



**Societatea Nationala de Gaze
Naturale “ROMGAZ” SA**

Board of Directors’ Report

2014





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SUMMARY

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I. ROMGAZ 2014 - OVERVIEW

1.1. Results

The operating and financial performance of the company improved significantly during 2014, as compared to 2013, which is reflected by the summary of the main results:

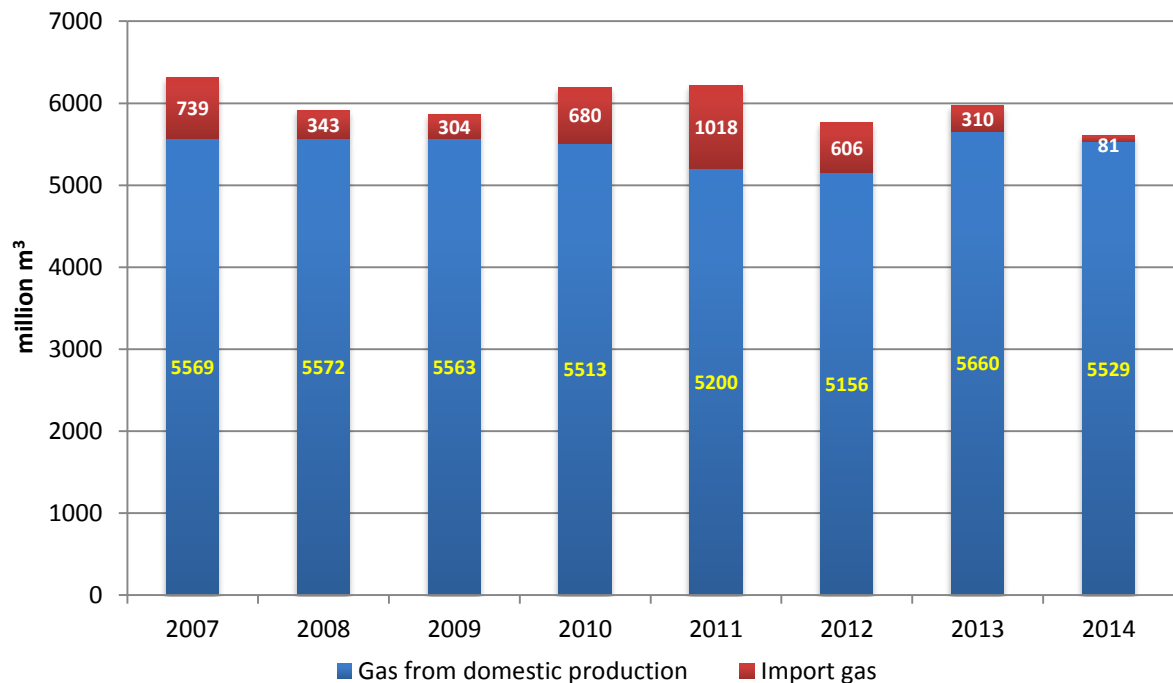
- **EBIT** increased by 45.48%, from RON 1,177 million in 2013 to RON 1,713 million in 2014;
- **EBITDA** increased by 27.04% from RON 1,960 million to RON 2,490 million;
- **EPS** (net profit/share) is 3.66 RON/share, recording an increase of 41.86% as compared to the value of 2.58 RON/share in year 2013;
- **E&P** (exploration, production): production was stabilized at 5.66 billion m³ for the fourth consecutive year, annulling therefore the production decline. The gas production was in 2014 of 5,663.9 million m³, by 0.23% higher than the production of 5,650.8 million m³ in 2013;
- **Capital Expenditure** amounted RON 1,085.5 million representing an increase of 27.97% as compared to the level achieved in 2013 (RON 848.2 million);
- **Revenues from the underground storage activity** increased by RON 60.9 million, namely by 16.69%;
- **Revenues obtained from the electric power sector** were in amount of RON 424.2 million, by 78.84% higher than the amount obtained in 2013 of RON 237.2 million. Moreover, Romgaz production represents 2.56% of the total Romanian electric power production;
- **The exploration program** materialized by 4 new gas discoveries and by confirming 3 previous discoveries.
- All investment expenses and the working capital have been **financed by own sources**.

Operational results (million m³):

Item no.	Specifications	2012	2013	2014	Rations
0	1	2	3	4	5=4/3x100
1.	Gross production- total , out of which:	5,663.3	5,650.8	5,663.9	100.23%
1.1.	*own gas	5,474.2	5,467.8	5,469.0	100.02%
1.2.	*Schlumberger (100%)	189.1	183.0	194.9	106.50%
2.	Technological consumption	75.7	78.3	81.3	108.83%
3.	Net gas production (1.-1.2.-2.)	5,398.5	5,389.5	5,387.7	100.18%
4.	Own gas stored in UGS	582.5	799.7	564.8	70.63%
5.	Own gas withdrawn from UGS	251.0	621.3	601.0	96.73%
6.	Difference from conversion to Gross Calorific Value	14.0	12.5	9.8	78.40%
7.	Delivered own gas (3.-4.+5.-6.)	5,053.0	5,198.6	5,414.1	104.15%
8.	Gas delivered to CTE Iernut and Cojocna		269.1	445.0	165.37%
0	1	2	3	4	5=4/3x100
9.	Own gas delivered to the market (7.-8.)	5,053.0	4,929.5	4,969.1	100.80%
10.	Gas from joint ventures - total , out of which:	197.5	188.3	180.6	95.91%

	*Schlumberger (50%)	94.5	91.5	97.5	106.56%
	*Raffles Energy (37,5%)	6.9	3.5	0.8	22.86%
	*Amromco (50%)	96.1	93.3	82.3	88.21%
11.	Gas acquisition from domestic production	8.5	13.3	17.7	
12.	Traded domestic gas (9.+10.+11.)	5,259.0	5,131.1	5,167.4	100.71%
13.	Gas delivered from domestic production (8.+12.)	5,259.0	5,400.2	5,612.4	103.93%
14.	Delivered import gas	605.8	309.5	81.1	26.20%
15.	Total delivered gas (13.+14.)	5,864.8	5,709.7	5,693.8	99.72%
*	UGS gas extraction services	1,892.7	2,017.9	1,915.4	94.92%
*	UGS gas injection services	2,158.0	1,993.1	1,737.0	87.15%

Romgaz is the largest gas supplier in Romania. The evolution of gas supplies¹ during 2007-2014 is indicated below:

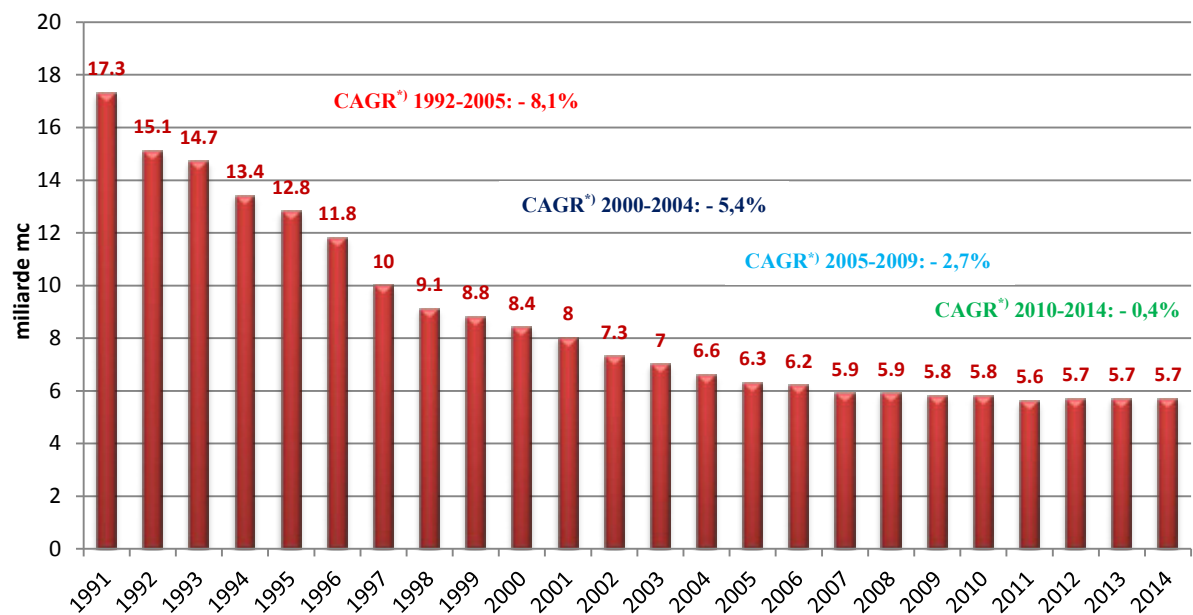


Although most reservoirs are mature because they have been producing for more than 30 years and the volumes produced have decreased significantly, during the past years the production decline rate has been stabilized at around 1% due to a mix of measures taken by the company, such as:

- ↳ 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 1991-2014 is shown below:

¹ comprises own gas from domestic production, including gas delivered to CTE Iernut and Cojocna, 50% of the gas from Schlumberger and gas purchased from Romanian domestic production from other producers



*) – CAGR (Compound Annual Growth Rate)

Financial results:

* RON million *

Item no.	Indicator	2013	2014	Ratios (2014/2013)
0	1	2	3	4=3/2x100
1	Income – total, din care:	4,136.7	4,708.9	113.83%
	*operating income	4,003.5	4,628.8	115.62%
	*financial income	133.2	80.1	60.14%
2	Revenue	3,894.3	4,493.3	115.38%
3	Expenses – total, out of which:	2,836.1	2,920.6	102.98%
	*operating expenses	2,822.8	2,874.9	101.85%
	*financial expenses	13.3	45.7	346.21%
4	Gross profit	1,300.6	1,788.3	137.50%
5	Profit tax	305.0	378.4	124.02%
6	Net profit	995.6	1,409.9	141.61%
7	EBITDA	1,959.8	2,489.7	127.04%
8	Earnings per share-EPS (RON)	2.58	3.66	141.86%
9	Return on sale (gross profit/ revenue x 100)	33.40%	39.80%	119.16%

Note: income and expenses do not include in-house works capitalized as non-current assets.

Romgaz is a company with **considerable contributions to the state budget**, approximately 46.4% of the total income is distributed to the state as taxes, fees, contributions and dividends.

The total amount due to the state in 2014, including VAT, amounts RON 2,929 million, some of the most important contributions represent:

✂ VAT	RON 743.2 million
✂ dividends	RON 693.5 million
✂ profit tax 2014	RON 393.4 million
✂ windfall tax acc. to GO no. 7/2013	RON 376.6 million
✂ petroleum royalty	RON 301.9 million
✂ tax on salaries and related social contributions	RON 251.3 million
✂ tax on special constructions	RON 91.6 million

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 2014, Romgaz scheduled investments worth *RON 1,341.38 million* and invested RON 1,085.5 million, approximately 28% less. Compared to the achievements of 2013, the investments were in 2014 higher with RON 237.2 million, financed exclusively from own sources.

The value of fixed assets commissioned during the analysed period was approx. RON 569 million.

The company made during 2012-2014 investments worth aprox. **RON 2.45 billion**, as follows:

Year	2012	2013	2014	Total
Value (RON thousand)	519,053	848,247	1,085,497	2,452,797

Summary of investments on main chapters, is shown in the table below:

* RON thousand *

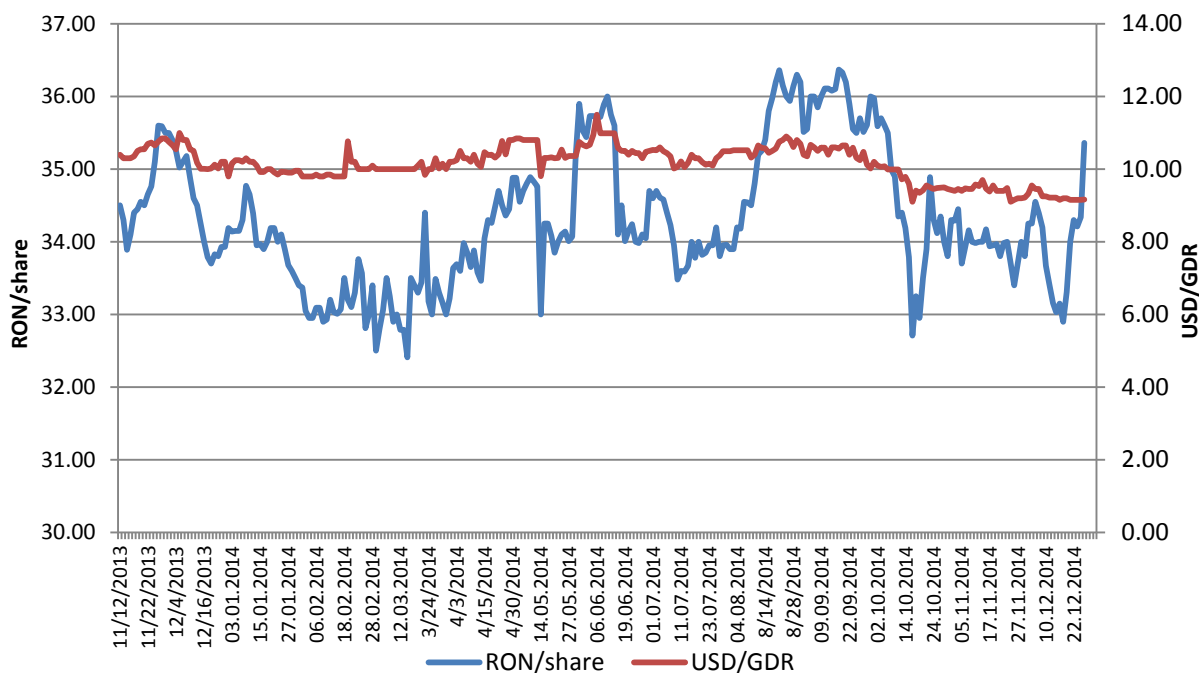
Investment chapter	Scheduled	Actual	%
1	2	3	4=3/2x100
I. Geological exploration works for the discovery of new gas reserves	552,680	427,906	77.42
II. Exploitation drilling works, putting into production of wells, infrastructure and utilities	223,748	159,219	71.16
III. Maintaining the UGS capacity	167,500	159,809	95.41
IV. Environment protection works	17,363	4,825	27.79
V. Refurbishment and modernization of installation and pieces of equipment	265,406	254,631	95.94
VI. Independent equipment and installations	92,979	63,898	68.72
VII. Expenses in connection with studies and projects	21,709	16,209	74.66
TOTAL	1,341,385	1,085,497	80.9

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

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

Performance of Romgaz shares and GDRs from listing until December 31, 2014 is shown below:



1.2. Highlights

Financial year 2014

January 1, 2014

GEO no. 102 of November 14, 2013 became effective, on amending and supplementing Law no. 571/2003 on the Fiscal Code and regulation of fiscal-financial measures such as, a tax on special constructions, which is calculated by applying 1.5% to the value of the constructions held by tax payers on December 31 of the previous year.

March 26, 2014

The Government issued Order no. 13/2014 for the amendment of Annex to the Government Ordinance 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 April 14, 2014 is shown below:

Tariff component	M.U.	Tariffs (April 30, 2013- April 14, 2014)	Tariffs (April 15, 2014- March 31, 2015)
Volumetric component for the natural gas injection	RON/MWh	2.37	2.53
Fixed component for capacity reservation	RON/MWh/full storing cycle	13.12	13.14
Volumetric component for the natural gas withdrawal	RON/MWh	1.80	1.80

June 11, 2014

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

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 Q3 2014 and shall be updated until Q4 2014 for non - household customers, except heat producers for the amount of natural gas used in heat production in CHP plants and heating plants destined for consumption of the population.

July 11, 2014

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

September 22, 2014

By Law no. 123 for amending Law no. 571/2003 on the Fiscal Code the rate of social insurance contributions (CAS) paid by employers will be reduced by five percentage

points: from 20.8% to 15.8% for normal working conditions, from 25.8% to 20.8% for IInd degree special working conditions and from 30.8% to 25.8% for Ist degree special working conditions, respectively.

September 22, 2014

The Government issued *Government Ordinance no. 816/2014 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 Q4 2014 for non - household customers, except heat producers for natural gas used in heat production in CHP plants and heating plants for consumption of the population. For household customers and heat producers the price remains at the level of Q3 2014, namely RON 53.30/MWh.

September 30, 2014

By *Law no. 127 for amending and supplementing Electricity and Gas Law no. 123/2012 and Petroleum Law no. 238/2004* the timetable for aligning the domestic production gas price to the prices of import gas was amended, in the sense that the regulated gas supply, and the supply based on framework contracts for households, will be extended from July 1, 2018 until July 1, 2021.

December 18, 2014

By *Resolution no. 26/2014 of the Board of Directors* Mrs. Baciú Sorana Rodica was appointed as interim Director of the Company, starting with January 19, 2015 until the General Meeting of Shareholders. Mrs. Baciú Sorana Rodica was appointed for the vacancy following the resignation of Mr. Klingensmith David Harris.

December 19, 2014

The National Energy Regulatory Authority issued *Order 161/2014 on approving the allocation methodology of gas quantities from the production activity necessary for covering the consumption of household customers and heat producers, only for the gas quantity used to heat production in CHP plants and heating plants for consumption of the population*.

After financial year 2014

January 8, 2015

By *Law no. 11 related to the approval of GEO no. 102 of November 14, 2013 on amending and supplementing Law no. 571/2003 on the Fiscal Code and regulation of fiscal-financial measures* the tax on special constructions has been reduced starting with 2015 from 1.5% to 1% from the value of the constructions held by tax payers on December 31 of the previous year.

January 29, 2015

On January 29, 2015, by *Resolution no. 1/2015 of the Board of Directors* Mr. Dorcioman Dragos was appointed as interim Director of the Company, starting with February 2nd, 2015 until the General Meeting of Shareholders. Mr. Dorcioman Dragos was appointed for the vacancy following the resignation of Mr. Manea Sergiu Cristian.

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 in 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

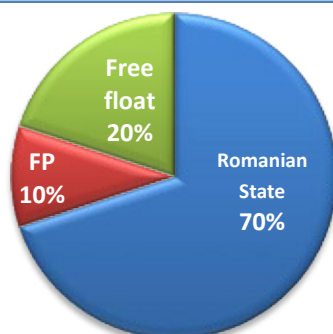
Web: www.romgaz.ro

E-mail: secretariat@romgaz.ro

Bank accounts opened with: Banca Comerciala Romana, BRD-Groupe Societe Generale, Citibank Europe, Nextebank, Unicredit Tiriac Bank, Raiffeisen Bank, Banca Transilvania, ING Bank, Eximbank, CEC Bank.

Shareholder structure

	Number of shares	%
The Romanian State ²	269,823,080	70.0071
SC "Fondul Proprietatea" SA (FP)	38,542,960	10.0002
Free float	77,056,360	19.9927
Total	385,422,400	100.0000



² The Romanian State through the Ministry of Energy, Small and Medium Enterprises and the Business Environment

During the financial year 2014 the Company ***did not perform transactions with own shares*** and on December 31, 2014 it did not hold own shares.

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 and all these elements works as a whole.

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, Mures county, 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, code 82108, Slovakia.

On December 31, 2014 the Company **has no subsidiaries**.

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.

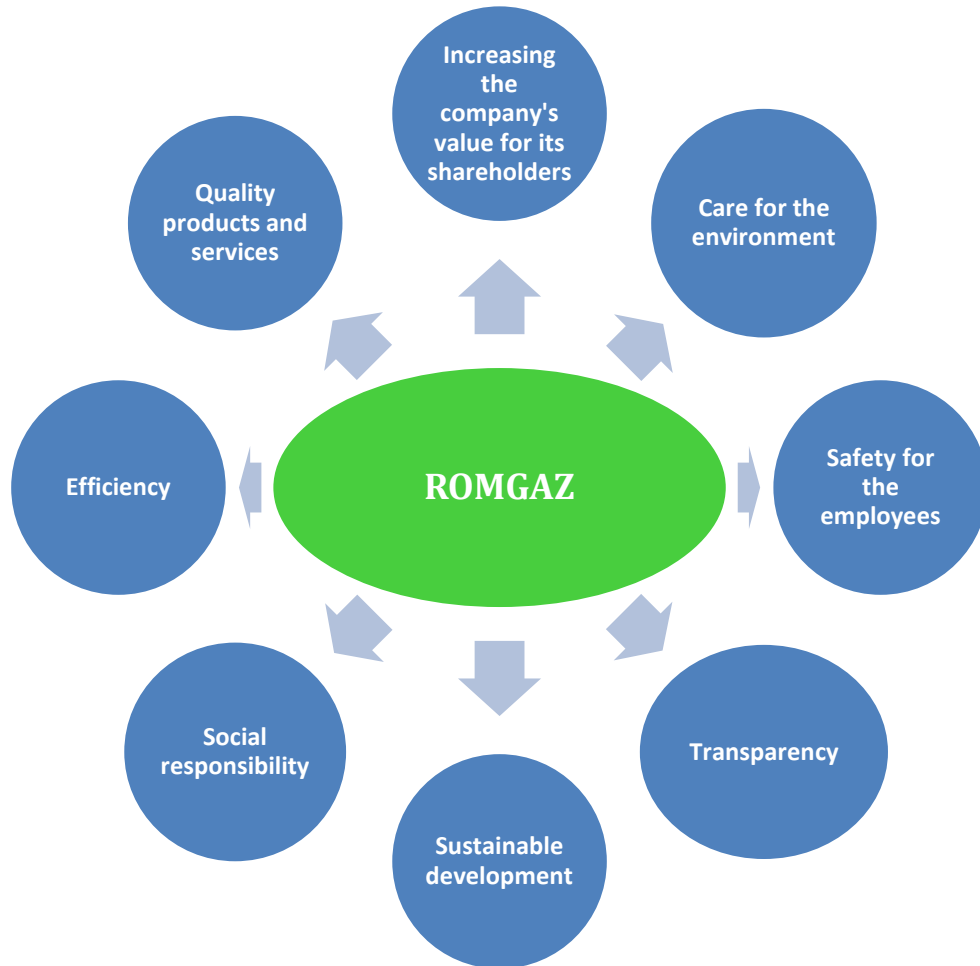
Mission

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, in Romania, 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, based on some concession contracts;
- ✎ 141 commercial fields;
- ✎ 5 reservoirs recording experimental production;
- ✎ exploration and production rights in Slovakia and Poland.

Exploration

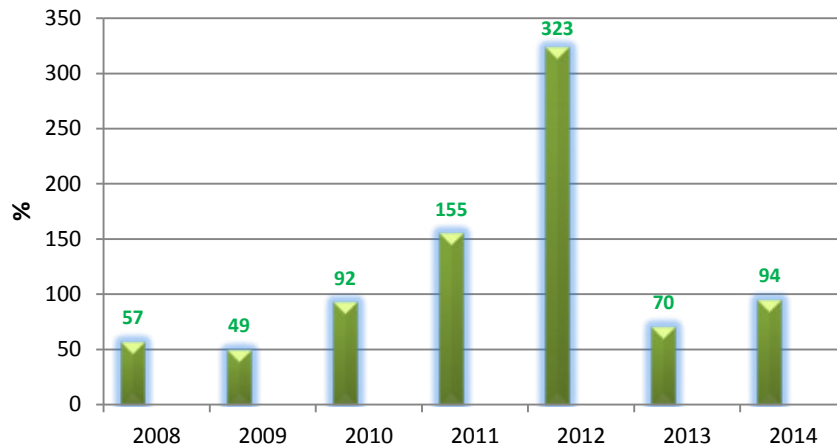
As of October 1997, exploration activity is carried out in 8 blocks in Transylvania, Moldova, Muntenia, and Oltenia in accordance with the Concession Contract approved by Gov. Decision no. 23/2000. During 2012-February 2015, drilling was completed for 41 exploration wells with the following results:

- 14 discoveries with a prospective geological resource (P50) of 15.6 bcm;
- confirmation of hydrocarbon accumulations with a contingent resource (2C) evaluated at cca.10 bcm.

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 maximum reserves replacement ratio of 323% in 2012.

The table below shows the evolution of the reserves replacement ratio during 2008-2014:



Production



The 2014 annual program for petroleum operations considered the dynamics of gas demand, reactivation, recompletion and well workover operations, bringing into production of production wells and of wells resulted from exploration activities, maintenance programs of compressor

and dehydration stations and the dynamics of import gas flows into/out of UGS.

The production of 5,664 million m³ was 1.5% higher than the programmed one, due to:

- the evolution of temperatures during February, May and June;
- reducing the revision period for compressor stations;
- low gas imports and the absence of this flow through Mediesul Aurit (gas production in the Transylvanian Basin has avoided the congestions generated by "take-or-pay" contracts and by the inertness of gas flows in the transmission system).

The production level has been supported by:

- Herepea, Prod-Seleus, Caragele-Est and Varvata discoveries have been brought into experimental production in H2 2013;
- cluster and booster compressors (Ilimbav, Sasausi, Chirpar, Sangeorgiu de Padure, Ludus and Bogata) have been commissioned in 2013;
- bringing into production 12 wells in the commercial fields;
- bringing into production the new discovered field, Armeni in June 2014;
- water removal operations by introducing foam agents;
- commissioning 8 cluster compressors in 2014 at Barghis, Petis, Todiresti, Piscu Stejari, Alunu, Gradistea and of a booster compressor at Ernei;
- the production rehabilitation of mature reservoirs continued having notable results after performing recompletion operations at Beia, Iclanzel, Lunca Tecii, Grebenis and Hurezani-Piscu Stejari.

Thus, the reservoir decline was largely mitigated; reaching in 2014 a 0 decline as compared to the level of 2013.

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 terms 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/January 22, 2013, as amended by Government Decision no. 511/June 26, 2014 and Government Decision no. 816/September 22, 2014, set calendars of domestic gas acquisition price increase with respect to the regulated market. During Q3 (Government Decision no. 511/2014) and Q4 (Government Decision no. 816/2014) the domestic gas price was the same price as in Q2 (Government Decision no. 22/2013).

Until the convergence of prices is reached and to ensure 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).

In terms of supply, Romgaz held during 2007-2014 a national market share ranging between 39% and 46%:

	U.M.	2007	2008	2009	2010	2011	2012	2013	2014
National consumption	bcm	16.4	15.5	13.3	14.0	14.4	13.5	12.5	12.2
Romgaz traded volumes (domestic+ import)	bcm	6.4	6.0	6.1	6.4	6.3	5.9	5.7	5.7
Romgaz market share	%	39.02	38.71	45.86	45.81	43.87	42.82	44.5	46.1

The above quantities include gas from own domestic production, domestic gas purchased from third parties, 100% gas from Schlumberger joint venture and import gas. As compared to previous years, deliveries include in 2014 gas delivered to Iernut and Cojocna for power production.

Well workover, recompletions and special operations

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

The branch performs two types of activities:

- ↳ well workover, recompletion operations and production tests;
- ↳ special well operations.

All *well workover, recompletion operations 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 workover 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, Targu-Mures and 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 units of Soviet origin. The groups have been commissioned between 1963 and 1967.

Cojocna Project occurred as a means to try experimental production from a series of wells resulted further to exploration drilling, in order to determine the production potential of the area. The wells were both far from each other and from the National Transmission System (NTS).

Thus, during 2009-2010 solutions were sought, feasibility and opportunity studies were prepared, and further to their approval it was decided to use the gas from wells 2 and 4 Cojocna as fuel gas for two power production units, each with a power of 1,5 MW, the connection to the National Energy System (NES) not being a major issue.

This pilot project for energy production using units that do not need special works, is an alternative to gas production from isolated wells. In such cases building kilometre long gathering pipes is not worth because of high costs and multiple impediments related to access on outside build-over areas belonging to legal or individual persons.

Commissioning the two power production units using the gas from wells 2 and 4 Cojocna was a technological success but unfortunately a short termed one, because of reduced gas flows that led to intermittent operation of wells and units.

Our specialists focused during 2014 both on productivity stimulation from both wells (reperforation of productive layers, addition of new pay zones) and on setting the best layout of gathering pipes where other isolated wells may deliver, ensuring thereby the necessary gas volumes for both units.

Thus, in 2014 a new feasibility study was prepared with several versions for gas production from isolated wells, such as:

- building a pipeline network to supply the units;
- installing mobile equipment for compressed gas production for motor vehicles and transportation by carrier vehicles in different areas including to the two units (very interesting and promising idea);
- building a pipeline up to Taga compressor station.

Further to approving this study the version chosen was building a network of pipelines to collect gas from neighbouring wells and their transmission to the two power production units. This version is currently being implemented.

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. Historic Overview



Societatea Nationala de Gaze Naturale "ROMGAZ" SA is Romania's most important natural gas producer and supplier. The company's experience in the field of gas exploration and production exceeds 100 years. Its history began in 1909 when the first natural gas commercial reservoir was discovered in Transylvanian Basin upon the drilling of well Sarmasel-2.

The most important historic benchmarks are:



3.3. Mergers and Reorganizations, Acquisitions and Divestment of Assets

In compliance with European and national applicable laws, Romgaz is obliged to legally unbundle the gas storage activity from gas production and supply activities.

Further to adopting Directive 2009/73/CE of the European Parliament and Council on July 13, 2009 concerning common rules of the internal market in natural gas and repealing Directive 2003/55/CE, the Romanian Parliament adopted the Energy and Gas Law no. 123/2012. This was published in the Official Gazette of Romania no. 485 on July 16, 2012 and became effective on July 20, 2012.

According to the provisions of article 141, paragraph 1 of the Law (which transcribes article 15, paragraph 1 of the Directive) a storage operator under a vertically integrated economic operator must be independent from other activities not related to transmission, distribution and underground activities at least from legal, organizational and decision-making perspective.

Therefore, considering the above mentioned matters, it is compulsory to legally separate the gas storage activity from the gas production and supply activities performed in Romania by establishing a separate company to act as independent storage operator.

Both the Directive and the Law recommend as solution to set up an independent subsidiary that should act as storage operator, as follows:

- ❖ article 15 para 2 let. c) of the Directive provides that: *“the storage system operator shall have effective decision making rights, independent from the integrated natural gas undertaking, with respect to assets necessary to operate, maintain or develop the storage facilities. This shall not preclude the existence of appropriate coordination mechanisms to ensure the economic and management supervision rights of the parent company [...]”*
- ❖ article 141 para 3 let. c) of the Law also provides that the: *“storage system operator shall have effective decision making rights, independent from the integrated natural gas undertaking, with respect to assets necessary to operate, maintain or develop the storage facilities, this shall not preclude the existence of appropriate coordination mechanisms to ensure the economic and management supervision rights of the parent company”*

For fulfilling the legal requirements set by the Directive and by Law, respectively, the following steps have been taken:

- ✎ a study has been prepared to identify the best version for performing the legal unbundling of the storage activity from the gas production and supply activity. The solution recommended by Ernst&Young was to create an independent subsidiary, owned 100% by Romgaz to perform gas storage activities;
- ✎ the Board of Directors, endorsed in Resolution no. 22/30.10.2014 at article 10 the incorporation, registration an declaration to the Trade Office Register by Prahova Court the subsidiary *“SNGN Romgaz SA – Filiala de Inmagazinare Gaze Naturale “Depogaz” Ploiesti S.R.L.”;*

- ✎ the Extraordinary General Meeting of Shareholders approved by Resolution no. 10/19.12.2014 (item II) to set up the subsidiary "SNGN Romgaz SA – Filiala de Inmagazinare Gaze Naturale "Depogaz" Ploiesti S.R.L.";

The Articles of Incorporation of the subsidiary was submitted for approval of the shareholders by including it in the agenda of the Ordinary General Meeting of Shareholders on March 17, 2015.

A series of **changes to the organizational structure** have been performed during 2014, as follows:

- the decision of the Director General no. 135/09.05.2014 to modify the organizational structure of STTM Targu Mures, namely to set up within the branch the Car Fleet Monitoring Office and a Trading Office;
- the decision of the Director General no. 67/03.03.2014 to modify the organizational structure of Medias Branch, namely to reorganize production teams from Agnita Gas Production Section;
- the decision of the Director General no. 165/13.06.2014 on the reorganization of production teams of AMC and PRAM sections within Iernut Branch;
- the decision of the Director General no. 224/08.08.2014 to amend the organizational structure of SNGN Romgaz SA – headquarters. The activities related to corporate governance, investor relations, the relation with the capital market have been reorganized by setting up special organizational units to adequately manage the mentioned activities. The organisational structure was also adjusted by (the subordination of the Emergency Office has been changed), dissolving (the Technical, Procurement Division), setting up new organisational units (Technical Division, Regulation and Authorisation Office);
- the decision of the Director General no.235/19.08.2014 to modify the organisational structure of STTM Targu Mures. STTM activity has been reorganised in compliance with the main activities performed within the branch, namely transportation, vehicle repairs and general maintenance.

No mergers of the company took place in financial year 2014.

3.4. Company Business Performance

3.4.1. Company Overall Performance

The Company's revenues are generated mainly from gas production and delivery (own gas production and delivery, gas produced by joint ventures, import gas deliveries and gas deliveries from other domestic 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.

Financial results

* thousand RON *

No.	Description	2013	2014	Ratios (2014/2013)
0	1	2	3	$4=3/2 \times 100$
1	Total income, out of which:	4,136,706	4,708,906	113.83%
	*operating income	4,003,526	4,628,758	115.62%
	*financial income	133,180	80,148	60.18%
2	Revenue	3,894,267	4,493,341	115.38%
3	Expenses - total, out of which:	2,836,064	2,920,577	102.98%
	*operating expenses	2,822,835	2,874,912	101.84%
	*financial expenses	13,229	45,665	345.18%
4	Gross Profit	1,300,642	1,788,329	137.50%
5	Income Tax	305,088	378,448	124.05%
6	Net Profit	995,554	1,409,881	141.62%

Total income for 2014 has been higher than the income achieved in 2013 by 13.83%, the analysis of the factors generating the increase being presented below in this chapter.

The revenues of the company are mainly generated from the gas production and supply activities (production and supply of own gas, of gas produced in joint ventures, supply of import gas, of gas procured from other domestic producers), from the supply of UGS services, from the electric energy generation activity and from other specific services.

The following table presents the financial ratio structure by business segments for financial years 2013 and 2014:

* thousand RON *

Description	TOTAL, out of which:	Production and gas deliveries	Underground Gas Storage	Other Business	Settlement between Segments
1	2	3	4	5	6
2013					
Revenue	3,894,267	3,314,196	364,937	551,402	-336,268
Profit before tax	1,300,642	998,607	182,208	119,827	
2014					
Revenue	4,493,341	3,853,030	425,830	660,358	- 445,877
Profit before tax	1,788,329	1,404,572	146,152	237,605	

Revenue

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

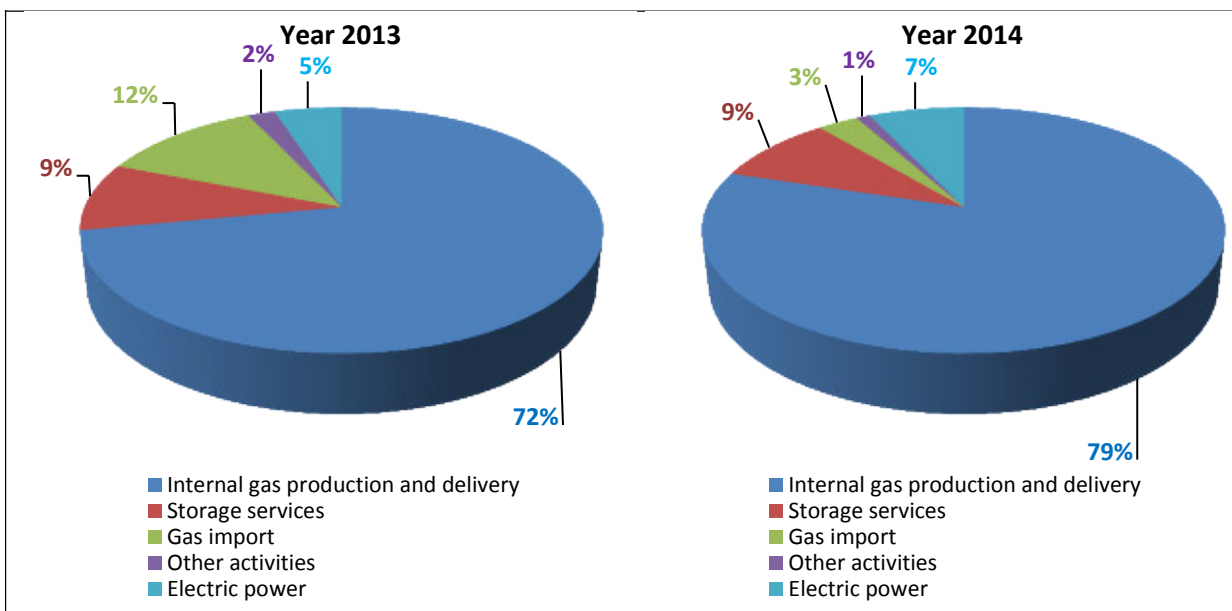
The table below compares the 2014 revenue with the 2013 revenue:

thousand RON

Description	2013	2014	Ratios (2013/2012)
1	2	3	4=3/2x100
Revenue - total, out of which:	3,894,267	4,493,341	115.38%
↳ gas production and deliveries, out of which:	3,314,196	3,853,030	116.26%
- sale of own domestic gas	2,699,677	3,413,733	126.45%
- sale of domestic gas produced by joint ventures	108,683	139,645	128.49%
- sale of import gas	452,731	116,443	25.72%
- distribution	206	225	109.68%
- other revenues from production	52,900	182,983	345.9%
↳ underground gas storage business	364,937	425,830	116.69%
↳ other businesses*), out of which:	215,134	214,481	99.7%
- electric energy production	207,274	335,756	161.99%

*) it includes settlements between segments

Revenue was higher by 15.38% than the revenue of the previous year. The 2013 and 2014 revenue structure is shown in the figures below:



Revenue from Own Domestic Gas Production

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

Revenue from trade of own domestic gas production (excluding joint ventures)	2013 ($q_0 \cdot p_0$)	2014 ($q_1 \cdot p_1$)	Ratios (2014/2013)
1	2	3	4=3/2x100
Volume (million m ³)	4,929.5	4,969.1	100.8%
Price (RON/1000 m ³)	547.7	687.0	125.44%
Value (thousand RON)	2,699,677	3,413,733	126.45%
Difference (2014 - 2013) (thousand RON)	714,057		
Quantity influence ($q_1 \cdot p_0 - q_0 \cdot p_0$) (thousand RON)	21,680		
Price influence ($q_1 \cdot p_1 - q_1 \cdot p_0$) (thousand RON)	692,376		

Actual revenue for 2014 from trade of own domestic gas production compared to 2013 was higher by RON 714,057 thousand. The following factors influenced this outcome:

- 0.80% higher sales in terms of gas production as compared to the previous year revenue generated revenues higher by RON 21,680 thousand. The delivered gas quantities do not include gas delivered internally for power production;
- 25.44% higher average gas sale price as compared to the sale price of the previous year generated revenues higher by RON 692,376 thousand.

Revenue from Joint Ventures Domestic Gas Production

Actual revenue from joint ventures for 2014 in comparison with 2013 is shown in the table below:

2013			2014			Difference	
Quantity (mill. m ³)	Price (RON/th. m ³)	Value (thous. RON)	Quantity (mill. m ³)	Price (RON/th. m ³)	Value (thous. RON)	mill. m ³	thous. RON
188.32	577.11	108,683	180.59	773.25	139,645	-7.7	30,962

Actual 2014 revenues from joint ventures were higher than the 2013 revenue, although the delivered quantities have decreased by 4.09%. This increase is due to selling at a higher price (approximately by 34%) because of implementing the gas price deregulation calendar.

Revenue from Sale of Import Gas

Revenue from sale of import gas	2013 (q ₀ *p ₀)	2014 (q ₁ *p ₁)	Ratios (2014/2013)
1	2	3	4=3/2x100
Volume (million m ³)	309.5	81.1	26.19%
Price (RON/1000 m ³)	1,462.6	1,436.2	98.19%
Value (thousand RON)	452,731	116,443	25.72%
Difference(2014 - 2013) (thousand RON)	-336,288		
Quantity influence (q ₁ *p ₀ -q ₀ *p ₀) (thousand RON)	-334,147		
Price influence (q ₁ *p ₁ -q ₁ *p ₀) (thousand RON)	-2,141		

Revenue from sale of import gas was lower than the previous year revenue by RON 336,288 thousand. This decrease is due to volume and price variation, as follows:

- ↳ The volume of import gas sold was lower by 73.81% as compared to the previous year, the relating revenue decreased by RON 334,147 thousand. The import gas sale decrease is generated both by the decrease of gas demand on the market and the ANRE Order No. 24/2013 for approval of Domestic Gas Production Allocation Methodology for Covering the Regulated Market Demand;
- ↳ Average sale price (RON/thousand m³) of the import gas was by 1.81% lower, negatively impacting the revenue by RON 2,141 thousand.

Revenue from Gas Distribution

The final natural gas supply price is regulated and is set by ANRE through Order no. 103/2008 subsequently amended by ANRE Order 120/2014. Also the distribution tariff is regulated and set by ANRE Order no. 103/2008, subsequently amended by ANRE Order 120/2014.

Revenue from distribution is shown in the table below:

Description	2013			2014			Ratios 2014/ 2013
	Thou- sand MWh	RON/ MWh	Thou- sand RON	Thou- sand MWh	RON/ MWh	Thou- sand RON	
1	2	3	4	5	6	7	8=7/4x100
Total revenue, out of which:			205.50			225.40	109.68%
Distribution revenue	2.04	21.89	44.73	2.36	26.44	62.49	139.70%
Supply revenue	2.04	18.01	36.79	2.36	2.67	6.31	17.15%
Access revenue	-	-	36.35	-	-	18.59	51.14%
Domestic gas value	1.73	50.57	87.63	2.18	63.40	138.01	157.49%

Revenue from Gas Storage Business

In terms of gas storage, the invoiced revenues have the following structure:

thousand RON

Revenues from storage	2013	2014	Ratios (2014/2013)
1	2	3	4=3/2x100
Capacity reservation services	263,253	340,129	129.20%
Gas injection services	49,584	48,912	98.64%
Gas withdrawal services	51,719	36,534	70.64%
Other revenues from storage	382	256	66.95%
TOTAL	364,937	425,830	116.69%

Applied gas storage tariffs:

- ↪ For the period January 1st – April 29, 2013 the tariffs approved by ANRE Order 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 30 – April 14, 2014 the tariffs were approved by ANRE Order No. 26 of April 26, 2013.
- ↪ For the period April 15 – December 31, 2015 the tariffs are approved by ANRE Order no. 29 of April 9, 2014.

The storage tariffs applied during the two time periods are comparatively indicated below:

Tariff Components	M.U.	Tariffs (Jan.1, 2013- Apr.29, 2013)	Tariffs (30 Apr. 2013-Apr. 14, 2014)	Tariffs (Apr. 15- Dec. 31 2014)
Volumetric component for the natural gas injection	RON/MWh	2.76	2.37	2.53
Fixed component for capacity reservation	RON/MWh/full storage cycle	5.65	13.12	13.14
Volumetric component for the natural gas withdrawal	RON/MWh	2.76	1.80	1.80

Revenue from storage business is greater than the previous year revenue by 16.69% due to the fact that the tariffs applied during Q1 2014 were higher than those applied in Q1 2013.

Revenues from Supply of Services Related to Gas Production and Gas Delivery

For this category of revenue, in 2013 RON 52,900 thousand and in 2014 RON 182,983 thousand were recorded. Such revenue was generated from supply of gas compression services to third parties, sale of condensate, sale of natural gas procured from other

producers (Foraj Sonde Craiova), and rental of specific fixed assets. We indicate that in 2013 the value of gas supplied by the Company's production branches for power generation was not included in this category of revenue (the relating value was included in the changes in inventory, which was not taken into account when calculating revenue).

Revenues from Other Activities

Such revenues consist of revenues gained by the service supply branches from supplying specific services to third parties, from power generation and from settlements of the business segments.

In 2014, the electricity generation business had the following financial results:

Description	Value (thousand RON)
Total income, out of which:	431,063
*Revenue *)	335,756
Total expenses	353,785
Gross result	77,278

*) does not include internal settlements

Financial Revenues

The financial revenues are by 39.82% lower than the same results recorded during the previous year. Financial revenues consist mainly of interests on bank deposits and of interest on state bonds held by the Company. In 2014, these revenues decreased because of a reduction of interest rates and of interest on the state bonds held by the Company.

Expenses

thousand RON

Description	2013	2014	Ratios (2013/2012)
1	2	3	4=3/2x100
Operating expense	2,822,834	2,874,912	101.84%
Financial costs	13,229	45,665	345.18%
Total expenses	2,836,064	2,920,577	102.98%

Expenses incurred during January–December 2014 have been 2.98% higher than those of the same period in the previous year. Such increase was mainly due to a tax on special constructions implemented in 2014 according to Government Emergency Ordinance no. 102/2013.

Financial Costs

Financial costs during January – December 2014 are higher than in the previous year because of increase of unwinding costs applied to decommissioning provision for production wells and for UGS wells. Financial costs also include impairment losses on financial non-current and current assets (amount RON 18,120 thousand).

Chapter 7 shows more details on the different categories and a comparative assessment thereof.

Financial Results

Compared financial results are shown in the table below:

thousand RON

Description	2013	2014	Ratios (2014/2013)
1	2	3	$4=3/2 \times 100$
Operating results	1,180,691	1,753,846	148.54%
Financial results	119,951	34,483	28.75%
Gross result	1,300,642	1,788,329	137.50%
Income tax	-305,088	-378,448	124.05%
Net result	995,554	1,409,881	141.62%

Gross result during January – December 2014 of **RON 1,788,329 thousand** is higher than the actual gross result of the same period of 2013 by 37.50%.

The financial results of 2014 are below those of 2013, because the increase of expenses in 2014 was higher than the increase of revenues.

Income tax calculated for 2014 is 24.05% higher than in 2013. The increase of expenses related to income tax is due to recording in 2013 a deferred tax (revenue) amounting RON 111.4 million as compared to the deferred tax value of RON 15.1 million (revenue) recorded in the reported year.

Gross result structured by businesses is as follows:

thousand RON

Description	2013	2014	Ratios (2014/2013)
1	2	3	$4=3/2 \times 100$
Gas production and delivery result	998,607	1,404,572	140.65%
Gas storage activity result	182,208	146,152	80.21%
Electric energy production activity result	-61,153	77,278	
Other activity result	180,980	160,327	88.59%
Gross result	1,300,642	1,788,329	137.50%
Income tax	-305,088	-378,448	124.05%
Net result	995,554	1,409,881	141.62%

In 2014, the Company's gross profit increased by 37.50% as compared to 2013, and the net profit increased by 41.62% as compared to the same period.

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

Indicators	Calculation formula	M.U.	2013	2014
1	2		3	4
Working Capital (WC)	$C_{lt}-A_f = E+L_{nc} +Pr+S_i-A_f$	million RON	3,469	3,695
Working Capital Requirements (WCR)	$(A_c-L+ Pp)-(L_{crt}-Cr_{st}+ I_{df})$	million RON	1,906	1,741
Net Cash Flow	$WC-WCR = L-Cr_{st}$	million RON	1,564	1,954
Economic Rate of Return	$P_g/C_{lt} \times 100$	%	13.39	17.63
Return on Equity	$P_n/C_{lt} \times 100$	%	10.71	14.52
Return on Sales	$P_g/R \times 100$	%	33.40	39.8
Return on Assets	$P_n/A \times 100$	%	9.5	13.04
EBIT	$P_g+Ex_i-I_r$	million RON	1,177	1,713
EBITDA	$EBIT+Am$	million RON	1,960	2,490
ROCE	$EBIT/C_{emp} \times 100$	%	12.12	16.89
Current Liquidity	A_{crt}/L_{crt}	-	5.55	6.52
Asset Solvency	$E/L \times 100$	%	88.70	89.83

where:

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

3.4.2. Trading

Gas Production

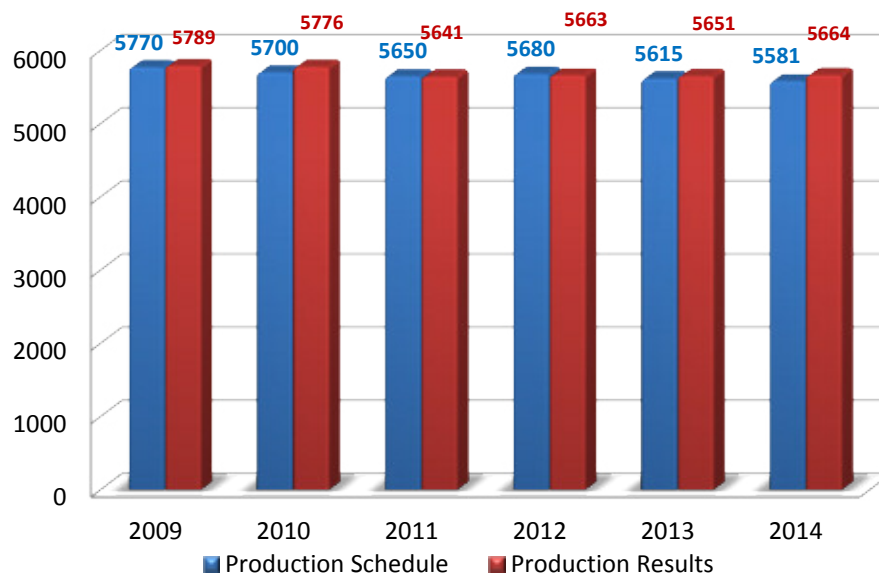
Production History

Romgaz production branches, Medias and Tirgu-Mures, operate 148 commercial fields located in Transylvania Basin, Moldavia, Muntenia and Oltenia. About 80% of Romgaz total production 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 2009– 2014 is shown below:

Description		2009	2010	2011	2012	2013	2014
1		2	3	4	5	6	7
Scheduled (million m³)		5,770	5,700	5,650	5,680	5,615	5,581
Resulted (million m³)		5,789	5,776	5,641	5,663	5,651	5,664
Differences (Resulted-Scheduled)	mill. m ³	+19	+76	-9	-17	+36	+83
Resulted	[%]	100.3	101.3	99.8	99.7	100.7	101.5

The graph below presents the evolution of the gas volumes produced during 2009 – 2014, program versus results:



The analysis of production data shows that from 2009 the actual gas volumes have been above budget, 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.

Gas Supply

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

Trade of Domestic Gas Production

The following table shows the annual summary of revenues from trade of Romgaz domestic 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.m ³)	Price (RON/1000 m ³)	Value (thous. RON)
1	2	3	4	5	6
2013	52,718	52.17	5,021	547.80	2,750,505
2014	53,220	65.42	5,067	687.15	3,481,529
Difference (2014/2013)					
*absolute	502	13.25	46	139.35	731,024
*relative	0.95%	25.92%	0.92%	25.44%	26.58%

Note: domestic gas from current production plus own gas withdrawn from 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.	2013	2014	Differences	
				absolute	relative
1	2	3	4	5=4-3	6=5/3x100
Quantity	thous. MWh	3,298	880.6	-2,417.4	-73.3%
Price	RON/MWh	137.27	132.24	-5.03	-3.67%
Value	thous. RON	452,731	116,443	-336,288	-74.30%

Electric Power

Power trading has a specific characteristic, hourly, daily and seasonal variation, 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: 1,434,783 MWh;
2. sold electric power: 1,995,471 MWh, out of which:
 - on various markets: 1,710,519 MWh;
 - self-supplied: 284,952 MWh;
3. supply of system technology services (secondary regulation band, fast reserve of tertiary regulation): 213,598 h x MWh.

In 2014, in spite of the fact the delivered electric energy was approx. 33% lower than the budgeted volume, the sold volume was only 7% lower than the budget. 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 in spite the fact that such are scheduled for operation because energy supply contracts need to be complied with.

The revenue generated by the power business is RON 334,090 thousand and the value for the technological system services (TSS) is RON 9,512 thousand.

The prices are:

- Average sale price on the Day Ahead Market (DAM): RON 190.3/MWh;
- Average market price (OPCOM) on the Day Ahead Market: RON 158.9/MWh;
- Average sale price on the Balancing Market (BM)with TSS: RON 297.75/MWh;
- Average sale price on the Balancing Market (BM), without TSS: RON 246.23/MWH (January – May 2014);
- Average sale price on the Balancing Market (BM): RON 251.06/MWh

Average electric power sale price:

- subject to the discharged electric power: RON 232.8/MWh;
- subject to the sold electric power: RON 195.3/MWh.

SPEE Iernut gas consumption was 444,988 thousand m³.

Underground Gas Storage (UGS)

Romgaz holds and operates 6 of the 8 existing underground gas storages in Romania. The annual storage capacity of the 6 storages is **3.925 billion m³**, the annual working capacity is **2.760 billion m³** and the maximum daily delivery flow rate is about **30 million m³**.

The table below shows the status of the injected and withdrawn gas volumes in 2014 and 2013, respectively:

	M.U.	2013	2014	Difference (2014/2013)	Ratios (2014/2013)
1	2	3	4	5=4-3	6=4/3x100
Injected Volume	mill.m ³	1,993.1	1,737.0	-256.1	87.15%
Withdrawn Volume	mill.m ³	2,017.9	1,915.4	-102.5	94.99%

3.4.3. Prices and Tariffs

The regulatory framework for **natural gas production**, transmission, **distribution, supply and storage**, organization and operation of the gas sector, market access as well as criteria and procedures for granting authorizations and/or licenses in the natural gas sector are set by Law No. 123/2012, which provides in Chapter XII "Prices and Tariffs", Article 179 for the following:

☞ activities in the regulated market comprise the following:

- ☞ supply of natural gas to non-household customers at regulated price and under frame contracts until December 31, 2014. On January 1, 2015 regulated prices for non-household customers were eliminated.
- ☞ supply of natural gas to household customers at regulated price and under frame contracts until December 31, 2021. To ensure non-discrimination between customer categories until the end of the regulated period, the household consumers and the thermal energy producers receive the same treatment in terms of security of supply and sale price of consumed gas, exclusively for the gas quantities used for producing thermal energy in cogeneration plants and thermal power plants intended for household consumption, irrespective of their option to be eligible or regulated customers ;
- ☞ supply of last resort of natural gas to final consumers at regulated price and under frame contracts;
- ☞ administration of centralised markets;
- ☞ natural gas transmission;

- ↳ natural gas transmission through upstream supply pipelines, in accordance with the provisions of license validity conditions;
 - ↳ underground gas storage;
 - ↳ natural gas storage in pipelines;
 - ↳ natural gas, bio-gas and bio-methane distribution;
 - ↳ related activities performed by licensed operators;
- ▢ prices and tariffs on the regulated market are set by ANRE, based on methodologies approved and published by the authority after informing and consulting all interested parties;
 - ▢ the calendar for gradual deregulation of prices for the final customers is set by the Government in compliance with the schedule of producer price progress proposed by ANRE and ANRM, taking into account possible adverse effects of price deregulation, in order to mitigate the consequences for customers;
 - ▢ ANRE will annually monitor the results of the gradual price deregulation calendar and, as the case may be, submit to the Government the proposal to trade domestic gas production on the domestic market until fulfilment of the approved calendar, i.e. December 31, 2018.

Romgaz operates both on the regulated market, performing underground gas storage and distribution activities, and the free market, performing gas production and supply activities.

Underground Gas Storage

The underground gas storage business is included in the regulated segment of the gas market.

The revenues from the underground gas storage business and the storage tariffs are regulated since April 1, 2004 by *ANRGN Decision No. 1078/2003*, abrogated by *ANRE Order No. 22 of May 25, 2012* on approval of the Methodology for approval of prices and setting regulated tariffs in the gas sector, published in the Official Gazette No. 379 of June 6, 2012.

In accordance with the ANRE regulations, the regulated revenue is determined for five-year regulatory periods, except for the first period that lasted 3 years (April 1, 2004 – March 31, 2007). The gas year starts on April 1st, except for the first gas year of the third regulatory period that started on October 1, 2012.

The total regulated revenue is set at the beginning of the first year of a regulatory period, and starting from the second year, an adjusting formula, specific for each activity, is applied to such revenue.

Total Revenue Calculation

1. The Total Revenue (VT) of the first year of a regulatory period comprises the total regulated revenue (VTR) of the first year of the regulatory period and the total directly absorbed costs (CS):

$$VT = VTR + CS$$

The Total Regulated Revenue of the first year of the regulatory period equals the basic revenue (VB), where:

$$VB_0 = OPEX_0 + RoR \times RAB_0 + AR_0 + DV_0$$

where:

VB_0 - is the basic revenue, calculated as total revenue necessary to the license titleholder during the first year of the regulatory period;

$OPEX_0$ - are total operating expenses of the license titleholder, estimated for the first year of the regulatory period;

RoR - is the regulated rate of return, recognised by ANRE for each regulated activity;

RAB_0 - is the regulated value of the assets which consists of the value of tangible and intangible assets at the beginning of the first year of the regulatory period, including the working capital, recognized by ANRE;

AR_0 - is the regulated amortization of tangible and intangible assets, recognized by ANRE for the first year of the regulatory period;

DV_0 - is the component of redistribution between the license titleholder and customers of the economic efficiency increment achieved during the previous regulatory period. For the first regulatory period this value was zero;

CS - directly absorbed costs: these are costs that cannot be controlled and the operator cannot directly intervene upon, such as: contributions to the wages fund, contributions to special funds, royalties, charges and taxes.

2. The Regulated Revenue is adjusted on an annual basis, for each year of any regulatory period, except for the first year.

Adjustment of the regulated revenue is calculated by the following formula:

$$VT_i^{ds} = (VRT_i^{ds} + CS_{i-1,realizat}^{ds}) + CE_i^{ds} + \Delta DP_i^{ds} + \Delta CS_{i-1}^{ds} + \Delta VRT_{i-1}^{ds} + \Delta INV_{i-1}^{ds},$$

where:

VT^{ds}_i - total revenue of year "i";

VRT^{ds}_i - total regulated revenue of year "i";

$$VRT_i^{ds} = VRT_{i-1}^{ds} \times (1 + RI_i - X^{ds}),$$

where:

RI_i - inflation rate estimated by the National Forecast Commission for year "i";

X^{ds} - economic efficiency growth rate of the underground storage activity, estimated by ANRE at the beginning of the regulatory period;

CS^{ds}_i - directly absorbed costs in year "i";

CE^{ds}_{i-1} - contingent costs, in year "i-1", due to the occurrence of unpredictable factors, beyond the operator's control:

$$CE_{i-1}^{ds} = (1 + RoR) \times CE_{i-1}^{ds},$$

where:

RoR - regulated rate of return of the regulated period;

ΔDP^{ds}_i - difference between the maximum value of the operator's costs recognized by ANRE for payment of compensations, penalties or the like resulting from the underground storage performance standard in year "i" and the value recognized for year "i-1";

ΔCS^{ds}_{i-1} - difference between directly absorbed costs, actual in year "i-1", and costs included in total revenue of the same year, calculated as follows:

$$\Delta CS^{ds}_{i-1} = (1 + RoR) \times (CS_{realizat} - CS^{ds}_{i-1})$$

ΔVRT^{ds}_{i-1} - correction component of the total regulated revenue, calculated as the difference between the total regulated revenue of year "i-1" and the total actual revenue of the same year, adjusted by the regulated return on equity by the following formula:

$$\Delta VRT^{ds}_{i-1} = (1 + RoR) \times (VRT^{ds}_{i-1} - V_{realizat})$$

ΔINV^{ds}_{i-1} - correction component for the capital invested in year "i-1", calculated as follows:

$$\Delta INV^{ds}_{i-1} = INV^{ds}_{i-1} \times RoR + \frac{INV^{ds}_{i-1}}{n}$$

where:

INV^{ds}_{i-1} - value of tangible assets commissioned in year "i-1";

n – regulated duration of depreciation of commissioned tangible assets, expressed in years.

The base of regulated assets is established at the beginning of the regulatory period. The regulated value of assets is the value of tangible and intangible assets at the beginning of the first year of the regulatory period, including working capital, and is calculated by the following formula:

$$RAB^i = RAB^{i-1} \times (1 + RI^c) - \sum D^{i-1} + \sum INV^{i-1} + \Delta CLP^i$$

where:

RAB^i - regulated value of assets RAB for the regulatory period;

RAB^{i-1} - regulated value of assets RAB for the previous regulatory period;

RI^c - cumulative rate of inflation for the previous regulatory period;

$\sum D^{i-1}$ - cumulative regulated depreciation in the previous regulatory period;

$\sum INV^{i-1}$ - regulated value of investments commissioned during the previous regulatory period, adjusted with the cumulative inflation rate related to the year of commissioning;

ΔCLP^i - amounts required for the adjustment of working capital and provisions recognized by ANRE as capital costs.

Calculation of Underground Storage Tariffs

Underground gas storage tariffs are established on the basis of the total regulated revenue.

Underground gas storage tariffs are set for each licensed operator and/or underground gas storage, and such tariffs have the following structure:

$$T^{ds} = RC^{ds} + I^{ds} + E^{ds}$$

where:

T^{ds} - storage tariff;

RC^{ds} - fixed component for underground storage capacity reservation, expressed in RON/MWh/full storage cycle;

I^{ds} - volumetric component for gas injection into the underground storage, expressed in RON/MWh;

E^{ds} - volumetric component for gas withdrawal from the underground storage, expressed in RON/MWh.

The Fixed Component (RC^{ds}) for capacity reservation quantifies fixed costs related to the development of underground storage capacity that are not related to stored quantities, and covers the depreciation of tangible assets and amortization of intangible assets of the storage system, direct costs to ensure continuous operation and maintenance of the storage system operation safety, as well as part of overhead costs for maintenance of the system.

Fixed costs are allocated depending on the working capacity of the underground storage.

The volumetric component for gas injection into the underground storage (I^{ds}) quantifies the variable costs generated by gas taking over, metering, treatment and transfer through surface facilities and injection into the storage.

The volumetric component for gas withdrawal from the underground storage (E^{ds}) quantifies the costs generated by gas withdrawal from the underground storage, treatment, transfer and metering in surface facilities and delivery to the transmission company and/or beneficiary.

ANRE Order No. 26 of April 26, 2013 approved the regulated revenue for the first year of the third regulatory period (April 2012 – March 2013), the regulated revenue for the second year of the regulatory period (April 2013 – March 2014), and the regulated tariffs for the period April 2013 – March 2014.

ANRE Order No. 29 of April 9, 2014 approved the regulated revenue for the third year of the regulatory period (April 2014 – March 2015), and the regulated tariffs for the period April 2014 – March 2015.

Thus, the storage tariffs applied between 2010 and March 2013 are those approved by Order 63/2009, as follows:

Tariff Component	M.U.	Value
Volumetric component for gas injection	RON/MWh	2.76
Fixed component for capacity reservation	RON/MWh/full storage cycle	5.65
Volumetric component for gas withdrawal	RON/MWh	2.76

Tariffs approved by Order 26/2013 are as follows:

Tariff Component	M.U.	Value
Volumetric component for gas injection	RON/MWh	2.37
Fixed component for capacity reservation	RON/MWh/full storage cycle	13.12
Volumetric component for gas withdrawal	RON/MWh	1.80

Tariffs approved by Order 29/2014 are as follows:

Tariff Component	M.U.	Value
Volumetric component for gas injection	RON/MWh	2.53
Fixed component for capacity reservation	RON/MWh/full storage cycle	13.14
Volumetric component for gas withdrawal	RON/MWh	1.80

Natural Gas Supply

The final gas price for the customer is the sum of the weighted average acquisition price, the tariffs of transmission, storage and distribution, and the trading component, according to the following formula:

$$\text{Final price} = \text{Weighted average price of acquisition} + \text{Transmission tariff} + \text{Storage tariff} + \text{Distribution tariff} + \text{Trading component}$$

Distribution tariffs depend on the distribution area and on the distribution system operator. Regulated prices and tariffs are calculated by the "revenue-cap" method for underground storage and gas transmission and by the "price-cap" method for regulated distribution and supply.

According to the provisions of Article 181, paragraph (5) of Law No. 123/2012, *the domestic gas acquisition price on the regulated market* is set by Government decision, at the proposal of the competent ministry, and is updated by ANRE and ANRM, in accordance with the provisions of the Calendar for gradual deregulation of prices for the final customers.

The Romanian authorities agreed with the international financial bodies a calendar for gradual deregulation of prices until December 31, 2014 for the final non-household customers (except when on such date there is a significant difference between the trading price of domestic production and the European import price that may jeopardize the market stability, than the term would be extended until December 31, 2015); for household customers the term of completion of the above mentioned process is December 31, 2018. The Romanian Government signed with IMF, the World Bank and the European Commission a "Memorandum on the Calendar for Gradual Deregulation of Gas Prices". This calendar for price increase until the end of 2014 was approved by Government Decision No. 22 of January 22, 2013 on setting the acquisition price of gas from domestic production on the regulated gas market.

At the same time, according to Article 124, paragraph (1), letter e) of Law 123/2012, the gas producer has to make available gas quantities from their own production to suppliers, with precedence, to cover the regulated market, in accordance with the ANRE regulations on compliance with the price deregulation calendar, and to secure gas supply to the captive consumers, while suppliers have to keep the destination of such

gas quantities. The remaining domestic production, less the gas quantity necessary for technological consumption, shall be made available to the competitive market.

Domestic gas production allocated to final customers on the regulated market comprises current gas production and a part of stored gas.

The table below shows the gas supply average prices in the period 2012-2014:

Description	M.U.	2012	2013	2014
Supply average price for internal gas production ³	RON/1000 cm	476.5	548.12	687.86
	RON/MWh	45.45	52.20	65.48
Supply average price for import gas	RON/1000 cm	1,729.0	1,462.6	1,436.22
	RON/MWh	163.19	137.28	132.24

Natural Gas Distribution

Distribution tariffs and final regulated prices have been approved by ANRE Order No. 103 of June 26, 2008 on setting regulated tariffs for gas distribution services and approval of prices for regulated gas supply performed by SNGN ROMGAZ SA, modified by ANRE Order No. 31 of August 30, 2012.

Distribution tariffs, by consumers, are as follows:

- ↳ B1 – Consumption up to 23.25 MWh RON 21.66 /MWh
- ↳ B1 – Annual consumption between 23.26 MWh and 116.28 MWh RON 21.25 /MWh

Final regulated prices, by consumers, are as follows:

- ↳ B1 - Consumption up to 23.25 MWh RON 117.89 /MWh
- ↳ B1 - Annual consumption between 23.26 MWh and 116.28 MWh RON 116.95 /MWh

3.4.4. Human Resources

On December 31, 2014 the company had 6,344 employees.

Evolution of the number of company employees between January 1, 2012 and December 31, 2014 is shown in the table below:

Description	2012	2013	2014
1	2	3	4
Employees at the beginning of year	5,945	5,921	6,472
Newly hired employees	129	681	92
Employees who terminated their labour relationship with the company	153	130	220
Employees at the end of the year	5,921	6,472	6,344

³ including commodity gas and gas from the association with Schlumberger and without the cost of storage services;

The structure of employees at the end of 2014 was as follows:

a) by level of education

• University	22.92 %
• Secondary education	25.13 %
• Foreman education	4.24 %
• Vocational school	34.85 %
• Middle school	12.86 %

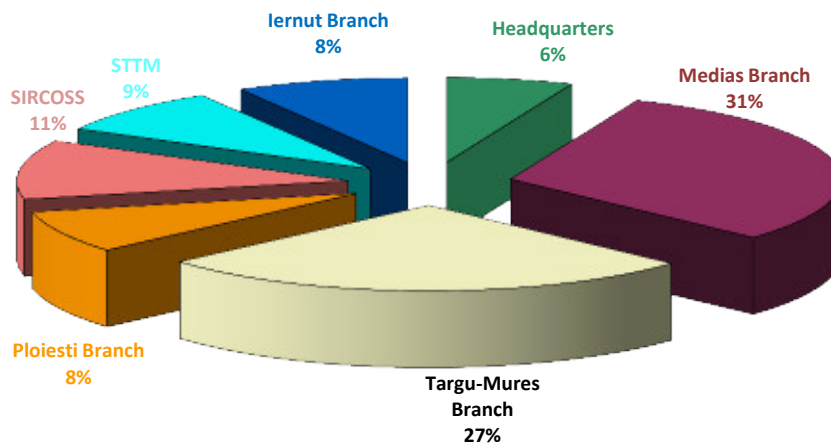
b) by age

• under 30 years	4.30 %
• 30-40 years	17.18 %
• 40-50 years	48.87 %
• 50-60 years	30.39 %
• over 60 years	7.25 %

c) by activities

• Gas production	62.25 %
• Production tests/well special operations	11.25 %
• Health	1.31 %
• Transportation	8.76 %
• Gas Storage	7.96 %
• Electric energy production	8.46 %

Distribution of Romgaz employees by headquarters and by branches is shown in the figure below:



The employees' structure at the headquarters and the branches is shown in the table below:

Entity	Workers	Foremen	Admin employees	Total
1	2	3	4	5
Headquarters	30		366	396
Medias Branch	1,498	89	359	1,946
Targu-Mures Branch	1,354	56	277	1,687
Ploiesti Branch	324	28	156	508
SIRCOSS	519	50	145	714
STTM	427	19	110	556
Iernut Branch	362	46	129	537
TOTAL	4,514	288	1,542	6,344

The main areas of training during 2014 were:

- Administrative employees training – in various areas of activity, in cooperation with training suppliers from the country and abroad;
- Authorization/re-authorization, according to specialization and work place;
- Skills upgrade and vocational training of workers through internal training courses.

A number of 2,323 employees were trained during 2014, and the costs of such professional training and skills upgrade training courses amounted to RON 1,463,891.

The annual training program was carried on as follows:

- In accordance with the Labour Code, training was given to a total of 1,152 persons who did not participate in any training form during the previous two years, including 302 administrative employees and 850 workers; 778 participated in training courses to obtain authorization/reauthorization in accordance with their specialization and work place.
- 393 persons participated in professional training programs with speciality subjects imposed by the nature of activity.

During 2014, the professional training activity focused mainly on sustaining the increase of adaptability to the new requirements of economy based on knowledge, in order to ensure and update necessary competences for employees working in the technical, economic and research-development field, as follows:

- Certification of technical competences in the domain of petroleum (ANRM) for 56 persons (experts and professionals) for preparation of documentation related to geological research and expertise;
- Other training courses in the field of exploration/production were given in the domain of depleted reservoirs, where 15 persons participated in. The topics included assessment methods of depleted hydrocarbon reservoirs, production technologies, enhancement of the recovery factor and economic analysis of such reservoirs;
- Bearing in mind Romgaz involvement in offshore projects, *Trident*, *Est Rapsodia* and *Midia Deep*, five employees involved in the Lukoil project participated in a training course in the field of drilling and equipment of continental shelf subsea wells;

- Risk management was another important field where training given has brought added value for the company in terms of security and efficiency: 32 employees participated in such training;
- Implementation of the International Financial Reporting Standards required training and skills upgrade training of employees in the economic and financial field. Sixty-one employees participated in such training courses in 2014.

In accordance with the legal provisions and the Romgaz Collective Labour Agreement, in-house skills upgrade training was also organized for workers, as well as vocational training courses for “*Special Works Operator*” and “*Gas Operator*”.

Within the branches of Medias, Targu Mures, Ploiesti, SIRCOSS, STTM and SPEE Iernut skills upgrade training courses were given by professionals from the branches for workers in accordance with their vocation, where 850 employees participated.

Together with the in-house skills upgrade training a vocational on-the-job training program was given for the jobs “*Special Works Operator*” and “*Gas Operator*”, within the branches of Medias and SIRCOSS, where 24 persons participated in.

Within Romgaz there are two trade unions:

- “*Sindicatul Liber din cadrul SNGN Romgaz SA*” comprising 6,289 members;
- “*Sindicatul Extractie Gaze si Servicii*” comprising 38 members.

Hence, the total number of union members is 6,327 as compared to 6,344 - the total number of employees, the union members/total number of employees' ratio being 99.73%.

Relationship between manager and employees: following negotiations the parties have agreed to conclude a new Collective Labour Agreement, valid for the years 2015 and 2016.

During 2014, there were several conflictual elements between the management and the trade union, as shown in Annex 3 to this report.

3.4.5. Environmental Aspects

The environment protection activity continued to focus in 2014 on compliance of Romgaz activities with the applicable legal requirements on environmental protection. Another aim was meeting specific objectives related to:

- ↪ Rendering efficiency to such activity;
- ↪ Enhancement of the waste management record keeping process;
- ↪ Increase of awareness as regards compliance with legal requirements;
- ↪ Pursuing fulfilment of remedy solutions for environmental aspects identified in the Due Diligence Report and assumed by the Romgaz branches.

The environmental protection activities during 2014 focused on:

- fulfilment of requirements deriving from the ISO:14001 and 9001 standards;
- conforming to legal requirements as regards environmental authorization of all 135 units. Among those, seven units are currently in the process of re-authorization (authorization revision was requested for six units, and

authorization updating was requested for one unit), and for one unit the authorization documentation was submitted (new unit);

- conforming to legal requirements regarding waste water management authorization, for
 - 82 units, including: seven units, currently in the process of re-authorization, and for two units the authorization documentation was submitted (new units); and
 - 36 units related to reservoir water systems/ injection wells, including: seven units, currently in the process of re-authorization, and for one unit the authorization documentation was submitted (new unit).

At Romgaz level, an application has been developed to monitor environment authorizations, and permanently analyse and continuously supervise compliance with legal requirements;

- disposal of waste generated from own activity, in accordance with legal requirements in force. In 2014, 782.093 tons of waste were recycled, 133.592 tons of waste were disposed by incineration and 10,055.914 tons of waste were disposed by storage;
- monitoring compliance with legal requirements as regards environmental protection, by monitoring ways to solve exceeding of limits permitted by regulations in force. At Romgaz level, an application has been developed to monitor/measure the physical-chemical, bacteriological and biological indicators of emitted pollutants, the frequency and ways of using results, with the aim of permanently analysing and continuously monitoring compliance with legal requirements. In 2014, penalties in amount of RON 9,632.76 were paid for exceeding the maximum permitted concentration of pollutants in the discharged waste water;
- monitoring settlement of environmental notifications and complaints against Romgaz. In 2014, three external environmental complaints were recorded but only one was reasoned, as follows:
 - notification regarding excess of the Maximum Permitted Level by the equivalent noise level at the outer limit of the operating enclosure and at the outer limit of the neighbouring protected receivers at the Sanmartin compressor station, county of Mures. In this respect, the Technical-Economic Council endorsed in a meeting a Project on building a phonic barrier to enclose the area of noise source, that is the outlet taps and exhaust of compressors. The completion deadline imposed by the Environment Guard (Garda de Mediu) is December 31, 2015;
 - notification on potential contamination of underground water with chlorides resulting from the reservoir water separation/storage plant at the 205 Bibesti well cluster. The laboratory analyses performed on water sampled from the wells of the complainants did not confirm the notification, and analysis results showed that water quality remained unchanged since 2005;
 - notification submitted to the Institution of the Prefect of the Mures County (Institutia Prefectului Mures) on uncontrolled gas emissions and discharge of waste water on soil, at well 21 Filitelnic and well 7 Laslau; this notification was also unfounded.
- further to extending the scope of business by assimilating the Iernut thermoelectric power plant, conforming to the legal requirements applicable in the field was pursued by monitoring, in 2014, for the burners IMA 1, 2, 3, 4, 5 a

total CO₂ volume of 828,793 tons. In 2014, a number of 824,645 greenhouse gas emission certificates (EUA) were acquired, as follows: a number of 412,323 certificates relating to the first portion for 2014, at a market reference price of EUR 5.89/certificate, by the mechanism of transitory allotment, established by HG 1096/2013, and a number of 412,322 certificates relating to the second portion of 2014 at a reference price of EUR 6.04/certificate.

As of December 31, 2014, Romgaz held in the account of the Sole Register of Greenhouse Gas Emissions a number of 1,286,697 CO₂ certificates, as follows:

- 824,645 certificates relating to 2014;
 - out of the 962,085 certificates acquired in 2013, an amount of 454,465 certificates remained;
 - 7,587 certificates deposited in the Register by Electrocentrale Bucuresti, in relation to conforming the January 2013 emissions;
-
- based on the recommendations made by the Due Diligence Study, performed with the aim of establishing the conformation level of the company to the environmental legislation in force, identification of past and present environmental issues, as well as future environmental risks the company may face, a Report on Significant Environment Issues Remediation has been prepared that has assumed costs, solutions and implementation terms for remedy measures. In 2014, implementation of the 23 scheduled remedy measures was monitored: they were implemented within the assumed deadlines. Romgaz further monitors implementation of permanent measures or those with multiannual implementation deadlines;
 - the environmental internal inspection activity was scheduled and organized in order to verify conformation with legal requirements applicable to inspected activities. In 2014, one hundred sixteen environmental internal inspections were scheduled and performed (from Romgaz headquarters on authorized units of the branches), further to which 11 Reports of Determined/Potential Nonconformity were made, out of which 10 were closed in due time, and one remained open, within time limit; Romgaz branches also scheduled and performed 108 environmental internal inspections further to which 3 Reports of Determined/Potential Nonconformity were made: one was closed in due time and two remained open, exceeding the time limit;
 - assessment of the conformation level to environmental protection requirements and contractual requirements of contractors and sub-contractors of drilling works contracted by Romgaz in 2014;
 - implementation of the 2014 action/measure programs for preventing and/or mitigating impact on the environment, that were implemented as follows:
 1. Waste water drainage construction works (connections, decommissioning, etc)
 2. Environment improvement works (landfall preventing, conversion of wells into injection wells, reduction of noise level, etc)
 3. Waste water pipeline construction works (impurities evacuation system, construction of waste water collecting tank, etc)
 4. Environment protection works within investment works (assessed at 3% from total investment value)

5. Payments (payment of obligation to the Environment Fund, authorization taxes, laboratory analyses);
6. Implementing the security measures comprised in the ERM Due Diligence Report by equipping the well clusters of the Ghercesti UGS with reliable electric generators;
7. Contracting of services for disposal (incineration/ storage) and reuse (recycling/co-incineration) of waste generated by own activity;
8. Implementing the security measures comprised in the ERM Due Diligence Report by building the infrastructure for 7 wells, which is necessary for interventions in case of major accidents.

At the same time, the company's environmental activity was audited by the internal audit in 2013, and recommendations for activity improvement were issued. Auditors' recommendations were solved and implemented within terms set in 2014.

In 2014, the Environment Guard (Garda de Mediu) made 51 inspections, the ANAR public institution (Administratia Nationala "Apele Romane") made 19 inspections, and the environmental protection agencies performed 19 inspections. Following to such inspections Romgaz had to pay only one environmental fine for nonconformity to the environmental law. On August 11, 2014 the Environment Guard, the Mures County Office made an inspection of the Sanmartin compressor station, following a notification submitted by a group of citizens of the Sanmartin locality, registered at GNM CJ Mures under number 1573/120 p/04.08.2014, referring to the discomfort generated by noise level. Measurements performed by APM Mures determined that in the area of the two discharges the maximum permitted level was exceeded by the equivalent noise level at the SC Sanmartin enclosure limit: 72dB(A) as compared to the permitted 65 dB(A).

Therefore, Romgaz was sanctioned with a fine amounting to RON 30,000, and the amount of RON 15,000 was paid within 48 hours.

In 2014, no environmental accident was recorded by Romgaz.

3.4.6. Risk Management and Internal Control

Company's Policies and Objectives related to Risk Management

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

Because the implementation process is relatively young within the company – it started two years 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 latest practices in the sector by complying with the effective laws, standards and norms related to such process.

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.119/1999 (Article 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 integral part of the decision making process by setting the requirement to use a risk management analysis when drafting any and each complex document, at the headquarters as well as the branches, related to the following:

- 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 of natural gas reservoirs as well as on electric energy production and delivery also undergoes a risk management assessment.

The main benefit of the risk management process is the improvement of the company's performance by identifying, analysing, assessing and managing all risks within the company, 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 preparing the company's risk management final 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 by the risk managers (head of each organizational unit) who are responsible for preparing risk management documents related to the level of the unit they manage;

- *middle level*, represented by the company's middle management, who together with the heads of the organizational units form the Risk Management Commission that facilitates and coordinates the management process within 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 in accordance with 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. describing the manner in which control measures are set and implemented in order to prevent the occurrence of negative risks.

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

All risks are analyzed from following perspectives:

- 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 (approach) measures;
- residual risks remaining after treatment of initial risks.

Internal Control

The internal/management control system represents an integral component of the company's management system, envisaging all activities of the organizational units, at all management levels, in order to meet the set objectives.

The internal management control system is implemented in accordance with the 25 internal management control standards, grouped in five main categories:

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

These standards define a minimum set of management rules that have to be observed within the company, and which are described in the Internal/ Management Control Code, included in the Order No. 945/2005 of the Minister of Public Finances on approving the internal control code for public entities.

In accordance with the existing regulations on internal control, Romgaz required preparation and development of internal/management control systems within the company in 2010, and initiated a process of harmonization with internal control standards.

The internal management control system that is currently implemented in own entities, has been developed such as to:

- define the responsibilities and the information resources, ways and systems, as well as the related tools;
- ensure internal dissemination of reliable, relevant information to all employees, enabling them to perform their responsibilities;
- identify the main risks that may occur while pursuing the objectives, in order to analyse and manage such risks;
- establish appropriate control activities developed to reduce such risks, and
- ensure a permanent supervision and examination of the system functionality.

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 and monitoring of such. The latest change in membership occurred in 2014 pursuant to the Decision 362/16.12.2014. The Management Control Office ensures the secretary of this commission as well as the interface between the commission and the company's organizational structures.

In 2014, the Commission with responsibilities in developing the Internal Management Control System held two meetings, in January and November, and the minutes No. 2030/23.01.2014 and 31086/04.11.2014, respectively, were prepared.

The commission prepared/validated a Program for the development of the internal/management control system for the years 2014-2015, and such program includes also enhancement actions resulted from the annual self-assessment related to 2013.

In accordance with the above mentioned program, approved for the period 2014-2015, several actions were performed in 2014 with the aim of developing/improving the internal/management control system, as follows:

- monitoring and publishing on the internal network the status of compliance of personnel with the Code of Conduct in accordance with regulations in force;
- updated/ review of the job descriptions for all company's personnel, ensuring compliance with the internal control requirements referring to incompatibilities, conflict of interests, delegation, etc;
- at the Târgu Mures Branch, at the level of each organizational unit, an analysis on correspondence between the Rules of Organization and Operation, the Procedures, and the Job Descriptions was performed. The results of such analysis were comprised in analysis questionnaires. The centralized results, as well as the modification requests were transmitted to the Human Resources Planning and Organization Department in order to analyse and establish the necessary actions and to ensure compliance with the organizational reality.

- software application upgrade and development in accordance with the newly identified requirements with the aim of managing the annual professional training of personnel. The application enables generation of periodical reports, which represent input data for the analysis performed by the management.
- analysis and identification of sensitive functions at the level of each organizational unit, in correlation with the applicable regulations (Operational Procedure 01 PO -10 "*Sensitive Functions*" and the system procedure PS-07 "*Risk Management*"). No sensitive function was identified within the company, and therefore a new analysis was initiated, in accordance with the Decision 361/16.12.2014 and in correlation with the applicable internal regulations;
- preparation/update of the document of objectives relating to 2014 (registered under 12420/12.05.2014);
- preparation/ update of the register of risks related to the identified objectives;
- update of the Internal Rules with issues related to the disciplinary investigation, and filling in the declaration of assets, and update of the criteria related to the employees' professional assessment;
- assignment of responsibilities for treatment of irregularities notified from outside the organization, including such in the updated Rules of Organization and Operation (registered under 29008/16.10.2014) and modifying accordingly the job descriptions of the nominated persons;
- centralized statement to be analysed and prepared on a quarterly basis, to include the irregularities notified at the level of each branch and summarized for the entire company.

As regards this stage, according to the self-assessment performed at the end of 2014, the internal/management control system, as developed currently, comprising the 25 standards at the company's level, is fully implemented. According to the self-assessment performed at the end of 2013, the internal/management control system was partially implemented: only 22 of the 25 standards were fully implemented, and 3 were partially implemented.

3.4.7. Litigation

The summarized statement of litigations where Romgaz is involved in shows the following:

- 📄 133 litigations, including:
 - ✂ 74 cases where Romgaz is complainant;
 - ✂ 56 cases where Romgaz is defendant;
 - ✂ 3 cases where Romgaz is plaintiff claiming damages/injured party
- 📄 the (approximate) value of the files where Romgaz is complainant amounts to RON 592,553,919;
- 📄 the total value (approximate) of the files where Romgaz is defendant amounts to RON 12,595,978.

The detailed list of litigations is shown in Annex 3 to this report.

IV. TANGIBLE ASSETS

4.1. Main Production Facilities

The occurrence and thereafter the development and gradual diversification of what was going to be the real Romanian natural gas infrastructure has an important benchmark, **year 1909**, when the first gas reservoir was discovered by drilling well 2 Sarmasel (Mures county).

A unique gas infrastructure for those times, started to outline in Europe at a reduced scale in the immediately following years, consisting of the following assets:

- gas transmission pipeline, the first of this kind in Europe, build in 1914, connecting towns Sarmasel and Turda (Cluj county) and
- gas compressor station from Sarmasel; build in 1927- the first one in Europe.

It is notable that the country's large gas structures were discovered after the year 1960 and in parallel, a complex infrastructure started to be developed at national scale dedicated exclusively to the gas extraction process and later to the injection and underground storage process. These large gas fields, located in the Transylvanian basin, supply even today considerable gas quantities.

Exploration - Production

The infrastructure related to field production and to gas storage in depleted fields turned into underground storages, looks today as a particularly complex system.

As a whole, the infrastructure of the company has undergone continuous development before and after 1989. The development of the production capacities reached the peak during 1970–1980 when the annual production was extremely high, both due to the consumption demand and to the considerable reservoir energy of most discovered gas fields.

Part of the company's production infrastructure (assets) resulted from the nationalisation of June 1948.

Currently, no natural or legal person, from the country or from abroad, claimed any asset of Romgaz.

Although operational, most of the production facilities are several tens of years old, therefore, a rehabilitation and modernisation process started a few years ago consisting of mounting, replacing or upgrading gas delivery/take over fiscal panels, gas dehydration stations, gas compressor stations.

The production facilities pertaining to the company's infrastructure:

1. Gas wells (actually producing wells, temporary suspended wells waiting for reactivation or recompletion operations, wells for injection of reservoir waters)
2. Pipelines (flowlines for almost all wells, gathering pipelines, their layout may be annular or branched, these connect the well clusters, waste water pipelines, industrial water pipelines);
3. Gas heaters;
4. Gas separators (depending on the placement on the ground these can be underground separators, surface separators);

5. Flow metering panels (technological flow metering panels for almost every gas field, fiscal or commercial flow metering panel located at the interface with the NTS);
6. Gas dehydration stations (conditioning);
7. Gas compression units:
 - low capacity portable compressors installed at the well head or at the cluster,
 - booster compressors for one or more fields,
 - compressor stations, usually consisting of one or more units, intermediate or final compressor stations (outlet to the NTS);
8. Industrial or reservoir water pumping stations together with the proper facilities;
9. Other facilities (buildings, workshops, electric lines, well access roads etc.).

Production facilities are used at their maximum capacity close to 100%.

Currently 148 gas fields are producing where from 143 are well defined blocks and the rest are fields with experimental production.

Production from these fields is performed by 3,260 wells and almost the same number of technological surface facilities consisting of flowlines, heaters (where the case may be) liquid separators and gas flow metering panels.

From the total number of wells, 26% of the wells produce at depths over 2000m. Pressure and flow limits of production wells are operated by 115 compressor units, 91 units are grouped in 19 compressor stations, 17 units are the so-called booster compressors and 7 units are located at well clusters.

Gas quality, a technical demand required by applicable laws, is ensured over 99% by 71 gas dehydration stations.

The other component of the company's infrastructure, namely the informational – technical system represents all informational equipment and programs (software) used to monitor the parameters related to gas research, production and storage activities. These complex informational programs consist of a series of modules that process the data received further to seismic surveys of the earth crust, collects information further to gas wells researches, information related to production history and other technical input data for performing cash flow analyses.

Processing and interpretation of these input data leads to preparing extensive technical-economical specifications called *geological studies*. These studies analyse and substantiate including the investments that are going to be made in that field. These investments together with other production stimulation works become compulsory once the geological study is approved by the ANRM.

Underground Gas Storage

Bilciuresti Storage

Characteristics:

- ↪ Location: Dambovita county, approximately 40 km W-NW from Bucharest;
- ↪ Commissioned in 1983;
- ↪ Capacity:
 - working capacity of 1,310 million cubic meter

- delivery capacity: 17 million cubic meter/day
- ↪ main fixed assets: 62 wells, 26 km gathering pipelines for the 62 wells, 50 gas heaters, 24 separators, 14 gas measuring facilities, 7 dehydration stations, 33 km gathering pipeline, bi-directional fiscal metering system equipped with ultrasonic meter, compressor station (Butimanu), waste water injection station.

Sarmasel Storage

Characteristics:

- ↪ Location: near Sarmasel, approximately 35 km NW from Tirgu-Mures, 35 km north from Ludus and 48 km east from Cluj-Napoca.
- ↪ Commissioned in 1996
- ↪ Capacity:
 - Working capacity 800 million cubic meter
 - Delivery capacity 6.5 million cubic meter/day
- ↪ Main fixed assets: 61 wells, 26.341 km gathering pipeline for the 61 wells; 77 separators; 4.67 km gathering pipeline, bi-directional fiscal metering system equipped with ultrasonic meters, compressor station (Sarmasel)

Currently, following investments are in progress in order to increase the working capacity from 800 million cm/cycle up to 920 million cm/cycle:

- gas compressor stations;
- dehydration stations;
- modernizing surface facilities;
- modernizing fiscal metering systems.

Urziceni Storage

Characteristics:

- ↪ Location: Ialomita county approximately 50 km NE from Bucharest.
- ↪ Commissioned in 1978
- ↪ Capacity:
 - Working capacity 250 million cubic meter
 - Delivery capacity 2.7 million cubic meter/day
- Main fixed assets: 27 wells, 17.3 km gathering pipelines for 27 wells, 28 heaters, 6 gas measuring facilities, 1 dehydration station; 7.131 km gathering pipelines, bi-directional fiscal metering system equipped with ultrasonic meters, fiber optic data acquisition system; compressor station (Urziceni)

Currently, following investments are in progress in order to increase the working capacity from 250 million cm/cycle up to 360 million cm/cycle:

- gas compressor stations;
- modernizing surface infrastructure;

Cetatea de Balta Storage

Characteristics:

- ↪ Location: approximately 12 km S-W from Tarnaveni
- ↪ Commissioned in 2002
- ↪ Capacity:
 - Working capacity 200 million cubic meter
 - Delivery capacity 1 million cubic meter/day
- ↪ Main fixed assets: 16 wells, 6.64 km gathering pipelines for 16 wells, 6 separators, 6 gas measuring facilities, 9.375 km gathering pipelines, field supervising system, fiber optic data acquisition system.

Ghercesti Storage

Characteristics:

- ↪ Location: Dolj county near Craiova
- ↪ Commissioned in 2002
- ↪ Capacity:
 - Working capacity 150 million cubic meter
 - Delivery capacity 1.5 million cubic meter/day
- ↪ Main fixed assets: 86 wells, 156.931 km gathering pipelines for 86 wells, 13 separators, 6 gas measuring facilities, 1 dehydration station, 41.998 km gathering pipelines, bi-directional fiscal metering system with two metering lines, equipped with ultrasonic meters and communication system and fiber optic data acquisition system.

Balaceanca Storage

Characteristics:

- ↪ Location: approximately 4 km from Bucharest
- ↪ Commissioned in 1989
- ↪ Capacity:
 - Working capacity 50 million cubic meter
 - Delivery capacity 1.2 million cubic meter/day
- ↪ Main fixed assets: 24 wells, 9.993 km gathering pipelines, 15 gas heaters, 4 separators, 4 gas measuring facilities, 1 dehydration station, 1.07 km gathering pipelines, bi-directional fiscal metering system with two metering lines, equipped with ultrasonic meters, compressor station (Balaceanca) and communication system and fibre optic data acquisition system.

Workover and Special Operations

Well workover, capital repairs and well production tests represent all the services performed with workover rigs, as well as equipment for specific operations such as: cement plug drilling installations, mud tank equipped with agitator, sand control-sand blender, DST- cased hole testing of productive layers, shale shaker, mud pumps.

Special Well Operations are performed with the following equipment: cementing unit, slickline, wireline, coiled tubing unit, liquid nitrogen converter, liquid nitrogen tank

truck, cement container, filter unit, equipment for discharge and measurement with two-phase separation, equipment for discharge and measurement with three-phase separation, equipment for tubing investigation, echometer, rental of tools and utilities, tubing cutting, packer assembling device, hydraulic packer recovery tools, technical assistance for special well operations, well fire-fighting equipment.

It is necessary to perform well workover and special well operations in order to restrain production decline.

Transportation and Maintenance

The car fleet of the Branch for Technological Transportation and Maintenance consists of 640 vehicles and machinery, as follows:

- passenger carriers: cars (104), land vehicles (91), minibus (11), busses (2) and large busses (2);
- passengers and cargo carriers < than 3,5 t (17+22) and > than 3,5 t (94);
- vehicles for cargo transportation: dumpers (24), cesspit emptier (29), trucks (2), platform trucks (15), tank truck (3);
- vehicles for heavy transportation: truck-tractors (3) and semitrailer trucks (9);
- handling machinery: cranes from 12-18 t (6) and 24-35 t (11);
- special vehicles: mobile laboratory for equipment testing and checking (3);
- heavy machinery: bulldozers (8), caterpillar shovels (2), wheel loaders (13), motor grader (3), compactor (3), front end loaders (11);
- other machinery: tractor trucks (74), fork lift trucks, etc.;
- other vehicles: trailers for heavy transportations, trailers and semitrailers.

Considering the dynamics of Romgaz core business on a medium term (approximately 5 years), STTM plans to ensure qualitative and economically efficient services.

Electric Power

CTE Iernut has an installed capacity of 800MW, including 6 power units: four Czechoslovakian power units with an installed capacity of 100 MW each and 2 Soviet power units with an installed capacity of 200 MW each. The units have been commissioned between years 1963 and 1967.

The power plant is connected to the main road E60 by a 1.5km long road and to the national railway system at Cuci by a 2km railway both owned by the CTE Iernut.

Operating restrictions imposed by applicable environmental regulations

The 100 MW Power Units 1 and 4

By commissioning a flue gas recirculation system for boiler no. 1, NO_x emissions have been reduced in 2013 from 800 mg/Ncm flue gas to 300 mg/Ncm, complying therefore with environmental regulations.

In compliance with the integrated environmental authorisation for CTE Iernut, power units no.1 and 4, with an installed capacity of 100MW each, may operate on a transition period until June 30, 2020. The maximum NO_x emissions must be reduced from 300 to 100 mg/Ncm flue gas within this period.

If this last measure is not taken, the units will not be allowed to operate after June 30, 2020.

The 100MW Power Units 2 and 3

These power units may operate until December 31, 2015, but without exceeding a certain number of operating hours namely 20,000 hours between years 2008-2015.

As of the date of this report, unit 2 was allowed to operate up to 13,390 hours, and unit 3 up to 5,552 hours.

These power units will be decommissioned after year 2015 and some of their components will be used as spare parts for units 1 and 4.

The 200MW power units 5 and 6

Low NO_x emission burners have been installed in years 2010 and 2011, before the expiration of the final term, fulfilling thereby an environmental requirement included in the integrated environmental authorisation.

Due to these measures, the power units automatically enter the new transition period set between January 01, 2016 and December 31, 2020.

4.2. Investments

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.

The company invested during 2012-2014 approximately **RON 2.45 billion**, as follows:

Year	2012	2013	2014	Total
Amount (RON thousand)	519,053	848,247	1,085,500	2,452,800

For 2014, Romgaz scheduled investments worth *RON 1,341.38 million* and invested RON 1,085.5 million, approximately 28% less. In 2014 investments were RON 237.2 million higher than the investments made in 2013. The company financed all investments from own sources.

The value of fixed assets commissioned during 2014 was approx. RON 569 million.

The Board of Directors approved the investment program for 2014 by Resolution no.29 December 16, 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 July 30, 2013 (Government Decision no.570/09.07.2014).

Major investments aimed projects such as:

- continuing geological research works by performing surveys and drillings for the discovery of new gas reserves;
- production development by adding new facilities;
- improving the performance of facilities and equipment and increasing production safety;
- increase of underground storage capacities, flexibility and security of the existing storages;
- acquiring new machinery or modernizing the existing ones;
- drafting studies and projects necessary for the future development of the company.

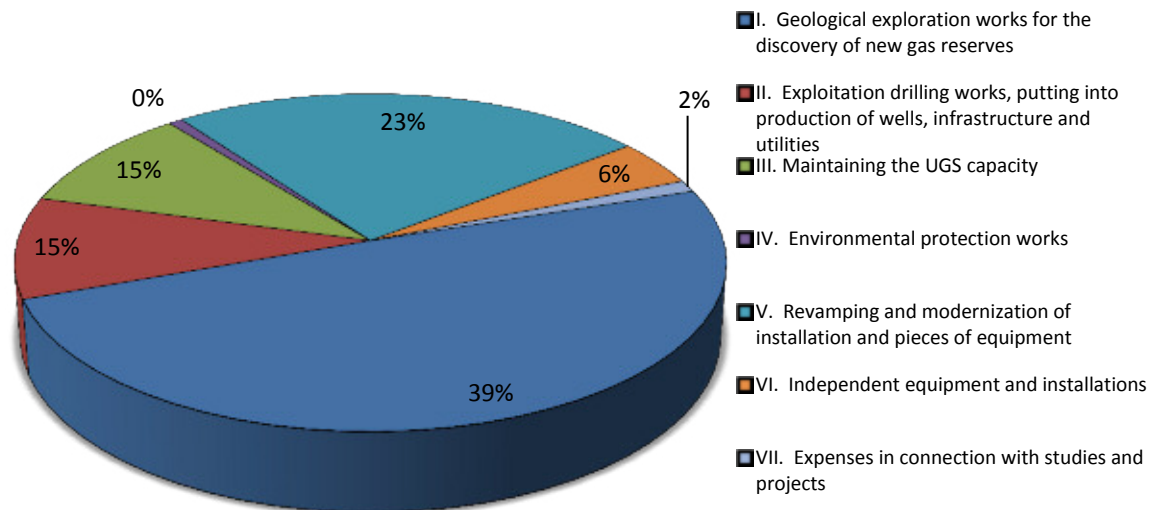
The table below shows the actual investments in relation to the scheduled ones:

thousand RON

Investment chapter	Scheduled 2014	Actual 2014	%
1	2	3	4=3/2x100
I. Geological exploration works for the discovery of new gas reserves	552,680	427,906	77.42
II. Exploitation drilling works, bringing into production of wells, infrastructure and utilities	223,748	159,219	71.16
III. Maintaining the UGS capacity	167,500	159,809	95.41
IV. Environmental protection works	17,363	4,825	27.79
V. Revamping and modernization of installation and pieces of equipment	265,406	254,631	95.94
VI. Independent equipment and installations	92,979	63,898	68.72
VII. Expenses in connection with studies and projects	21,709	16,209	74.66
TOTAL	1,341,385	1,085,497	80.9

*) starting with May 20, 2014 the capitalized repairs are included in the investment program

The investments structured on main chapters:



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

The firm contracts concluded in 2013 lead to recording best results.

The high levels of achieved values implied significant physical achievements .

A summary of the achieved projects indicates a high level of achievement of the objectives set:

Item no.	Main Projects	Planned 2014	Achieved 2014
1.	Drilling exploration	35 wells	22 wells
2.	Surveys	2D seismic	600 km
		3D seismic	2,100 km ²
		geochemical	2,000 modules
		magneto	500 units
			Contract concluded
3.	Production drilling	6 wells	all
4.	Surface facilities – gas wells	33 wells	28 wells completed 13 wells in progress
5.	Compressor stations in gas fields	SC Roman SC Ernei	68% completed
6.	Maintaining storage capacity	Sarmasel Storage -Compressor Station	50%
		Urziceni Storage - Drilling 3 wells -Compressor Station	completed 96%
7.	Well modernization	125 wells	147 wells
8.	Well capitalized repairs	140	136
9.	Electric power production	Feasibility Study Preparation	completed
10.	Partnerships	Aurelian Petroleum- - 3D seismic surveys	100%
		Lukoil: -Drilling 2 wells Black Sea	in progress
		Schlumberger: - 2 wells	completed
		Amromco	
		Slovakia: - G&G studies	completed
11.	Studies	Reservoirs Studies	100%

By the end of 2014, Procurement contracts have been concluded for works to be executed in 2014 and 2015 amounting RON 750,000 thousand, including works rendered by the company.

Main investments commissioned by the end of the year, worth RON 569,070 thousand:

- Drilling: 28 wells
- Surface facilities : 28 facilities
- Well modernization : 147 wells

- Well capitalized repairs: 136 wells
- Coiled tubing rig modernization
- Cementing equipment modernization
- Separate equipment

Very complex issues highly influencing the 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 the Bucharest Stock Exchange (BVB) and the London Stock Exchange



BVB

&

LSE

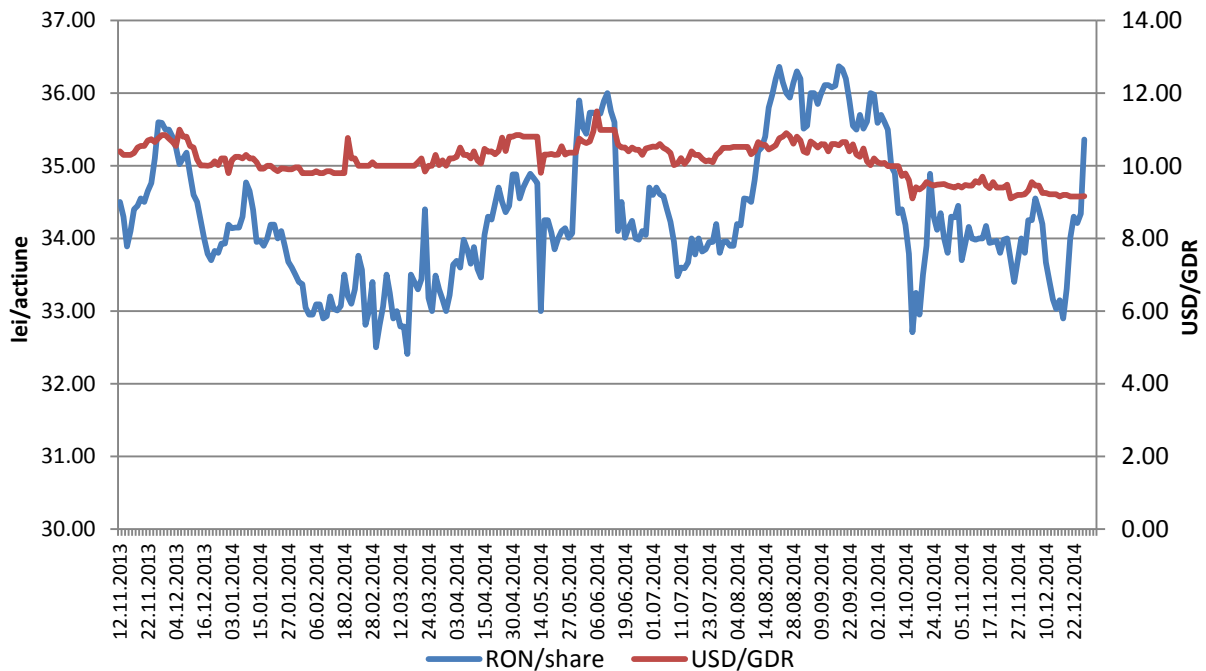


Government Decision no.831/August 4, 2010 on the approval of the privatization strategy by public offering of Societatea Nationala de Gaze Naturale "Romgaz" S.A. Medias and of the mandate of the public institution involved in the development of such process, approved "the trading by the Ministry of Economy, 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".

As of November 12, 2013 the company's shares are traded on the regulated market governed by BVB - the symbol is "**SNG**". At the same time, the shares issued by the company are underlying for the GDRs issued by The Bank of New York Mellon with Romgaz acceptance, GDRs which are traded on the regulated market governed by London Stock Exchange – the symbol is "**SNGR**".

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

Performance of Romgaz shares and GDRs from listing until the end of the year 2014 is shown below:



5.1. Dividend Policy

The General Meeting of Shareholders determines the amount of dividends to be distributed to shareholders considering the specific legal provisions.

Therefore, *Government Ordinance no. 64/2001 on profits distribution to companies where the State acts as major shareholder and to business enterprises*, approved by *Law 769/2001*, as subsequently amended and supplemented, provides at article 1, paragraph (1), letter (f) that the profit after deduction of profit tax shall be distributed as follows, unless otherwise prescribed under special laws:

- (a) legal reserves;
- (b) other reserves representing tax facilities provided by law;
- (c) covering accounting losses for the previous years, except for the accounting losses retained as a result of adjustments required under the application of IAS 29 "*Financial Reporting in Hyperinflationary Economies*", according to the Accounting Regulations compliant with the International Financial Reporting Standards and the Accounting Regulations in line with the Council Directive 86/635/EEC and the International Accounting Standards applicable to credit institutions;
- (c¹) setting own financing sources for projects co-financed out of external loans, as well as for the amounts necessary for reimbursing capital instalments, paying interests, commissions and other costs related to these external loans;
- (d) other distributions provided by law;

(e) employee's participation in the distribution of profits; national companies and companies fully or partially owned by the state, as well as business enterprises which undertook and established in their income and expense budgets the obligation to participate in the distribution of profits, as a result of the employees' services in relation thereto, may grant these rights up to 10% of the net profit, however not exceeding the level of one monthly average base salary of the relevant company during the respective financial year;

(f) **a minimum of 50%** contribution to the state or local budget, in the case of business enterprises, or **dividends**, in the case of national companies and companies fully or partially owned by the state;

(g) the profit undistributed according to letters (a) – (f) above, is distributed to other reserves and represents own financing sources.

Profit is distributed for the purposes and in the amounts referred to at paragraph (1) letters (e), (f), and (g) after deduction of the amounts related to the purposes determined under special laws stipulated in letters (a), (b), (c), (c¹), and (d) of the same paragraph.

Profit is distributed subject to the accounting profit recorded under statutory financial statements. The statutory financial statements of the company for the financial year ended December 31, 2011, December 31, 2012 respectively, have been prepared according to the Order of the Ministry of Finance no.3055/2009, as subsequently amended and supplemented, and for the financial year ended December 31, 2013 the statutory financial statements have been prepared according to the Order of the Ministry of Finance no. 881/2012.

In accounting terms, participation of employees in the distribution of profit is registered based on a recognized provision to the estimated cost thereof. In the financial statements for the year in which bonuses are proposed to be awarded in the form of employees' participation in the distribution of profit, their equivalent value is reflected as a provision. In the following financial year in which bonuses representing employees' participation in the distribution of profits are awarded, the provision created for the amounts estimated in the previous year shall be included in the revenues and the expenditure related to the bonuses awarded as employees' participation in the distribution of profits shall be registered accordingly.

For the financial years ending December 31, 2012 and 2013, the Government approved the obligation of wholly or mostly state-owned companies to distribute an 85% share of profit as dividends (under the Memorandum "*Measures which must be observed while drafting the revenues and expenses budgets of economic operators having whole or majority state participation*").

Also, as of September 6, 2012, as an exception to the requirements of Companies Law 31/1990 that dividends are paid no later than six months from the approval of the annual financial statements, state owned companies are required, in accordance with provisions of Government Ordinance no. 64/2001, to pay the dividends to their shareholders within 60 days of the legal deadline for the submission of the annual financial statements to the competent fiscal authorities.

The table below shows the dividend amounts for years 2012-2014:

	2012	2013	Proposal 2014
Dividends (RON thousand)	1,060,115	990,637	1,214,080,560
Gross dividend per share (RON/share)	27,68	2,57	3,15
Dividend distribution rate (%)	94.7	99.5	86.11
Number of shares	38,303,838	385,422,400	385,422,400

VI. MANAGEMENT

6.1. Board of Directors

According to Government *Emergency Ordinance no.109/November 30, 2011 on corporative governance in state-owned enterprises* implemented within the company in 2013, the selection and appointment of members in the board of directors is made further to a cumulative voting procedure, and the number of members of the board increased from 5 to 7; as a consequence starting with January 1, 2013 till the current date there were many changes of the Board of Directors as follows:

Between January 1st – April 28, 2013

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	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 August7, 2012.

Between April 29 - 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 – 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 following the selection procedure by cumulative voting, in compliance with the applicable legal requirements and further to Resolution no.21 dated December 30, 2013 of the General Meeting of Shareholders

Between June 13, 2014 - 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	Chisalita Dumitru	"Transylvania" University 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. Chisălită Dumitru was appointed as member of the Board for a mandate valid until May 14, 2017. Mr. Chisălită 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	David 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 position left vacant after the resignation of Mr. Volintiru Adrian Constantin.

Since December 19, 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	David Harris Klingensmith	Independent consultant	Member

On December 18, 2014, by Resolution No. 26/2014 of the Board of Directors Ordinary General Meeting of Shareholders, Mrs. Baci Sorana Rodica was appointed as an interim member of the Board for a mandate valid from January 19, 2015 until the future General Meeting of Shareholders. Mrs. Baci Sorana Rodica was appointed on the position left vacant after the resignation of Mr. Klingensmith David Harris.

The CV's of the directors are to be found on the company's webpage:

<http://www.romgaz.ro/relatia-cu-investitorii/guvernanta-corporativa/consiliu-de-administratie.html>.

According to the information supplied by each director, ***there is no agreement, understanding or family relationship*** between them and another person that contributed to their appointment as directors.

On December 31, 2013 among the Directors, only Mr. Metea Virgil Marius held shares of the company (5,513 shares from the IPO, representing 0.00143038% of the share capital).

Status of Romgaz interest shares in the share capital of other companies as of December 31, 2014 is described in the table below:

Company	Share capital	Shares/ interest shares	Nominal value	ROMGAZ ownership		
				Share capital	Shares/ interest shares	Share of the share capital (%)
1	2	3	4	5	6	7
SC "Amgaz" SA	24,425,000	2,442,500	10	8,548,750	854,875	25
SC "GHCL Upsom Romania" SA	40,664,607.75	162,658,431	0.25	1,710,000	6,840,000	4.205131
SC "Depomures" SA	300,000	30,000	10	120,000	12,000	40
SC "MI Petrogas Services Romania" SRL	607,000	1,000	607	60,700	100	10
MKB Nextebank SA	260,623,227.81	789,767,357	0.33	98,964,36	299,892	0.038
SC "AGRI LNG Project Company" SRL	2,979,600	297,960	10	744,900	74,490	25
SC "Electrocentrale Bucuresti" SA	715,834,690	71,583,469	10	17,853,410	1,785,341	2.494069
SC "Electrocentrale Titan" SA	61,996,030	6,199,603	10	455,900	45,590	0.735370
Energia Torzym Sp.z.o.o.s.p. Polonia	410,000 *)	N.A.	N.A.	100,000 *)	N.A.	24.4
Energia Cybinka Sp.z.o.o.s.p. Polonia	410,000 *)	N.A.	N.A.	100,000 *)	N.A.	24.4

*) polish zloty

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 which the Board of Directors did not delegate managing powers:

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

Gheorghiu Sorin	Technical Director
STTM	
Rusu Gratian	Director
Hasegan Dorina	Economic Director
Cioban Cristian Augustin	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.

According to our information, ***there is no agreement, understanding or family relationship between the executive directors and another person that contributed to their appointment as executive directors.***

The table below shows the number of shares held by the executive board as of December 31, 2013:

Item no.	Name	Number of shares	Share in the share capital (%)
1	Rotar Dumitru Gheorghe	6,611	0.00171526
2	Stefan Ioan	1,340	0.00034767
3	Carstea Vasile	412	0.00010690
4	Prisca Maria Magdalena	165	0.00004281
5	Morariu Dan Nicolae	52	0.00001349
6	Dinca Ispasian Ioan	48	0.00001245
7	Vecerdea Dan Adrian	45	0.00001168
8	Balasz Bela Atila	38	0.00000986

To the best of our knowledge, the persons mentioned at 6.1 and 6.2 above, ***have not been involved in litigations or administrative proceedings*** related to their activity in Romgaz ***in the last 5 years***, nor in proceedings related to their capacity of fulfilling the duties.

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 (IFRS) as adopted by the European Union. 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.

Starting from 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 from 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) to 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 from November 12, 2013.

Consequently, the Company has prepared financial statements in accordance with IFRS as adopted by the EU for the period ending December 31, 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. 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.

The table below presents a summary of the statement of individual financial position as of December 31, 2014:

Thousand RON

Indicator	31.12.2012	31.12.2013	31.12.2014	Variation (2014/2013)
ASSETS				
<i>Non-current assets</i>				
Property, plant and equipment	5,880,770	5,767,267	5,962,719	3.39%
Other intangible assets	230,704	383,956	407,449	6.12%
Associates	7,614	947	738	-22.07%
Trade and other receivables	52,646	-	-	-
Other financial assets	1,646	76,900	76,889	-0.01%
Other non-current assets	16,926	17,093	-	-100.00%
Total non-current assets	6,190,306	6,246,163	6,447,795	3.23%
<i>Current assets</i>				
Inventories	507,849	463,946	392,108	-15.48%
Trade and other receivables	906,806	1,086,628	1,000,195	-7.95%
Other financial assets	928,235	970,664	916,333	-5.60%
Other assets	132,434	146,179	101,886	-30.30%
Cash and cash equivalents	1,739,330	1,563,590	1,953,787	24.96%
Total current assets	4,214,654	4,231,007	4,364,309	3.15%
TOTAL ASSETS	10,404,960	10,477,170	10,812,104	3.20%
EQUITY AND LIABILITIES				
<i>Capital and reserves</i>				
Share capital	1,890,297	1,892,681	385,422	-79.64%
Reserves	1,773,651	1,949,600	2,142,347	9.89%
Retained earnings	5,680,812	5,450,493	7,184,249	31.81%
Total equity	9,344,760	9,292,774	9,712,018	4.51%
<i>Non-current liabilities</i>				
Retirement benefit obligation	63,785	79,241	97,265	22.75%
Deferred tax liabilities	257,835	146,440	131,305	-10.34%
Provisions	164,515	196,950	202,293	2.71%
Total non-current liabilities	486,135	422,631	430,863	1.95%
<i>Current liabilities</i>				
Trade and other payables	292,685	202,796	216,983	7.00%
Current tax liabilities	68,044	200,982	93,590	-53.43%
Provisions	28,735	47,316	35,814	-24.31%
Other liabilities	184,601	310,671	322,836	3.92%
Total current liabilities	574,065	761,765	669,223	-12.15%
Total liabilities	1,060,200	1,184,396	1,100,086	-7.12%
TOTAL EQUITY AND LIABILITIES	10,404,960	10,477,170	10,812,104	3.20%

Non-current assets

The total non-current assets increased by 3.23%, i.e. RON 201.6 million, from RON 6,246.2 million as of December 31, 2013 to RON 6,447.8 million as of December 31, 2014. The increase is due to acquisition of tangible and intangible assets for gas exploration, appraisal and production.

The amount related to *other assets* was fully impaired.

Current assets

The total current assets increased by 3.15% as compared to previous year, due to the increase of cash and cash equivalent by RON 390.2 million.

Inventory balance decreased both due to decrease of the value of imported gas, as well as due to the write-down allowance recorded at the end of 2014, as compared to the same period of the previous year.

Trade receivables increased in 2014 following the increase of gas delivery price and underground gas storage tariff, but the increase of the allowance related to doubtful clients generated a decrease of the value presented in the Individual Statement of Financial Position.

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

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

Capital and Reserves

Share capital

Following the GMS Resolution of April 28, 2014 and provisions of OMFP 1690/2012 and OMFP 213/2013 for the change of OMFP 1286/2012, the adjustment for hyperinflation in amount of RON 1,507.3 million was transferred to retained earnings.

Reserves increased by RON 192.7 million, representing the allocation of 2013 profit to the development fund of the Company (RON 162 million) and recording of reserve from the reinvested profit (RON 30.7 million), according to Art. 19⁴ of the Fiscal Code.

Retained earnings decreased by the value of allocated net profit of the previous year (dividends in amount of RON 990.6 million and development fund), and increased by the net profit of 2014 and by transfer of share capital adjustment for hyperinflation to the retained earnings account.

Non-current liabilities

Provisions for pension increased in 2014 as compared to previous year by RON 18 million, mainly due to inclusion of permanent benefits into employees base salary. The provision for decommissioning of production wells and underground gas storage wells increased in 2014, especially due to the unwinding of the liability.

Current liabilities

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

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

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

The Company ***did not issue bonds or other debt instruments*** during 2014 financial year.

7.2. Statement of Comprehensive Income

Statement of comprehensive income for the period January 1- December 31, 2014 compared to the similar period of 2013 and 2014 is set below:

Thousand RON

Description	2012	2013	2014	Variance (2014/2013)
Revenue	3,837,941	3,894,267	4,493,341	15.38%
Cost of commodities sold	(904,580)	(439,178)	(175,638)	-60.01%
Investment income	148,326	123,279	78,729	-36.14%
Other gains and losses	(49,806)	(204,396)	(275,141)	34.61%
Changes in inventory of finished goods and work in progress	110,852	55,673	27,743	-50.17%
Raw materials and consumables used	(118,364)	(79,311)	(66,167)	-16.57%
Depreciation, amortization and impairment	(606,114)	(782,433)	(776,839)	-0.71%
Employee benefit expense	(521,352)	(503,574)	(522,785)	3.81%
Finance cost	(24,233)	(13,229)	(24,476)	85.02%
Exploration expense	(193,304)	(59,221)	(43,332)	-26.83%
Other expenses	(417,397)	(744,867)	(1,034,627)	38.90%
Other income	133,672	53,632	107,521	100.48%
Profit before tax	1,395,641	1,300,642	1,788,329	37.50%
Income tax expense	(276,462)	(305,088)	(378,448)	24.05%
Profit for the year	1,119,179	995,554	1,409,881	41.62%

Revenue

In 2014, Romgaz achieved revenue of RON 4,493.3 million compared to RON 3,894.3 million achieved in 2013, due to the positive influence of:

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

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

Cost of Commodities Sold

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

Investment Income (finance income)

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

Other Gains and Losses

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

- financial investments, in amount of RON 17.9 million;
- trade receivables, in amount of RON 172.8 million, mainly for Interagro and Electrocentrale Galati receivables;
- Termoelectrica receivable, in amount of RON 42.7 million;
- inventory, in amount of RON 21.9 million.

Changes in Inventory of Finished Goods and Work in Progress

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

In 2014 the quantity of gas extracted from UGS was higher than the quantity injected by 36.2 million m³, but the production cost of gas extracted from UGS was lower than the production cost of gas injected, which generated a positive change in inventory (revenue), but smaller by 50.17% than previous year.

Raw Materials and Consumables Used

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

Depreciation, Amortization and Impairment

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

Employee Benefit Expense

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

Finance cost

The finance costs include mainly the unwinding of the decommissioning provision, in amount of RON 24.44 million. These costs increased by 85.21% as compared to 2013 as

a result of corrections on the decommissioning provision related to previous years (RON 7.84 million), as well as a result of the unwinding effect related to year 2014 (RON 16.6 million). Considering that the correction for previous years is insignificant, it was recorded in the current year's result, without affecting the retained earnings.

Exploration expense

The exploration expenses decreased by 26.83% (from RON 59.2 million to RON 43.3 million) due to a lower value of exploration projects that have been abandoned.

Other expenses

The breakdown of other expenses by elements of cost for the years presented is as follows:

Thousand RON

Description	2013	2014	Variance (2014/2013)	
			(thou. RON)	(%)
1	2	3	4=3-2	5=4/3x100
Electricity	96,936	20,755	(76,181)	-78.59%
Non-inventory materials	48,112	40,676	(35,638)	-15.46%
Other services supplied by third parties	76,314	71,220	(3,094)	-90.67%
Other taxes and duties	430,320	816,598	386,278	1797.65%
Provisions	12,541	(4,093)	(16,634)	-132.64%
Other operating expenses	80,644	89,471	8,827	10.95%
Total	744,867	1,034,627	289,760	38.90%

In 2014 *other expenses* increased by RON 289.8 million mainly due to the following:

- Increase of transmission cost for the fuel gas used by CTE Iernut (higher gas consumption and higher transmission tariff);
- Increase of natural gas royalty costs and UGS royalty costs, to RON 303.2 million, as a result of natural gas royalty increase and UGS revenue increase;
- Increase of the tax on additional revenue (windfall tax) obtained, to the amount of RON 369.7 million lei, as a result of deregulation of natural gas prices in the gas sector (increase of gas delivery price)
- Recording the tax on special construction starting from 2014, in amount of RON 91.7 million.

Other income

In 2014, other income increased by 100.48 % due to penalties applied to the Company's clients with overdue amounts.

Income tax expense

The increase of income tax expense in 2014 as compared to 2013 is due to the deferred tax (income) recorded in 2013 in amount of RON 111.4 million, as compared to the deferred tax (income) of RON 15.1 million lei in 2014. In 2013 the current income tax was higher due to the influence of restatement of the financial statements to IFRS.



Profit for the year

Following the evolution of the revenues and expenses as mentioned above, in 2014 the net profit of the Company increased by RON 414.3 million, i.e. 41.62%.

7.3. Statement of Cash Flows

Statements of cash flows recorded in the period 2012-2014 are set in the table below:

Thousand RON

INDICATOR	2012	2013	2014
1	2	3	4
Cash flows from operating activities			
Net profit for the year	1,119,179	995,554	1,409,881
<i>Adjustments for:</i>			
Income tax expense	276,462	305,088	378,448
Investment income	-	-	(3,268)
Interest expense	562	32	34
Unwinding of decommissioning provision	23,671	13,197	24,442
Interest revenue	(148,326)	(123,279)	(75,461)
Loss on disposal of non-current assets	15,741	32,534	18,024
Change in decommissioning provision recognized in profit or loss, other than unwinding	(27,414)	(9,502)	(7,877)
Change in other provisions	20,377	27,827	3,783
Expenses for provisions for impairment of exploration assets	(81,696)	72,656	154,077
Exploration costs	193,304	59,221	43,332
Impairment of property, plant and equipment	45,470	79,987	137,783
Depreciation and amortization	642,340	629,790	484,979
Impairment of investment in associates	-	7,064	209
Impairment of other financial assets	-	741	11
Losses from trade receivables and other assets	134,707	186,801	233,340
Receivables reactivated	(115,824)	(28,853)	-
Write-down allowance of inventory	-	-	21,907
	2,098,553	2,248,858	2,823,644
Movements in working capital:			
(Increase)/Decrease in inventory	(56,608)	43,903	50,008
(Increase)/Decrease in trade and other receivables	89,070	(573,199)	(154,869)
(Increase)/Decrease in trade and other liabilities	(382,836)	251,587	95,160
Cash generated from operations	1,748,179	1,971,149	2,813,943
Interest paid	(651)	-	(34)
Income taxes paid	(295,874)	(284,623)	(500,975)
Net cash generated by operating activities	1,451,654	1,686,526	2,312,934
Cash flows from investing activities			
Acquisition of investments in associates	(530)	(393)	-
(Increase)/ Decrease in other financial assets	178,593	(37,297)	52,417
Interest received	130,618	108,227	77,200
Proceeds from sale of non-current assets	793	3,576	154
Loans to associates	(8,119)	-	-
Dividends received	-	-	1,634
Acquisition of non-current assets	(283,137)	(538,239)	(580,708)
Acquisition of exploration assets	(214,439)	(338,025)	(485,147)
Net cash used in investing activities	(196,221)	(802,151)	(934,450)
Cash flows from financing activities			
Reimbursement of credits	(6,714)	-	-
Dividends paid	(938,038)	(1,060,115)	(988,287)
Net cash used in financing activities	(944,752)	(1,060,115)	(988,287)
Net increase/(decrease) in cash and cash equivalents	310,681	(175,740)	390,197
Cash and cash equivalents at the beginning of the year	1,428,649	1,739,330	1,563,590
Cash and cash equivalents at the end of the year	1,739,330	1,563,590	1,953,787

Statement of cash flows presented above presents the cash flows for three periods (2012, 2013 and 2014), 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 non-cash transactions, any deferrals or accruals of cash payments or receipts from operations, past or future, and items of income or expense associated with 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 574.8 million for 2014 compared to RON 150.3 million for 2013.

The most important movements in cash flows were the receipts for gas delivered to the clients of the Company, payments for acquisition of non-current assets (RON 580.7 million) and exploration assets in amount of RON 485.1 million, as per the investment plans approved by the Company. Dividends paid to shareholders during 2014 amount to RON 988.3 million, as compared to RON 1,060.1 million paid in 2013.

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 30, 2011 on public companies corporate governance, as amended (the "Ordinance"), apply 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 shareholding from those deriving from directorship/managing of the company.*
- 👉 *Principle of transparency, non-discrimination and equal treatment in the selection process of Board members;*
- 👉 *Principle of proportional representation in the Board of Directors;*
- 👉 *Minority shareholders protection by observing transparency principles;*
- 👉 *Transparency principle;*
- 👉 *Principle of mandatory reporting to the GMS as prescribed by law.*

Ordinance provisions are observed by the company, and are included in the Company's Articles of Incorporation, as approved by the company's shareholders Resolution No. 19 of October 18, 2013 and respectively by Resolution No. 5 of July 30, 2014 (latest update of the Articles of Incorporation).

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*.

After the Financial Supervisory Authority approved the proposals to amend BVB's regulations, starting January 5, 2015, Romgaz is admitted into the PREMIUM category of BVB regulated market. Admission of the company in this superior category is due to the fact that the company's own shares are among the 25 most liquid securities, as to liquidity coefficient, the average free-float capitalization for the last 3 months exceeding EUR 40 million.

As issuer of securities traded on the regulated market, Romgaz has to fully comply with the corporate governance standards provided by applicable national regulations, namely the Corporate Governance Code of BVB.

The corporate Governance System was and will be 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 a Corporate Governance Code;*
- ✂ *Inclusion in the Board's Annual Report of 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, 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;
- ✘ Establishment of a specialized office dedicated to investors and shareholders relation;
- ✘ Conclusion of contracts for directors' and executive directors' professional liability insurance and appointment of a person to monitor such contracts;

Some of the measures to be implemented:

- ✘ 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.

The company's Articles of Incorporation, as amended by EGMS Resolution No. 5 of July 30, 2014, is posted on the internet webpage:

http://www.romgaz.ro/fileadmin/Relatia_cu_investitorii/Relatia_cu_investitorii/Act_constitutiv_iulie_2014-semnat.PDF

Romgaz will prepare ***an action plan for corporate governance*** which should come into force by the end 2015, after 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.

In particular, it will seek to ensure that the internal audit function is:

- an independent operation;
- direct reporting to the audit committee; and
- performing 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 the 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 spin-off 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 shareholder's 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 – December 31, 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 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 IVth 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 three advisory committees, namely: the nomination and remuneration committee, the audit committee and the strategy 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.

On December 31, 2014, the advisory committees' structure was the following:

I) Nomination and remuneration committee:

- ✎ Negrut Aurora
- ✎ Popescu Ecaterina
- ✎ Klingensmith Davis Harris (starting with January 18, 2015 he resigned from his position as director)
- ✎ Jansen Petrus Antonius Maria

II) Audit committee:

- ✎ Klingensmith Davis Harris (starting with January 18, 2015 he resigned from his position as director)
- ✎ Jansen Petrus Antonius Maria
- ✎ Chisalita Dumitru (starting with September 25, 2014, in accordance with Board of Director's Resolution No. 20/2014).

The Strategy Committee was established by Board of Directors' Resolution No. 20 of September 25, 2014, and its objectives, responsibilities and duties and members shall be established during the immediate period.

Director General

In compliance with the 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 Functioning Regulations 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 disciplinary reward and sanction 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 necessary 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/legal procedures;
- ↪ fulfills any accessory duties, namely any acts and special operations necessary and useful for achieving the above mentioned duties.

The Director General must inform periodically the Board of Directors on the manner of achieving the assigned duties, as well as the right to request and to obtain instructions on the manner of exercising the assigned duties.

Internal Audit

The 2014 Annual Plan draft, together with the supporting documents, were submitted for the Director General's approval on December 6, 2013.

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 factors contained in Romgaz General Internal Audit Norms:

- internal control assessment;
- quantitative assessment;
- qualitative assessment;
- legislative amendments;
- 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/regularity audit missions:

- Financial Management Control January 27-March, 31, 2014;
- Natural gas compression activity April 14 – July 14, 2014;
- Prevention and labour safety, including occupational medicine September 1 – November 18, 2014. It was extended until December 19, 2014, with Director General's approval.

The audit missions for 2014 were the following:

I. Assurance mission related to financial management control

The main objectives are:

- Internal Control/Management System Office within the specific organisation unit having the following audit objectives:
 - General considerations 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 2⁴ – “Duties, tasks and responsibilities”;
- Organisation and operation of Financial Management Control Office according to Standard 17 – “Procedures”.
- 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 by the 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 29, 2014.

II. Assurance Mission for the Natural Gas Compression Activity

The main objectives of this mission are:

- Internal /management control system at the level of Office, having the following audit objectives:
 - General considerations on the internal/management control within Romgaz and “Self-assessment of internal/management control system implementation phase” for the gas compressor stations;
 - Compressor stations organization and operation compliance with Standard 2 - “Duties, tasks and responsibilities”;
 - 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”;
 - Professional training of employees working at natural gas compressor stations;

⁴ OMPF No.946/2005 Standards;

- Analysis and verification of gas compressing stations organization according to Standard 6 – “Organization Structure”;
- Activity planning, having the following audit objectives:
 - Natural gas compression activity planning, namely work and maintenance programs (technical and current maintenance and overhaul), according to Standard 8 – “Planning”;
 - 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”;
- Actual activity performance, having the following audit objectives:
 - Activity performance according to Standard 17 – “Procedures” - and applicability of operation procedures and working instructions for gas compressing sections;
 - Activity performance related to explosions prevention by equipment operating in explosive atmosphere (AntiEx);
- Reporting, having the following audit objectives:
 - Daily, monthly and annual reporting in the field of gas compression.

The internal audit team drafted the Audit Report No. 23 677/25.08.2014 providing 31 recommendations for improvement of compression activity.

III. Assurance Mission for Labour Prevention and Protection, including Occupational Medicine

The main objectives of this mission are:

- Internal /management control system at the level of Office, having the following audit objectives:
 - General considerations on the internal/management control within Romgaz and “*Self-assessment of internal/management control system implementation phase*” at the level of Prevention and Protection Offices;
 - Organisation and operation of Prevention and Protection Offices Office according to Standard 2 – “Duties, tasks and responsibilities” and Standard 6 – “Organisation Structure”;
- Activity planning, having the following audit objectives:
 - Establish and achieve the objectives of Prevention and Protection Offices, according to Standard 7 – “Objectives” – implementation of OHSAS (Occupational Health and Safety Assessment System);
- Actual activity performance, having the following audit objectives:
 - Existence and compliance with “Operation Procedures” and “Work Instructions” recorded in “QEMS Matrixes”, in accordance with Standard 17 – “Procedures”;
 - Evaluation of occupational health and security risks for workplaces and workstations in the secondary headquarters of the branches;
 - Working modality in case of “Serious and Imminent Danger Condition” occurrence and identification of “High and Specific Risk Areas”;
 - Training topics in the field of Occupational Health and Security;

- Disease prevention activity, monitoring and rescue of the employees' health and physical integrity;
- Occupational Health and Security Committees (CSSM) within Romgaz – establishment, organisation, operation, activity and responsibilities and duties;
- Ensuring of the minimum health and security requirements for building sites (temporary or mobile);
- Reporting, having the following audit objectives:
 - Reporting developed by the Prevention and Protection Offices of all the Branches.

A Draft Report was elaborated and the Internal Audit Report shall be elaborated in 2015.

The Internal Audit Plan was achieved 100%.

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 endorsed by the Audit Compartment within the Ministry of Economy and were approved by Romgaz Director General.

The Internal Audit Office has updated the following operation procedures according to the approved Rules:

- Planning the Internal Audit Activity (Code: 18PO-06);
- Performing an assurance Internal Audit Mission (Regularity/Conformity) (Code: 18PO-07);
- Reporting the Internal Audit activity (Code: 18PO-08).

Corporate Social Responsibility (CSR)

For Romgaz, 2014 meant the start of the CSR process by assuming its policy and the perspective and comprehensive assessment of efficient and strategic engagement of the stakeholders. Romgaz developed and implemented a program for consulting the stakeholders to provide the company a proper answer to their concern and expectations, being identified the strategic directions of social involvement defined in the company's CSR Strategy.

CSR identified objectives determined the proposal for some CSR actions and projects which should contribute to the development of good practice in business, resulting from the interdependence between all the components of the organisation management system, in accordance with the business strategy and the stakeholders' needs or expectations. Romgaz shall contribute to the support of initiatives in fields as education, health, environment and communities' development.

Romgaz is convinced that the premise of business performance is confidence among all the parties concerned, and from a company's perspective, the interest for sustainability, including some social and ecological considerations in the activity, in order to generate long-term development, being the proof for awareness of interdependent relation between the business environment, environment and society.

Trying to materialize its responsible attitude, Romgaz has proven to be a partner present in the support and implementation of a varied palette of social, educational and cultural programs.

Projects for encouraging education among young people

„Let`s go to school!”

Romgaz signed a partnership with UNICEF Romania, through which it committed to support financially the implementation of a prevention program of truancy and school-drop in 5 disadvantaged communities in Buzau, Dambovita, Neamt, Prahova and Suceava.

The program initiated by UNICEF in 2010 consists in counselling the teaching staff, local authorities and parents, in order to ensure the access to education among children from socially and economically disadvantaged families.

The program promotes the observance of the fundamental right to education of all children and sustains the equity principle by supporting the most vulnerable children and their families. The pattern of intervention for school participation reflects the European educational priorities concentrated on prevention and intervention.

„Romgaz invests in your education!”

Due to this project, exceptional students from secondary school were rewarded, students being identified in 35 local communities from Transylvania where Romgaz carries out activities. The award included a financial support for the students selected based on school results and promoting them in the community by distributing a magazine dedicated to awarded children.

The project was carried out by the end of 2014 in partnership with “Education for Europe” Association, Cluj Napoca, and it came in to meet students who became, due to their effort an example of excellence and motivation and for this reason Romgaz wishes to give them a well-deserved recognition and to encourage them in their mission of promoting the success through education.

“Minds war”

Romgaz joined the development of this contest project of general knowledge conceived as a TV show by the Association “Permanent Activ” Tg. Mures together with the Tg Mures TVR studio and supported by the Mures County School Inspectorate.

Broadcasted during December 2014, the show was a form of interactive education for the benefit of the community by promoting social models among young people and encouraging continuous multidisciplinary self -help and it consisted in theoretical tests of general knowledge from eight fields, who also took a practical test of handicraft, spontaneity and perspicacity. In this project were involved 16 high schools from Mures County representing 6 localities namely, Tirgu Mures, Ludus, Tarnaveni, Reghin and Gurghiu, with an impressive number of participants such as students, teachers, partners and organizers.

"Cinema-Edu"

Cinema-Edu is a cinema education project which wants to encourage the critical and creative thinking of young high school pupils through debates of some social and present day problems, presented under the form of cinema projections. Macondo Cultural Association, the project's initiator in 2010, develops Cinema-Edu Caravan in 80 high schools all over the country, reaching annually at 10,000 students. In October and November 2014, under Romgaz support, Macondo organized events in Ploiesti, Craiova, Medias, Tirgu Mures, Iernut and Roman.

"Volunteering for Education"

Romgaz employees voluntarily supported the formation process of reading and learning skills by collecting books from personal donations in order to support local projects to enrich the book titles dedicated to children eager to learn more. 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. Romgaz employees donated approximately 400 books to the children from "Sf. Andrei" Day Centre from Medias.

Contemporary Art and Culture

In 2014, Romgaz became an official partner of *Astra Film Festival*, who developed during its 20 years of existence, a cultural brand acknowledged in Romania and abroad by the quality of the films, the multitude of the programs and variety of professional workshops. The festival is considered the most important forum for documentary film in Romania. As official partner, Romgaz engaged to support in August 2014 an unprecedented cultural event at Reghin, dedicated to the community of Tirgu Mures, and not only, organized by K'ARTE Association, Tirgu Mures, under the form of an art camp *„Round Forest"* which included a series of connected programs: documentary projections, a jazz concert and an art workshop for children.

The organization of *"International Theatre Festival"* in Sibiu probably represents the most complex festival of this kind in Romania, being internationally recognized as the third art festival of its kind in Europe, and in 2014 it was supported by Romgaz.

In 2014 the European film world was supported by Romgaz, too, by organizing *"The International Film Festival MECEFF"*, while reading was encouraged by organizing the second edition of the *Transylvania Book Festival* in collaboration with the Eikon Cultural Association, Cluj Napoca.

"Sibiu Jazz Festival" promoting the jazz music values and aesthetics is the oldest festival of this kind in Romania and one of the oldest jazz festivals in the world, which is why Sibiu was declared Romania's "Jazz Capital". In 2014 Romgaz was happy to support the organization of this famous event.

Events hosted in partnership with Romgaz

During every month of 2014, Romgaz also hosted at *Casa Gazelor Naturale Romgaz (House of Natural Gas Romgaz)* a series of events dedicated to the community such as book launches, exhibitions of paintings and graphics, symposiums, communication

sessions or the development of other events dedicated to some national or international celebrations.

The history of these events reveal a good reputation of Romgaz to prove its openness towards the stakeholders and culture, and to exemplify, we hereinafter present several of the events carried out in partnership with Romgaz.

During February 10 - 21, 2014, the eighth grade pupils attending the elementary schools in Medias participated in *"Safety Days on Internet"*, where they were informed on the dangers they are exposed to on internet.

On the occasion of *"Earth Day"*, in collaboration with Mediensis Technical College, an exhibition of works of art was organized presenting works achieved by pupils which were awarded in a festive background where approximately 50 persons participated.

In May 2014, on the occasion of *"Museums Day"*, an art exhibition varnishing was organized under the name of *"Colour, Soul and Childhood"* where were exposed paintings and drawings of pupils attending 9 schools in Medias and surroundings. Over 30 persons participated in the pupils' award after an artistic creation county contest.

Casa Gazelor Naturale marks in an exceptional museum location, the history of over 100 years of natural gas exploration and exploitation in Romania, where it conserves the identity of the national sector of natural gas in representative exhibitions, dedicated to this field.

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. In August 2014 Romgaz was one of the partners of a science and technique symposium, in which 150 members of ICOHTEC participated, from over 20 countries in the continent, USA and Canada, *Casa Gazelor Naturale* participating in the works of this symposium, with the scientific work *"100 Years of Natural Gas Transportation - Transition Technology"*.

Energy Efficiency Program in Health

In 2014, Romgaz initiated the *"Green Hospital"* project by means of which it contributes to the energy modernization and efficiency of the Municipal Hospital from Medias, this project being an example of sustainability and commitment to energy performance. The modernization process is meant to improve the comfort and quality conditions of medical services and it consists in assembling some heat pumps and solar panels to allow the administration to procure its own energy from green sources.

Energy efficiency will reduce annual energy costs by approx. 10% for Municipal Hospital Medias, thus being a sustainable project which brings continuous financial benefits for the sanitary unit by eliminating the annual energy loses of the afferent hospital premises.

Performance Support Programs in Romanian Sport

Supporting the community representatives who give proof of skills for sport performances, meets the company's desire to invest in the development of a healthy community, sport leading to the development and improvement of man as a member of society, and the values which sport represents, become the essential instruments of

social and educational integrity. Romgaz supports performance in Romanian sport, its involvement in the sport community aiming at a various sport activities palette which includes football, basketball, ninepins, table tennis, lawn tennis, fencing and aircraft modelling.

Romgaz supports sport associations and clubs for infrastructure development and modernization, ensuring competition equipment or implementation of some sport programs with internal and international actions (national championships, tournaments, contests, competitions, expeditions, training camps etc.)

Due to the society's involvement in sport, Table Tennis Sport Club Medias (CS Romgaz Medias) enjoys an exceptional prize list both internally and internationally, ranking leading places on the national and European Championships. Andreea Dragoman, from Sport Club Romgaz Medias, won gold medal with the table tennis Romanian team at the European Championship in Italy. Sport Club Romgaz Medias takes the first place at National Table Tennis Team Championship – Juniors 2.

The women's nine-pins bowling team of Romgaz – Electromures won several national and international titles, with a very impressive prize list: 18 national champion titles, 15 World Cup titles, as well as other international cups, and in 2014 it was designated European Champion, at the competition which took place in Croatia.

Sport Club Gaz Metan Medias is composed of several sports departments, supported by Romgaz, developing their activities in Romania's national championships, and the Basketball and Football Teams enjoy remarkable sport performances.

Romgaz also supported this year the organization of *“National School Chess Championship „Elisabeta Polihroniade”* - mixed teams, where over 200 pupils participated in. The final took place during June 12 – 15, 2014, at Olanesti.

Romgaz considers that promoting Romanian chess is a modality to attract attention upon the importance of this sport in the young people's education and development. Starting with this autumn, chess will be introduced in schools as an optional subject, based on an agreement signed between the Ministry of Education and Romanian Chess Federation, concluded on the occasion of the opening of *“Elisabeta Polihroniade”* National Chess Championship.

The eighth edition of the international professional chess competition, *“The Kings Tournament”* Romgaz, took place in November 2014, and the format of this edition was a team game, a match between Romania and China's olympic teams – En-Titre Olympic Championship.

During Kings Tournament, 2014 edition, the chess tournament *“Open Romgaz”* was organized, addressing to all people fond of chess. The competition, recorded at Chess Romanian Federation, took place on age categories and recorded over 170 participants from the counties of Sibiu, Alba and Mures.

The *“Kings Tournament”* – a successful event where Romgaz is involved together with the *Elisabeta Polihroniade* Sports Club Association, has become one of the most appreciated competition of its kind worldwide, being recognized by the Romanian Chess Federation as well as the International Chess Federation (FIDE), and in 2010 it was admitted as the strongest world tournament (GSCA) within the Grand Slam due to the exceptional conditions ensured by the organizers.

Social Solidarity

Romgaz has proven its social solidarity towards NGOs, institutions, schools, nursery schools, religious buildings, by supporting the implementation of a large variety of social programs of helping the less-favoured persons or young people with limited incomes, to support some educational, cultural-artistic projects (books publishing, olympiads' organization, seminars, conferences, shows, festivals, symposiums, exhibitions, folk groups, local events etc.) as well as different medical programs (medical equipment of some hospitals/medical units, execution of surgical procedures, investigations, medical treatments).

Romgaz offered support for infrastructure development and modernization of community centres, hospitals, centres for people with disabilities, schools and nursery schools, road, bridge and children playgrounds rehabilitation.

To harmonize efforts to improve the life quality and well-being of present and future generations, Romgaz acts to justly treat labour, moral integrity, clients' rights, economic and social equity, harmless environmental technologies, transparent relations with public authorities and contributions to the community.

Social Responsibility Projects, Actions and Initiatives Results for 2014 in figures (LEI)

Expenses/Activities Name	Program	Actual
Total of sponsorship expenses, out of which:	12,100,000.00	10,063,715.11
*sport activities	8,262,000.00	8,052,948.00
*religious units	600,000.00	185,057.50
*provision of humanitarian and social aid	1,700,000.00	972,600.00
*other sponsorship expenses	1,538,000.00	853,109.61

Legal Instruments concluded under the conditions of Article 52, paragraph (1) and (6) from Emergency Government Ordinance No. 109/November 30, 2011 on the corporate governance of public enterprises are presented in the table below:

No.	Contracting Party	Contract Number	Scope of Contract	Value, without VAT (lei)
1	SC Electrocentrale Bucuresti SA	15/2009 - extended and amended with AA14 - AA17/2014	Sale and Purchase of Natural Gas Services	222,432,985.72
2	SC Termo Calor Confort Pitesti	9/2010 - extended and amended with AA8 - AA14/2014	Sale and Purchase of Natural Gas Services	24,987,267.60
3	SNTGN Transgaz SA Medias	20/2009 - extended and amended with AA11 - AA14/2014	Sale and Purchase of Natural Gas Services	201,330,829.20

4	SC Electrocentrale Constanta SA	10/2014	Sale and Purchase of Natural Gas Services	33,369,213.71
5	SC Electrocentrale Galati SA	16/2013 - extended and amended with AA7/2013 - AA19/2014	Sale and Purchase of Natural Gas Services	67,498,229.81
6	SC Electrocentrale Galati SA	4/2014 - extended and amended with AA1 - AA7/2014	Sale and Purchase of Natural Gas Services	76,665,083.79
7	Societatea Complexul Energetic Hunedoara	2/2014	Sale and Purchase of Natural Gas Services	41,981,549.32
8	SC Energoterm SA Tulcea	3/2010 - extended and amended with AA8/2013 - AA9/2014	Sale and Purchase of Natural Gas Services	7,153,603.63
9	SC GDF SUEZ ENERGY Romania SA Bucuresti	7/2013 - extended and amended with AA1 - AA6/2014	Sale and Purchase of Natural Gas Services	724,127,710.61
10	SC GDF SUEZ ENERGY Romania SA Bucuresti	1/2009 - extended and amended with AA18 - AA25/2014	Sale and Purchase of Natural Gas Services	469,797,345.92
11	SC GDF SUEZ ENERGY Romania SA Bucuresti	5/2014	Sale and Purchase of Natural Gas Services	40,783,500.00
12	E.ON ENERGIE Romania SA Targu Mures	8/2009 - extended and amended with AA21 - AA24/2014	Sale and Purchase of Natural Gas Services	252,879,618.84
13	E.ON ENERGIE Romania SA Targu Mures	6/2013 - extended and amended with AA1 - AA4/2014	Sale and Purchase of Natural Gas Services	609,498,639.32
14	E.ON ENERGIE Romania SA Targu Mures	8/2013 - extended and amended with AA1 - AA4/2014	Sale and Purchase of Natural Gas Services	113,736,600.00
15	E.ON ENERGIE Romania SA Targu Mures	8/2014	Sale and Purchase of Natural Gas Services	4,531,500.00
16	E.ON ENERGIE Romania SA Targu Mures	9/2014	Sale and Purchase of Natural Gas Services	9,010,000.00

IX. PERFORMANCE OF THE MANDATE CONTRACT/DIRECTOR'S 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 of Romgaz's Director General over the mandate contract's 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 fulfilment of performance criteria and objectives set in the Director's Contracts.

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

The main **performance objective** provided in the Director's Contracts 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;
- ✎ Optimizing, developing and diversifying the underground storage activity by reconsidering its importance for ensuring safety, continuity and flexibility in supplying natural gas;
- ✎ Increasing the company's performance;
- ✎ Identifying 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 fulfilment 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.

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

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

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

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:

$$Indicator_{Q,i}(IFRS) = \frac{Indicator_{Q,i}(OMFP\ 3055)}{Indicator_{year}(OMFP\ 3055)} \times Indicator_{year}(IFRS),$$

where: $i=1\div 3$;

- ✎ for 2013, indicators were 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 were 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. 2014 Results

The achievement of performance indicators and criteria in 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=6/5x100	8=2x7
EBITDA	0.25	+4.5%	2,081,216.3	2,174,871.1	2,863,981.3	131.7	32.93
CA	0.20	+6%	3,982,799.9	4,221,767.9	4,493,341.1	106.4	21.28
W	0.10	+6%	671.1	711.3	720.9	101.3	10.13
C _{expl} /V _{expl}	0.10	-0.6%	664.3	660.3	595.2	110.9	11.09
RES	0.10	+1%	1,827.3	1,845.6	2,163.0	117.2	11.72
d _g	0.15	-1.5%	5,578.4 ⁵	5,494.7	5,663.9	103.1	15.47
Pres	0.10	0	0	0	0	110.0	11.00
Total	1.00	-	-	-	-	-	113.62

- EBITDA – (RON thousand);
 CA – revenue (RON thousand);
 W – labour productivity (RON thousand/employee);
 C_{expl}/V_{expl} – operating expenses at 1000 RON operating income;
 RES – volume of geological resources (million m³);
 d_g – gas production decline (%);
 P_{res} – outstanding payments (thousand RON).

The performance indicators and objectives achievement degree is **113.62%**.

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

- ⊕ *EBITDA* – higher by RON 689 million (+31.7%) compared to target value;
- ⊕ *Revenue* – higher by RON 272 million (+6.4%) compared to target value;
- ⊕ *Operating expenses at 1000 RON operating income* (RON) – lower by RON 65.1 (-9.9%) compared to target value;
- ⊕ *Geological resources quantity* – higher by RON 317.4 million m³ (+17.2%);
- ⊕ *Gas production decline* – lower by 169.2 million m³ compared to target value.

Signatures:

Chairman of the Board of Directors.

AURORA NEGRUT



Director General.

MARIUS VIRGIL METEA



Economic Department Director.

LUCIA IONASCU



⁵ It is the production for 2012, corrected with 1.5% target decline, year 2012 considered as "base year".