of 2013. Thus the revenues recorded by the end of H1 2013 were significantly lower than in the same period of 2014.

#### *Cost of Commodities Sold*

For the six months ended June 30, 2014, cost of commodities sold decreased by 56.10%, from RON 302 million during the first half of 2013 to RON 133 million in 2014, mainly due to a reduction in sales of imported natural gas, and influenced by an increase related to acquisition of electric power services sold to Romgaz clients.

#### *Investment Income*

For the reporting period the investment income decreased by 30%, (RON -17.5 million), 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 revenues and losses*

For the first half of 2014 a loss of RON 183.2 million was generated mainly due to the set-up of an allowance for doubtful clients related to receivables in net amount of RON 176 million. The most significant influence on the cost of allowance for doubtful clients has the allowance for Electrocentrale Galati client due to opening of the insolvency procedure by civil decision no. 603/16.06.2014 of Galati Court. Further to such event the Company recorded a full allowance related to Electrocentrale Galați receivable in amount of RON 173.2 million on June 30, 2014 (the allowance balance on December 31, 2013 : RON 44.7 million).

The profit generated during the first half of 2013 was mainly due to the profit generated by reinstatement of receivables in amount of RON 28.9 million related to Termoelectrica, as well as to reverse of provision related to overdue receivables of Electrocentrale Bucharest, in amount of RON 653 million, under the condition of taking over CTE Iernut in exchange for paying off such debt, reversal which, together with the loss resulting from receivables in amount of RON 612.5 million, generated a profit of RON 40.5 million (namely the liquidation value established by an assessor for CTE IERNUT).

#### *Depreciation and Amortization*

In the six months ended 30 June 2014, depreciation, amortization and impairment expense decreased by 18.42% from RON 449 million (June 2013) to RON 366 million (June 2014). This was due to the decrease of fixed assets depreciation expense.

#### *Employee benefit expense*



For the reporting period employee benefits, not taking into account the effect of allocations of employees to construction works related to Company's own investments, amounted RON 265 million, compared to RON 256 million in the first half-year of 2013, an increase by 3.5% mainly due to the increase in number of employees following the takeover of CTE Iernut on February 1<sup>st</sup>, 2013.

#### *Exploration expense*

For the reporting period ended 30 June 2014 the exploration expenses increased by 21.13% (RON 3.7 million) compared to the period ended 30 June 2013, due to a larger number of abandoned exploration projects compared to the same period of 2013.

#### *Other expenses*

The breakdown by elements of costs compared with other costs is shown in the table below:

Indicator	H1 2014	H1 2013	Variation (2014/2013) (thousand RON)	Variation (2014/2013) (%)
1	2	3	4=2-3	5=4/3x100
Electricity	8,635	58,605	(49,970)	-85.27%
Royalty for gas production	140,780	105,938	34,842	32.89%
Royalty for underground storage	6,517	4,479	2,038	45.49%
Windfall tax	188,014	29,410	158,604	539.28%
Special construction tax	45,286	-	45,286	100.00%
Other duties and taxes	34,819	30,392	4,427	14.57%
Provision expenses	(22,580)	7,010	(29,590)	-422.11%
Other operating expenses	114,808	5,093	109,715	2154.23%
<b>Total</b>	<b>516,279</b>	<b>240,927</b>	<b>275,352</b>	<b>114.29%</b>

"Other expenses" recorded an increase of 114.29% as of 30 June 2014, from RON 240.9 million as of June 30, 2013 to RON 516.3 million. This increase is mainly due to the expenses with other duties and taxes, namely:

- Increase of natural gas royalty costs, as a result of natural gas sale price increase;
- Recording the tax on special construction in the amount of RON 45.3 million;
- Introduction starting from February 1, 2013 of the additional tax on the additional revenue (windfall tax) obtained as a result of deregulation of natural gas prices, which determined an increase of expenses of RON 158.6 million.

Other operating expenditures increased mainly due to the transportation costs incurred for gas consumed by SPEE Iernut, as well as due to the increase of environment protection expenditures.

The electric power expenses decreased in the first half-year of 2014 as compared to the similar period of the previous year due to covering the largest part of own electric power consumption from SPEE Iernut.

*Other income*

In the six months ended on June 30, 2014, the other income increased by RON 64 million, increase due to applied penalties.

*Income tax expense*

As of June 30, 2014, the Company recorded current income tax expense in amount of RON 233.6 million as compared to current income tax expense of RON 147.8 million for the six months period ended June 30, 2013, the difference up to the income tax value is the deferred income tax. The current income tax expense is mainly due to the increase of results before tax during the first half-year of 2014, compared to the same period of last year.

*Profit for the year*

In the first half-year of 2014, the Company's net profit increased by RON 248.6 million (39.94%) from RON 622.39 million to RON 870.96 million recorded in the first half-year of 2014, due to the cumulative effect of the items presented above.

## 7.3. Statement of Cash Flows

Comparative statement of cash flows is set in the table below:

\*Thousand RON\*

Indicator	H1 2014	H1 2013
<b>Cash flows from operating activities</b>		
<b>Net profit for the year</b>	<b>870,958</b>	<b>622,385</b>
<i>Adjustments for:</i>		
Income tax expense	218,573	103,231
Interest expense	10	-
Unwinding of decommissioning provision	7,954	15,230
Interest revenue	(41,458)	(59,003)
(Gain)/Loss on disposal of non-current assets	(5,356)	1,114
Change in decommissioning provision recognized in profit or loss, other than unwinding	(10,783)	(221)
Change in other provisions	(11,797)	7,231
Impairment of exploration assets	51,713	43,726
Exploration projects written-off	21,140	17,453
Impairment of property, plant and equipment	53,095	45,785
Depreciation and amortization	261,532	359,532
Impairment of investment in associates	158	-
Losses from trade receivables and other assets	176,095	(5,263)
Receivables reactivated	-	(28,941)
	<b>1,602,546</b>	<b>1,122,259</b>
<b>Movements in working capital:</b>		
(Increase)/Decrease in inventory	183,180	55,055
(Increase)/Decrease in trade and other receivables	334,042	277,041
Increase/(Decrease) in trade and other liabilities	(149,305)	(106,228)
<b>Cash generated from operations</b>	<b>1,970,463</b>	<b>1,348,127</b>
Interest paid	(10)	
Income taxes paid	(325,247)	153,043
<b>Net cash generated by/(used in) operating activities</b>	<b>1,645,206</b>	<b>1,195,084</b>
<b>Cash flows from investing activities</b>		
Decrease/(Increase) in other financial assets	255,401	451,641
Interest received	34,363	97,080
Proceeds from sale of non-current assets	-	1,788
Acquisition of non-current assets	(224,897)	(268,213)
Acquisition of exploration assets	(293,627)	(127,847)
<b>Net cash generated by investing activities</b>	<b>(228,760)</b>	<b>154,449</b>
<b>Cash flows from financing activities</b>		
Dividends paid	-	(1,060,115)
<b>Net cash generated by financing activities</b>	<b>-</b>	<b>(1,060,115)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,416,446</b>	<b>289,418</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>1,563,590</b>	<b>1,739,330</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>2,980,036</b>	<b>2,028,748</b>

Statement of cash flows presented above presents the cash flows for January – June 2014 compared with the similar period of 2013, classified by type of activity: operating, investing and financing. Company's Statement of cash flows is prepared using the indirect method, whereby net profit is adjusted for the effects of transactions of non cash nature, any deferrals or accruals of cash payments or receipts from operations, past

or future, and items of income or expense associated with the cash flows from investing or financing.

Reconciliation of profit before taxation to cash flow generated from operating activities (before changes in net current assets) resulted in a net upward adjustment of RON 513,015 thousand for January – June 2014 compared to RON 396,643 thousand in January – June 2013.

The most important movements in cash flows were made for income from gas delivered to the clients of the Company, payments for acquisition of non-current assets and exploration assets in amount of RON 293,627 thousand as per the investment plans approved by the Company, and in connection with dividends paid to shareholders during the first half-year of 2013, amounting to RON 1,060,115 thousand.

## VIII. CORPORATE GOVERNANCE

**Corporate governance** accommodates continuously to the requirements of a modern economy, to increasing globalization of social life and to investors and interested parties need for information on companies business.

Government Emergency Ordinance (OUG) No. 109 of November 2011 on public companies corporate governance, as amended (the "Ordinance"), applies to Romgaz, as national company (Article 2, Par. 2, letter b).

The Ordinance sets up a number of principles and provisions to ensure their application.

Principles included in the Ordinance are as follows:

👉 *Clear separation of authorities deriving from shareholdership from those deriving from directorship/managing of the company.*

In accordance with Article 4 of the Ordinance, higher public authorities and the Ministry of Finance cannot intervene in the company's governance and management, and as provided by the law, the authority for governing decisions and management decisions and accountability for their effects belongs to the board of directors and to executive directors;

👉 *Principle of transparency, non-discrimination and equal treatment in the selection process of Board members;*

👉 *The principle of proportional representation in the Board of Directors, by participation of each shareholder of the company by cumulative vote method. Thus, shareholders holding individually or together at least 10% of subscribed and paid up share capital may call, , the Board of Directors to convene the GMS for the election of board members by cumulative voting;*

👉 *Minority shareholders protection by observing transparency principles, providing access to documents and information, as provided by law, documents related to GMS which are published at least thirty days before the convening date on the company site, such as convening notices and resolutions, as well as by various voting means (the votes can be casted personally or by proxy within the meeting, or remotely, by correspondence or by electronic means);*

👉 *Transparency principle by publishing on company's website financial statements, annual audit report, Board of Directors' Reports, composition of management team, remuneration policy and criteria for directors and executive directors;*

👉 *Principle of mandatory reporting to the GMS as prescribed by law (i.e. on the transactions with company's directors or executive directors, with their husband/wife/relatives/in-laws, for transactions exceeding RON 100,000, and on directors' and executive directors' remuneration and other benefits).*

Ordinance provisions are observed by the company, and are included in the Company's Articles of Incorporation, as approved by Resolution of the Extraordinary General Meeting of Shareholders No. 19 of October 18, 2013.

Romgaz shares are traded starting with November 12, 2013, on the regulated market governed by BVB, under category I, the symbol is *SNG*, as well as on the London Stock Exchange (where GDRs are traded), the symbol is *SNGR*.

Romgaz has to fully comply with the corporate governance standards provided by national regulations applying to companies admitted to trading on a regulated market, namely the Corporate Governance Code of BVB.

The corporate governance system has been and shall be further improved according to rules and recommendations applicable to Companies listed on Bucharest Stock Exchange and on London Stock Exchange.

Some of the *already implemented measures*:

- ✎ Elaboration of Corporate Governance Code;
- ✎ Including in the Board's Annual Report a chapter dedicated to corporate governance referring, among others, to the Board of Directors, Nomination and Remuneration Committee and Audit Committee, or to executive management presentation;
- ✎ Diversification of communication ways with shareholders and investors, by posting on the website announcements addressed to market players, half year and quarterly financial statements, current annual reports, procedures to follow for access and participation to GMS, and by setting up of an "Infoline" for shareholders/investors to respond to their requirements and/or questions;
- ✎ Conclusion of professional liability insurances for the directors and managers and appointing a person to monitor such contracts;

Some of the measures to be implemented:

- ✎ Set up of a specialized department dedicated to investors and shareholders relationship;
- ✎ Implementation of a set of rules on transactions of shares by directors or other individuals bound by these rules;
- ✎ Implementation of executive board remuneration policy, which should include a fixed component and a variable component that should depend on the results of their assessment. According to London Stock Exchange Corporate Governance Code long term bonus scheme should be approved by GMS.

Romgaz will prepare an **action plan for corporate governance** which should come into force by the end 2015, after its approval by the General Meeting of Shareholders.

The action plan will comprise at least the following:

- ✎ Appointment of two additional independent directors in the Board of Directors. According to the Articles of Incorporation:
  - "The Company is governed by a Board of Directors formed by 7 (seven) directors,..." –Article 17, par. (1). This measure has been taken by applying GMS resolution no.21 of December 30, 2013;
  - "The majority of Board of Directors members has to be non-executive and independent directors,..." –Article 17, par. (2);
- ✎ Annual Report of the Board of Directors will clearly provide the names of independent directors and will mention the reasons why they are held as independent;
- ✎ Independent directors will chair the audit committee of the company and the nomination and remuneration committee; the majority of such committees will comprise independent directors;

- ☞ Modification of the Company's Articles of Incorporation to ensure that at least one member of the Board of Directors is nominated and appointed by the minority shareholders;
- ☞ Internal audit within the company will comply with the best international practices as they are presented in "*International Standards for the Professional Practice of Internal Auditing*", as they are set by the Institute of Internal Auditors or by similar professional standards.

The internal audit activity will be as follows:

- an independent operation;
- direct reporting to the audit committee; and
- performs the internal audit on the basis of an audit plan endorsed by the audit committee.

The internal audit will report quarterly to the audit committee on the implementation of the audit plan;

- ☞ Identifying and detailing key functions and activities and setting clear reporting and responsibility relationships between such functions, activities and the Board of Directors. Details on such activities will be published in the annual report of the Board of Directors;
- ☞ Setting a framework to re-enforce the Company's code of conduct ("Code of Conduct"), including provisions on:
  - Re-enforcement of company corporate governance and practices in accordance with international standards best practices;
  - Prevention of law and regulations breach;
  - Promoting employees loyalty and incentives;
  - Building a strong relationship with suppliers and other business partners;
  - Re-enforce the interested parties trust and respect; and
  - Building a reliable integrity reputation according to best practices.

Best endeavours will be used for an efficient implementation of the Code of Conduct, such as appointment of a senior specialist responsible for monitoring the implementation. The person in charge will have to report directly and on a regular basis to the Board of Directors and will include a note on the application of the Code in the annual Report of the Board of Directors.

### **General Meeting of Shareholders**

The General Meeting of Shareholders is called by the Board of Directors, whenever necessary, in accordance with the legal provisions. The date of the meeting cannot be set in less than 30 days from the publishing date the convening notice in the Romanian Official Gazette. The convening notice will be sent to Bucharest Stock Exchange, London Stock Exchange and to the Financial Supervisory Authority in compliance with the regulations of the capital market and will be published on the company's website at *Investor Relations* > "*General Meeting of Shareholders*".

The Chairman of the Board usually chairs the General Meeting of Shareholders. The General Meeting of Shareholders shall elect 1 to 3 secretaries that will check the record of attendance and the fulfilment of all legal and statutory formalities in order to hold the



meeting. The Chairman of the Board will appoint from among the employees of the Company one or more technical secretaries that will check if all legal and statutory formalities are fulfilled in order to hold the meeting. The minutes of the meeting signed by the Chairman of the Board of Directors and by the secretary who took it, will note the fulfilment of all convening formalities, the date and place of the meeting, the shareholders who are present or represented, the total number of shares/voting rights, a summary of the debates, the decisions made, and correlatively the number and kind of votes casted for each decision. The resolutions of the General Meeting of Shareholders are sent to Bucharest Stock Exchange and to the National Securities Commission within 24 hours from the meeting. The resolution will be published on the company's website at *Investor Relations* > "*General Meeting of Shareholders*".

**The Ordinary General Meeting of Shareholders** has the following main competences:

- a) to discuss, approve or amend, as the case may be, the annual financial statements of the company based on the reports submitted by the Board of Directors and the financial auditor, and to set the dividends due to shareholders;
- b) to discuss, approve or request, as the case may be, the addition or review of the company's management plan, under legal provisions.
- c) to set the income and expenditure budget for the following financial year;
- d) to appoint and to dismiss the Board members and to set their remuneration;
- e) to pronounce on the management of the directors;
- f) to appoint and to dismiss the financial auditor and to set the minimum term of the financial audit contract;
- g) to decide with respect to contracting of medium and long term bank loans, including external loans, to set the competences and the level of the internal or external bank loans, trade credits and guaranties for such loans;
- h) to decide with respect to pledging, renting or dissolving one or more organisational units of the company.

**The Extraordinary General Meeting of Shareholders** has the following main competences:

- a) to change company's legal form;
- b) to move the headquarters;
- c) to change the company's scope of activity;
- d) to incorporate or dissolve secondary headquarters: branches, agencies or such other units without legal personality;
- e) to increase the share capital;
- f) to reduce the share capital or to restore it by issuing new shares;
- g) to merge with other companies or the unbundling of the company;
- h) the anticipated winding up of the company;
- i) to convert nominal shares into bearer shares, or of bearer shares into nominal shares;
- j) to convert shares from a category into the other;
- k) to convert one category of bonds into another one or in shares;
- l) to issue bonds;
- m) to conclude the documents related to the acquisition of non-current assets whose value exceeds, separately or cumulatively, during a financial year, 20% of the total non-current assets of the company, except for receivables;
- n) to conclude the documents related to disposal, exchange and set up of guaranties referring to non-current assets whose value exceeds, separately or cumulatively,



- during a financial year, 20% of the total non-current assets, except for receivables;
- o) to conclude the documents related to rental of tangible assets to the same contractors or to persons involved or acting together, whose value exceeds, separately or cumulatively, 20% of the total tangible assets, except for receivables;
  - p) any other change in the articles of incorporation or any other resolution that requires the approval of the extraordinary general meeting of shareholders.

### **Board of Directors**

Romgaz is governed under a one-tier system by a Board of Directors consisting of 7 (seven) directors, one of them being appointed Chairman of the Board. The majority of the Board members shall be non-executive and independent directors and, at least one of them, shall have a degree in economics and at least 5 years of experience in economics, accounting, audit or financial area.

The General Meeting of Shareholders appoints directors in compliance with the applicable law. Directors' election by cumulative vote is made in compliance with applicable law. At the shareholders' request, which, individually or together, represent at least 10% of the subscribed and paid-up share capital, the board of directors mandatorily calls the general meeting of shareholders including on the agenda the election of board members by the cumulative voting procedure.

The board members for the financial year January 1, 2013 – June 30, 2014 are mentioned in Chapter VI "Management".

The Board of Directors has the following basic competencies that cannot be delegated to executive directors:

- a) to set the core business and development directions of the company;
- b) to approve of the Company Management Plan;
- c) to set the accounting policies, the financial control and planning system;
- d) to appoint and dismiss the executive directors, including the Director General and to establish their remuneration;
- e) to control the executive directors' activity;
- f) to draft the annual report of the Board of Directors;
- g) to organise the General Meeting of Shareholders, and to enforce their resolutions;
- h) to file for insolvency of the Company, according to Law No. 85/2006 on insolvency;
- i) other competencies of the Board of Directors that cannot be delegated, according to the law.

The Board of Directors convenes whenever necessary, but at least every three months. Board meetings may be convened by the Chairman or upon the reasonable request of at least 2 directors or the Director General. For the decisions to be valid, it is necessary that the majority of the Board members participate in the meeting and the decision has to be made by majority of the votes validly casted. If a Director has, directly or indirectly, interest in a certain business, contrary to the Company's interests, the Director has to inform the other directors and the internal auditor of such matter and he will not take part in any discussion related to such business. This obligation incurs when the Director is aware that the husband, wife, relatives or in-laws up to the IV<sup>th</sup> degree inclusively are

interested in such business. A minute will be drafted after each Board meeting underlying the resolution of the Board that will include all decisions made in the meetings.

### **Advisory Committees**

The Board of Directors is supported by two advisory committees, namely: the nomination and remuneration committee and the audit committee.

The Audit Committee has legal competencies provided in Art. 47 of GEO No. 90/2008 related to statutory audit of annual financial statements, which consist mainly in monitoring the financial reporting process, the internal control, the internal audit and risk management systems within the company, as well as in controlling the statutory audit activity related to annual financial statements.

The Nomination and Remuneration committee has, basically, the competence to evaluate beforehand and to recommend candidates as members of the Board of Directors and as executive directors, and it can be assisted in this approach by an independent expert specialized in human resources recruitment. As related to remuneration, the main duty of the committee is to elaborate *an annual report on the remunerations and other benefits given to directors and executive directors during the financial year*, report that is presented to the General Meeting of Shareholders which approves the annual financial statements (according to Art. 55, par. (2) of GEO No. 109/2011).

***Responsibilities and Duties of the Nomination and Remuneration Committee*** are as follows:

- 👉 identifies the directors' selection criteria;
- 👉 advances proposals for director positions;
- 👉 drafts and submits to the Board the candidates selection process for executive director and other management positions;
- 👉 assists the Board of Directors in the fulfilment of personnel policy control, analysis and assessment;
- 👉 identifies criteria and objectives required for elaborating the remuneration scheme on the basis of performance criteria;
- 👉 Drafts the directors and executive directors remuneration policy that will include at least:
  - a) Remuneration structure, with explanations on the fixed and variable component;
  - b) Performance criteria that substantiate the variable component of remuneration, the ratio between actual performance and remuneration;
  - c) Reasons behind any annual bonus scheme or non-cash benefits;

d) Information on the term of the contract, negotiated notice period, the amount of the damages for dismissal without just cause;

- 👉 Submits proposals for remuneration of executive directors and other management positions;
- 👉 Requires the Board of Directors to submit to the GMS for approval the remuneration policy, policy applicable for remuneration of board members, provides the reasons, in connection with the specific duties of their assignments within advisory committees, the number of meetings, the scope and performance criteria established in the mandate contract;
- 👉 Drafts and presents to the GMS which is in charge with the approval of annual financial statements, an annual report on the remunerations and other benefits granted to the directors and executive directors during the financial year;
- 👉 Submits quarterly activity reports to the Board;
- 👉 Fulfils any other responsibilities that are established as its duties, or provided by the law in force.

***Responsibilities and Duties of the Audit Committee*** are as follows:

- 👉 Monitors the financial reporting process;
- 👉 Monitors the effectiveness of internal control, audit, and risk management systems, as the case may be, within the company;
- 👉 Monitors the statutory audit of annual financial statements and of consolidated annual financial statements;
- 👉 Verifies and monitors the independence of the statutory auditor or of the audit firm and, especially, the supply of additional services to the audited entity;
- 👉 Recommends the Board of Directors the appointment of a statutory auditor or of an audit firm, as the case may be;
- 👉 Reviews the reports of the statutory auditor or audit firm related to essential aspects arising of the statutory audit and, especially, related to significant deficiencies of the internal control related to financial reporting;
- 👉 Submits quarterly activity reports to the Board.

Considering the changes within the Board of Directors during the financial year 2013, the members of the advisory committees were the following:

*Between January 1- February 28, 2013:*

I) Nomination and Remuneration Committee:

- ✍ Diaconu Gelu-Stefan

✎ Cosmeanu Stefan

II) Audit Committee:

✎ Musat Eufemia

✎ Cighi Adrian

*Between March 1– May 17, 2013:*

I) Nomination and Remuneration Committee::

✎ Diaconu Gelu-Stefan

✎ Cosmeanu Stefan

✎ Musat Eufemia

II) Audit Committee:

✎ Diaconu Gelu-Stefan

✎ Cosmeanu Stefan

✎ Cighi Adrian

*Between May 18 – September 11, 2013:*

I) Nomination and Remuneration Committee:

✎ Volintiru Constantin Adrian

✎ Negrut Aurora

✎ Musat Eufemia

II) Audit Committee:

✎ Doros Eugen Dragos

✎ Metea Virgil Marius

✎ Musat Eufemia

*Between September 12 – December 31, 2013:*

I) Nomination and Remuneration Committee:

✎ Volintiru Constantin Adrian

✎ Negrut Aurora

✎ Musat Eufemia

II) Audit Committee:

✎ Doros Eugen Dragos

✎ Volintiru Constantin Adrian

✎ Musat Eufemia

On the date hereof, the advisory committees' structure is the following:

I) Nomination and Remuneration Committee:

✎ Negrut Aurora

✎ Popescu Ecaterina

✎ Klingensmith Davis Harris

✎ Jansen Petrus Antonius Maria

II) Audit Committee:

✎ Klingensmith Davis Harris

✎ Jansen Petrus Antonius Maria

### Director General

In compliance with the company's Articles of Incorporation "*the Board of Directors shall assign, totally or part of, the management competences of the Company to one or more executive directors, appointing one of them as Director General*" art.24 paragraph (1), "executive director" means "*the person to whom the Board of Directors delegated authority to manage the company*" art. 24, paragraph (15).

The Board of Directors appointed Mr. Virgil Marius Metea as Director General and delegated him the following responsibilities and duties:

**A. Responsibilities and duties related to internal management:**

- ✎ approves the organization chart;
- ✎ approves the Organization and Operating Rules as well as other internal documents regulating the activity of the company related to its employees;
- ✎ approves the employment, promotion and dismissal of employees;
- ✎ approves the responsibilities and duties of the employees;
- ✎ approves the specific operations necessary and useful for achieving the scope of activity;
- ✎ fulfils any accessory duties, namely any acts and special operations required and useful for achieving the above mentioned duties ;

**B. Responsibilities and duties related to the representation of the company:**

- ✎ represents the company when concluding/issuing legal documents;
- ✎ represents the company in pre-contractual, administrative and/or legal procedures;
- ✎ fulfils any accessory duties, namely any acts and material operations required and useful for achieving the above mentioned duties.

The director general has the obligation to inform periodically the Board of Directors on how assigned duties were carried out, and he the right to request and to obtain instructions on the manner of exercising the assigned duties.

### Internal Audit

The internal audit missions were set further to performing the risk analysis.

The 2013 Annual Plan draft, together with the supporting documents, were submitted for the Director General's approval on November 30, 2012.

The company's activities review was the starting point of the Annual Plan. The risks affecting the company's activities and the relating risk assessment were also included in the Annual Plan. Risk assessment factors/criteria were set by taking into account the recommendations for the following 5 year contained in Romgaz General Internal Audit Norms:

- internal control assessment;
- quantitative assessment;
- qualitative assessment;
- legislative assessment;
- personnel service time.

The calculation methodology of the time available for the annual internal audit plan – according to the form coded by the internal procedure 21F-05, shows that there are:

- 217 days as total available calendar days;
- 164 days as days available for internal audit missions.

In compliance with the law, the remaining 53 days are used for other internal audit activities: annual reports, annual and strategic planning of the internal audit quality improvement program, professional training and other requirements made by the management etc.

The 2014 Audit Plan includes 3 conformity audit missions:

- Financial Management Control January 27-March, 31, 2014;
- Natural gas compression activity April 4 – July 14, 2014;
- Prevention and labour safety September 1 – November 18, 2014.

Below are the H1 2014 **audit missions**:

*I. Assurance mission related to financial management control*

The following audit objectives were pursued:

- Internal Control/Management System Office within the specific organisation unit having the following audit objectives:
  - General consideration on Romgaz internal control/management system and the “Self-assessment of implementing the internal control/management system” made by the Financial Management Control Office;
  - Organisation and operation of Financial Management Control Office according to Standard 2 – “Duties, tasks and responsibilities” of Public Finance Minister Order no. 946/2005;
  - Organisation and operation of Financial Management Control Office according to Standard 17 – “Procedures” of Public Finance Minister Order no. 946/2005
- Activity planning, having the following audit objectives:
  - „Objectives” and „Performance Indicators” of Financial Management Control Office recorded in Romgaz “Objectives Document”;
  - Correctness and completeness of the “Activity/Control Program” prepared Financial Management Control Office;
  - In compliance with the provisions of Government Decision no.1,151/2012 on general and specific objectives, control themes applicable during Financial Management Control Office controlling activity;

- Assessment of „Measures to be implemented” specified in the control protocols made by Financial Management Control Office;
- Carrying out the audit by pursuing the following audit objectives:
  - Verification of internal regulation compliance and of specific control themes in the control protocols made by Financial Management Control Office;
  - Correctness and completeness of Control Protocols;
- Reporting activity having the following audit objectives:
  - Compliance with internal regulations on reporting methods;
  - Completeness of the „Annual Report” of the Financial Management Control Office.

For improving the Financial Management Control Office activity, the internal auditor team made 26 recommendations in Audit Report no. 12,018/April 2014.

## ***II. Assurance Mission for the Natural Gas Compression Activity***

The general objectives of this mission were those indicated above; among the audit objectives are:

- Existing proposals for substantiating the required number of employees based on jobs, positions, objectives and “Labor and Personnel-Related Norms”;
- Organizing and monitoring personnel records according to Standard 3 – “Competence, Performance” of Public Finance Minister Order no. 946/2005;
- Professional training of employees working at natural gas compressor stations;
- Analysis and verification of gas compressing stations organization according to Standard 6 – “Organization Structure” of Public Finance Minister Order no. 946/2005;
- Drafting and monitoring of „Risk Registry” for the company’s compression stations;
- Risk mitigation strategy and planning through the implementation of “Risk Mitigation Measures” according to Standard 11 – “Risk Management” of Public Finance Minister Order no. 946/2005;
- Existence and applicability of operation procedures and working instructions for gas compressing sections/stations;
- Daily, monthly and annual reporting in the field of gas compression.

We specify that this mission is currently a Report Draft no. 20,186/July 17, 2014. It was submitted for approval to Medias, Targu Mures and Ploiesti Branch (22 recommendations were drafted).

After publishing Resolution no. 1,086/December 11, 2013 on approving the General Norms for the implementation of public internal audit in the Official Gazette no. 17/January 10, 2014, the Internal Audit Office prepared specific Enforcement Rules on the public internal audit activity in Romgaz (no. 14,872/May 29,2014). These Rules



were approved by the company's Director General and endorsed by the Audit Compartment within the Ministry of Economy. During the upcoming period of time, the operation procedures for the audit activity will be updated in accordance with the approved specific Rules ((21PO-01 – Strategic and Annual Planning; 21PO-02 – Performing an Internal Audit Mission; and 21PO-03 – Internal Audit Reporting Activity).

### **Corporate Social Responsibility (CSR)**

The CSR activities carried out by Romgaz are voluntarily; they go beyond the legal responsibility the company has to fulfil because Romgaz is well aware that the role large corporations play in the community is currently redefined as a result of market globalization and new social and environmental challenges.

Romgaz social responsibility strategy submitted for approval to the company's management targets two aspects fundamental for business ethics: being aware and recognizing the responsibility of the impact the company's decision-making and actions has on the community and on the sustainable development.

Identifying and engaging all interested parties is an evolutionary process in connection with environmental, social and economic issues and the first steps of this process were determined by the understanding of the benefits of an active and continuous dialog for intensifying the sustainability of strategic decisions of the company.

The Q1 2014 for Romgaz meant the start of the CSR process by assuming its policy and the perspective and comprehensive assessment of efficient and strategic engagement of the interested parties in order to get an idea and understand the importance of key problems and expectations of interested parties groups.

Based on best practices and recommendations of leading organizations and professionals who recommend a continuous recognition of the importance of the interested parties to be engaged in promoting a responsible behaviour for the environment and society, Romgaz developed and implemented a plan for identifying the interested parties to provide them a proper answer to their concern and expectations.

The partially or fully support of social responsibility actions and initiatives undertaken in the limit of financial resources included in the budget proved the company's proactive attitude for social responsibility and increased the level of awareness of the interested parties with regard to the importance and benefits of applying social responsibility.

#### *CSR projects, actions and initiatives*

*In collaboration with local authority representatives, organizations and educational institutions, Casa Gazelor Naturale Romgaz (House Natural Gas Romgaz) hosted various events for the community such as book launches, exhibitions of paintings and graphics, symposium or celebrating events such as "Earth Day", "Museums Day" or "The Romanian Aviation Day".*

Casa Gazelor Romgaz provides an adequate space suitable for this kind of projects where the attendants are locals or invited persons to sessions and projects. The history of events proves that Romgaz is opened for the interested parties and culture.



During February 10, 2014 to February 21, 2014, the eighth grade students from Medias attended the event "Safer Internet Day", where they learned about the danger of using internet in an irresponsible manner.

Through House Natural Gas, Romgaz pays a tribute to history of gas sector and actively involves in organizing events to help developing this sector. Romgaz wishes the valuation of the past history of natural gas by exhibitions and museification of natural gas sector, ensuring the free access to the information through an intelligent national and international documentation and information system and engaging the local community in the organized events as well.

### *Sport*

Romgaz supports the performance of the Romanian sport, its involvement in sports community aiming various sports activities such as football, basket, ninepins, table tennis, tennis and aircraft use.

An example of success is Andreea Dragoman from CS Romgaz Medias, coached by Gheorghe Vaida, who won gold medal with the tennis table Romanian team at the European Championship in Italy.

### *The sport of the mind- Chess*

Romgaz considers Romanian chess promotion as a modality to draw attention to the importance of this sport in the education and development the intelligence of young people. Starting with this fall, chess will be included in schools as an optional discipline, based on the agreement signed between the Ministry of Education and The Romanian Chess Federation, with the occasion of opening the Romanian Chess Championship "Elisabeta Polihroniade".

Romgaz supported the organizing of the Romanian Chess Championship "Elisabeta Polihroniade" – mixed teams, this year too, an event attended by 200 students. The final took place at Olănești, from June 12, 2014 to June 15, 2014.

### *Education, Culture and Community*

In its attempt to materialize its responsible attitude, Romgaz proved to be a present partner in supporting and implementing various social, educational, cultural programs and the health and religion fields as well.

The campaign "Give a book, create a library" from April 2, 2014 to June 2, 2014, was supported by Romgaz in order to encourage the education. The Romgas employees donated approximately 400 books to the children from "Sfântul Andrei" Day Centre from Medias.

Romgaz focuses on supporting the activities of interest for the community, providing support in organizing events with a positive impact on the education and development of the society, such as: the "Academic Days ULBS 45" Sibiu, the international conference "*Challenges, Performances and Tendencies in the Organization Management*", organized by the Management Academic Society of Romania, the 41th edition of the International Symposium ICOHTEC 2014, on the theme "Technology in times of transition" held by The Transylvania University from Brasov.

Romgaz supported the International Theatre Festival from Sibiu which is probably the most complex festival of the kind from Romania, being internationally recognized as the third art festival of its kind in Europe.



The European world of film is supported by Romgaz too by organizing "*The International Film Festival MECEFF*" and reading is encouraged by organizing the second edition of the *Transylvania Book Festival* in collaboration with the Eikon Cultural Association, Cluj Napoca.

## IX. Performing the Mandate Contract/the Directors' Contracts

*The timeline* of the directors' contracts, the mandate contract, the Management Plan and the Directors' Plan is the following:

- ✎ **June 12, 2013** – The Board of Directors' Resolution no. 8 approves the appointment of Mr. Virgil Marius Metea as executive director - Director General;
- ✎ **July 26, 2013** – The GSM Resolution no. 12 approves the Director Agreement to be concluded with the members of the Board of Directors;
- ✎ **September 25, 2013** – the GSM Resolution no 16 approves the 2013-2017 Directors' Plan prepared and presented by the Board of Directors;
- ✎ **December 16, 2013** – the Board's Resolution no 29 approves the Mandate Contract between Romgaz and Mr. Virgil Marius Metea as executive director-Director General.
- ✎ **January 29, 2014** – the Boards's Resolution no. 1 approves the "Management Plan for Romgaz Director General's Mandate Contract term *i.e.* 2013-2017".

## 9.1. Objectives and performance criteria

The Director General's Management Plan encloses his vision for the fulfilment of the company's strategic objectives as provided in the Directors' Plan and the fulfillment of performance criteria and objectives set in the Directors' Agreements.

The Director General's performance criteria and objectives are the same with the performance criteria and objectives provided in the Directors' Agreements.

The main **performance objective** provided in the Directors' Agreements and the Management Contract may be summarized as follows:

- Increasing the company's gas resources and gas reserves portfolio by discovering new resources and by developing and improving the recovery degree of already discovered resources;
- Consolidating the company's position on the electricity supply market;
- Optimization, development and diversification of underground activity by reconsidering its importance for ensuring safety, continuity and flexibility in supplying natural gas;
- Increasing the company's performance;
- Identification of new growth and diversification opportunities;
- Improving the company's organization structure, including the reorganization of the internal audit function.

Together with the specific measures taken for fulfilling each objective, Romgaz committed to implement general measures supporting the fulfillment of the company's strategic objectives. Such measures target the following activity segments:

- Human resources management;
- Corporate governance and social responsibility;
- Optimization of budgeting and control process;
- Improving the company's image;
- Implementation of legal provisions on legal separation of UGS activity;
- Developing the role of the company's risk management.

In view of the fact that the Management Plan was approved only in January 2014, the reporting of measures and actions undertaken to fulfill the company's strategic objectives begins only in Q1 2014.

The measures and actions for the fulfillment of strategic objectives, as set in the Directors' Plan, are quarterly and annually monitored by the following **indicators and performance criteria**:

No.	Indicator	U.M.	Performance criterion	Indicator	Weighting coefficient
0	1	2	3	4	5
1.	EBITDA	thousand lei	increasing	4.50%/year	0.25
2.	Revenue	thousand lei	increasing	6%/ year	0.20
3.	Labor productivity	lei/person	increasing	6%/ year	0.10
4.	OPEX for lei 1000 operating income	lei	decreasing	0.60%/ year	0.10
5.	Geological resources	million m <sup>3</sup>	decreasing	1%/ year	0.10
6.	Natural gas production decline	%	keeping stable	1.5%/ year	0.15
7.	Outstanding payments	thousand lei	keeping stable	0	0.10

For the purpose of mitigating pronounced fluctuations of the indicators due to external factors beyond the company's management control, the indicators are calculated by means of relating their resulting value over the reporting period to the arithmetic means of the indicators' values resulting during the past three time periods previous to the reporting period.

In view of the fact that:

- ✎ Government Decision provisions no. 831 dated August 4, 2010 approved the selling by the Ministry of Economy, Commerce and Business Environment (through OPSPI) of 15% of SNGN Romgaz S.A. share capital;
- ✎ the shares selling process, respectively the approval for trading of shares on the regulated market operated by Bucharest Stock Exchange and of GDRs on London Stock Exchange was finalized in November 2013;
- ✎ from an accounting perspective, by the time shares were admitted for trading on a regulated market Romgaz carried out its activities in accordance with Public Finance Ministry Order no. 3055/2009;
- ✎ in 2012, after issuing Order no. 881 dated June 25, 2012, the Public Finance Minister decided to expand the scope of IFRS. According to this piece of legislation, the companies whose securities are admitted for trading on a regulated market must apply as of 2012 the IFRS when preparing the annual financial statements;

According to Public Finance Minister Order no. 1,121/2006, these entities had the option (not the obligation) to prepare separate financial statements based on IRS for other users than the Romanian state entities.

Order no. 881/2012 repeals Article 4 of Order no.1,121/2006 requesting the IFRS applying entities to also draft financial statements in accordance with national accounting provisions;

- ✎ the Public Finance Minister Order no. 1,286/October 1, 2012 approved the Accounting Regulations complying with IFRS applicable to companies whose securities are admitted for trading on a regulated market.

Therefore, Romgaz is obliged to apply IFRS as of 2013.

Because prior to trading of shares the company's statutory accounting was according to Public Finance Minister Order 3055/2009 and as of 2013 it is according to IFRS, some clarifications are due in relation to how the performance indicators' achievement degree is calculated. The Board of Directors approved on November 13, 2013 the required clarifications:

- ✎ "quarter" means the accumulated time starting from the beginning of the year until the end of the quarter for which performance indicators are calculated;
- ✎ for comparison purposes, as of 2014, for the interim periods of the year (QI, QII and QIII), the indicators relating to the similar time periods of previous 3 years which were calculated according to Public Finance Ministry Order no. 3055/2009 are established as follows:

$$Indicator_{trim.i}(IFRS) = \frac{Indicator_{trim.i}(OMFP\ 3055)}{Indicator_{an}(OMFP\ 3055)} \times Indicator_{an}(IFRS),$$

where:  $i=1\div 3$ ;

- ✎ for 2013, indicators are calculated based on the financial statements prepared according to Public Finance Ministry Order no. 3055/2009; at the end of the year, these are recalculated according to IFRS;
- ✎ adjustments are made at the end of the year after the approval of financial statements when annual indicators are calculated according to IFRS;
- ✎ the target indicators will be set at the beginning of each year (after closing the previous year's financial statements). They are calculated as an average over the past three years and of the envisaged performance indicator.

## 9.2. Q II 2014 Results

The achievement of performance indicators and criteria in QII 2014 is shown below:

	Weighting factor	Indicator	Average value 2011-2013	Target value	Achieved value	Achievement rate	Weight
1	2	3	4	5	6	7	8=2x7
<b>EBITDA</b>	0.25	+4.5%	1,077,318.1	1,125,797.4	1,630,907.1	<b>144.9</b>	<b>36.23</b>
<b>CA</b>	0.20	+6%	2,031,511.0	2,153,401.7	2,526,342.2	<b>117.3</b>	<b>23.46</b>
<b>W</b>	0.10	+6%	343.0	363.5	403.8	<b>111.1</b>	<b>11.11</b>
<b>C<sub>expl</sub>/V<sub>expl</sub></b>	0.10	-0.6%	653.1	649.2	543.9	<b>119.4</b>	<b>11.94</b>
<b>RES</b>	0.10	+1%	603.3	609.4	805.0	<b>132.1</b>	<b>13.21</b>
<b>d<sub>Q</sub></b>	0.15	-1.5%					
			2,894.5 <sup>2</sup>	2,808.3	2,865.6	<b>102.0</b>	<b>15.30</b>
<b>P<sub>res</sub></b>	0.10	0	0	0	0	<b>110.00</b>	<b>11.00</b>
<b>Total</b>	<b>1.00</b>	-	-	-	-	-	<b>122.25</b>

<sup>2</sup> represents the QII 2012 production, 2012 is considered "base-line year".

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EBITDA	- (lei thousand);
CA	- revenue (lei thousand);
W	- labour productivity (lei thousand/employee);
$C_{expl}/V_{expl}$	- operating expenses at 1000 lei operating income;
RES	- volume of geological resources (million m <sup>3</sup> );
d <sub>Q</sub>	- gas production decline (%);
P <sub>res</sub>	- outstanding payments (thousand lei).

The performance indicators and objectives achievement degree is **122.25%**.

The achievement of performance indicators and of the performance criteria has been positively influenced by:

- ☛ EBITDA - higher by 505 million lei (+44.9%) compared to target value;
- ☛ Revenue- higher by 373 million lei (+17.3%) compared to target value;
- ☛ Labour productivity - higher by 40.3 thousand lei/employee (+11.1%) compared to target value;
- ☛ Operating expenses at 1000 lei operating income (lei) - lower by 105.3 lei (-16.2%) compared to target value;
- ☛ Volume of geological resource- higher by 195.6 million m<sup>3</sup> (+32.1%) compared to target value;
- ☛ Gas production decline - lower by 57.3 million m<sup>3</sup> compared to target value.

## Signatures:

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**Chairman of the Board of Directors ,**

**AURORA NEGRUȚ**

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**Director General,**

**MARIUS VIRGIL METEA**

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**Economic Department Director,**

**LUCIA IONAȘCU**

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