



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

Board of Directors' Report

Q3 2014



SUMMARY

I.	Q3 2014 Overview	3
1.1.	Results	3
1.2.	Highlights	7
II.	Company Overview	9
2.1.	Identification Data	9
2.2.	Company Organization	10
2.3.	The Company's Mission, Vision and Values	12
2.4.	Strategic Objectives	13
III.	Review of the Company's Business	14
3.1.	Business Segments	14
3.2.	Company Business Performance	19
3.2.1.	Company Overall Performance	19
3.2.2.	Trading	27
3.2.3.	Human Resources	31
3.2.4.	Environmental Aspects	34
3.2.5.	Risk Management and Internal Control	38
IV.	Investments	42
V.	Securities Market	46
VI.	Management	47
6.1.	Board of Directors	47
6.2.	Executive Management	50
VII.	Financial-Accounting Information	52
7.1.	Statement of Financial Position	52
7.2.	Statement of Comprehensive Income	56
7.3.	Statement of Cash Flows	61
VIII.	Corporate Governance	63
IX.	Mandate Performance/Contract Administration Performance	76
9.1.	Objectives and performance criteria	76
9.2.	Q3 2014 Results	79

I. Romgaz Q3 2014 - Overview

1.1. Results

The nine months year to date reflect a strong operating and financial performance of the company. A summary of the main indicators is described below:

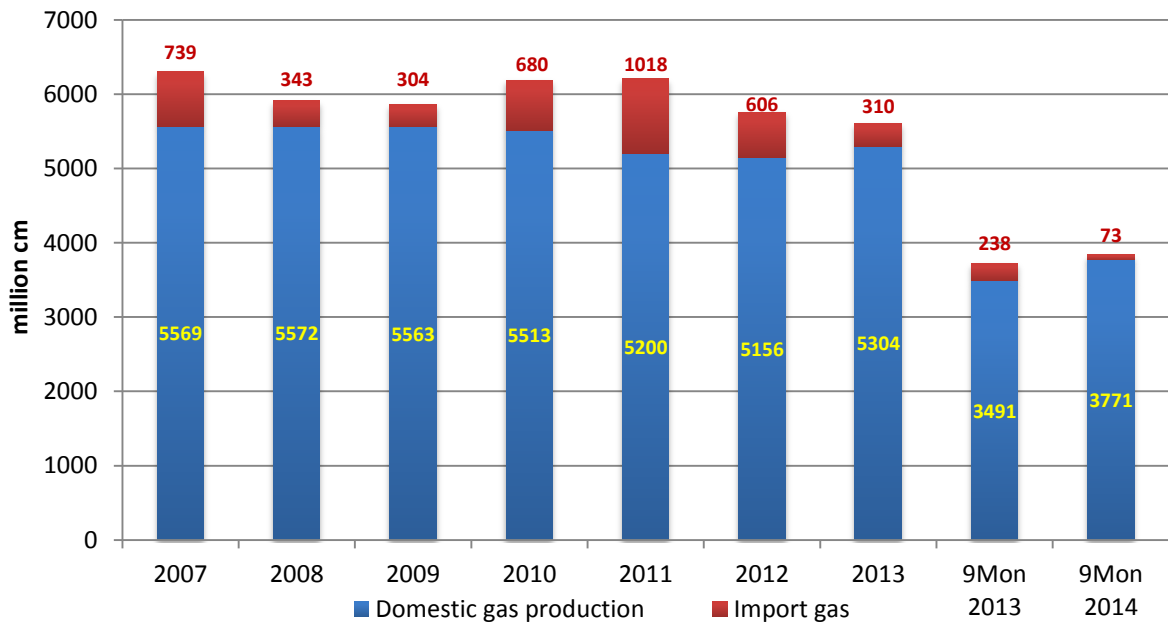
- **EBITDA** increased in the first nine months of 2014 by 29.98% as compared to the same period of 2013 (T3 2014: thousand LEI 1,917,743; T3 2013: thousand LEI 1,475,459);
- **EPS** (net profit/share) is RON 2.89/share;
- **E&P** (exploration, production): Production of natural gas recorded in the first three quarters of 2014 recorded a value of 4 227.9 million cubic meters, representing an increase of 0.71% of the production recorded in the same period of 2013, namely 4 198.0 million cubic meters;
- **Capital Expenditure** amounted million RON 751, representing an increase of 28.73 % as compared to the level achieved during the same period of 2013 (million RON 582.6);
- **Revenues from the underground storage activity** increased by million RON 80.3, namely by 35.42% as compared to the same period of 2013 due to the implementation of new underground storage tariffs starting from April 30th 2013, in accordance with ANRE Order No. 26/2013;
- **Revenues obtained from the electric power sector** were in amount of million RON 242.9 in the nine month period ended September 30, 2014, by 247.6% higher than the amount obtained in the similar period of prior year of million RON 98.1.
- All investment expenses and the working capital have been financed by internal resources.

Operational results (million cm):

Specifications	Jan-Sep 2013	Jan-Sep 2014	Ratio
1	2	3	$4=3/2 \times 100$
Produced gas, out of which:	4,198.0	4,227.9	100.71
*internal production	4,061.8	4,084.9	100.57
*Schlumberger (100%)	136.1	143.0	105.07
Internal gas deliveries (including 50% Schlumberger), out of which:	3,491.4	3,770.9	108.00
Internal gas deliveries (joint ventures excluded)	3,423.3	3,699.4	108.07
Gas withdrawn from the storages	1,291.1	1,169.4	90.57
Gas injected in the storages	1,881.7	1,615.2	85.84
Import gas deliveries	237.9	72.9	30.64

*) excluding gas deliveries to SPEE Iernut

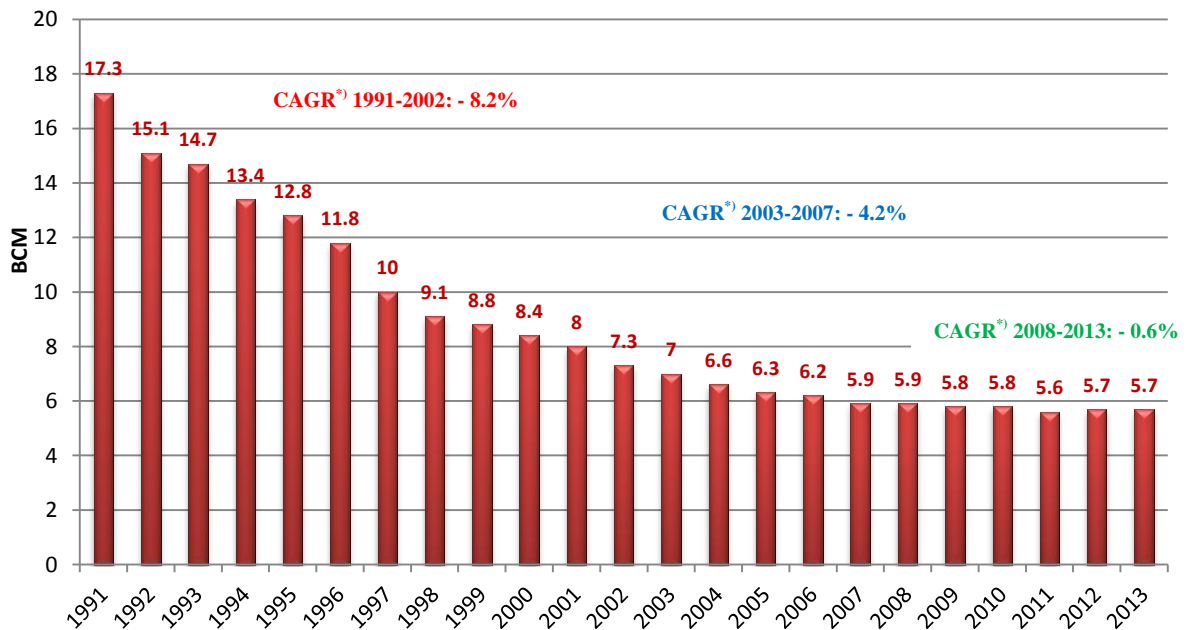
Romgaz is the largest gas supplier in Romania. The evolution of gas supplies during 2007-2013 and January - September 2014, respectively, is indicated below:



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

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

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



*) CAGR = Compound Annual Growth Rate

Financial results:

* RON million *

Crt. No.	Indicator	Jan-Sep 2013	Jan-Sep 2014	Ratio (2014/2013)
0	1	2	3	4=3/2x100
1	Income – total, out of which:	2,858.3	3,473.4	121.52%
2	*operating income	2,768.4	3,414.5	123.34%
3	*financial income	89.9	58.9	65.52%
4	Revenue	2,587.0	3,286.8	127.05%
5	Expenses – total, out of which:	1,900.8	2,066.2	108.70%
6	*operating expenses	1,872.2	2,052.1	109.61%
7	*financial expenses	28.6	14.1	49.30%
8	Gross profit	957.5	1,407.2	146.97%
9	Profit tax	160.6	293.2	182.57%
10	Net profit	796.9	1,114.0	139.79%
11	EBITDA	1,475.5	1,917.7	129.97%
12	Earnings per share-EPS (RON)	2.07	2.89	139.61%
13	Return on sale (Gross profit x100)	37.01%	42.82%	115.67%

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

For the first nine months of the year 2014, Romgaz scheduled investments worth RON 952 million and invested RON 751 million, approximately 78% more, i.e. RON 168 million more than the investments made in the similar period of 2013. The company financed all investments from own sources.

The value of fixed assets commissioned during the analysed period was approx. RON 292 million.

The table below shows the achieved investments in the first nine months of the year 2014, as compared to the scheduled ones, on main investment chapters:

* RON thousand *

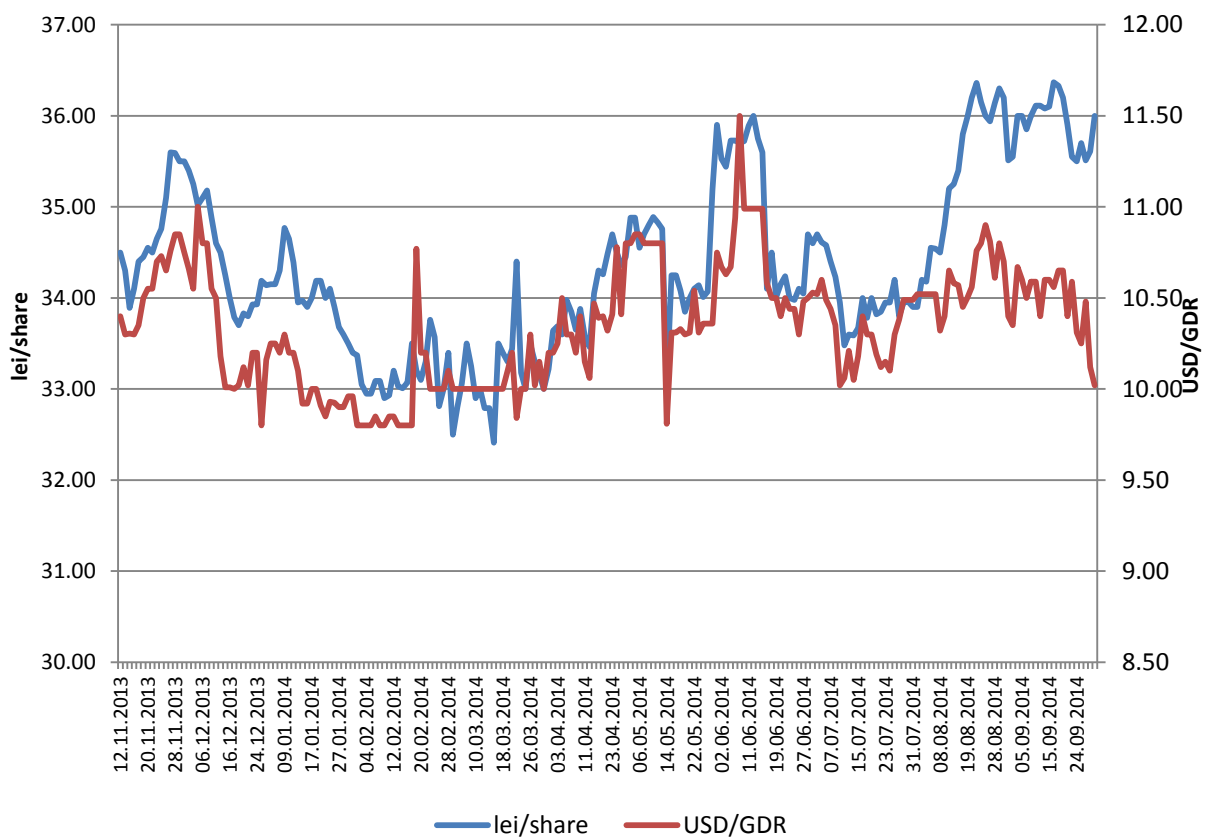
Investment chapter	Scheduled	Results	%
1	2	3	4=3/2x100
I. Geological exploration works for the discovery of new gas reserves	432.469	242.825	56.15
II. Exploitation drilling works, putting into production of wells, infrastructure and utilities	140.744	126.963	90.21
III. Maintaining the UGS capacity	115.356	153.375	132.96
IV. Environment protection works	11.199	2.889	25.80
V. Revamping and modernization of installation and pieces of equipment	161.088	175.743	109.10
VI. Independent equipment and installations	63.962	36.155	56.53
VII. Expenses in connection with studies and projects	27.282	12.848	47.09
TOTAL	952.100	750.798	78.86

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

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

On the first trading day, the closing price of Romgaz shares was RON 34.5, by 15% higher the price paid by institutional investors and by investors which subscribed more than 10,000 shares (30 RON/share). The share price was also by 18.55% and 21%, respectively, above the price paid by retail investors with discount (3% and 5%, respectively). On LSE, the closing price for GDR's was USD10.4, by 13.66% higher than the subscription price.

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



1.2. Highlights

March 26, 2014

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

April 9, 2014

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

A comparison of the UGS approved tariffs and the existing UGS tariffs as of April 14, 2014 is shown below:

<i>Tariff component</i>	<i>M.U.</i>	<i>Tariffs (April 30, 2013- April 14, 2014)</i>	<i>Tariffs (April 15, 2014- March 31, 2015)</i>
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 Law no. 123/2012 for electricity and natural gas, according to which as of July 15, 2014 and until December 31, 2018, natural gas producers in Romania or affiliates, if any, are required to enter into transactions on centralized markets in Romania, transparent and non- discriminatory, for the sale of minim quantities of gas from own production for domestic consumption in accordance with regulations issued by the National Regulatory Authority for Energy.

June 13, 2014

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

June 26, 2014

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

July 11, 2014

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

July 30, 2014

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

September 22, 2014

By Law no. 123 for amending Law no. 571/2003 on the Fiscal Code the share of social insurance contributions (CAS) paid by employers to employees 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 30, 2014

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

II. Company OVERVIEW

2.1. Identification Data

Name: Societatea Nationala de Gaze Naturale "ROMGAZ" SA

Main scope of activity: natural gas production and UGS

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

Sole registration number: 14056826

Trade Registry registration number: J32/392/2001

Fiscal registration number: RO14056826

Legal form of establishment: joint-stock company

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

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

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

Phone: 0040 269 201020

Fax: 0040 269 846901

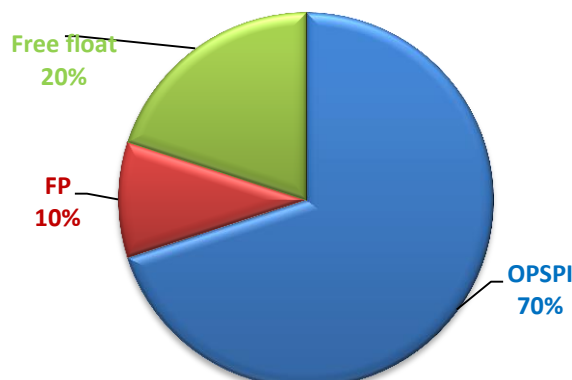
Web: www.romgaz.ro

E-mail: secretariat@romgaz.ro

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

Shareholder structure

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



¹ Ministry of Economy through the Department of Energy

2.2. Company Organization

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

The company's organization chart has six hierarchy levels:

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

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

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

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

The company has 7 *branches*, as follows:

- ↳ Sucursala Medias (Medias Branch) having its office in Medias, 5 Garii Street, postal code 551025, Sibiu County, territorially organized in 8 sections;
- ↳ Sucursala Tirgu Mures (Tirgu Mures Branch) having its office in Tirgu Mures, 23 Salcamilor Street, postal code 540202, jud.Mures, territorially organized in 8 sections;
- ↳ Sucursala Ploiesti (Ploiesti Branch) having its office in Ploiesti, 184 G. Cantacuzino Street, 100492, Prahova County, territorially organized in 2 sections and 2 workshops;
- ↳ Sucursala de Interventii, Reparatii Capitale si Operatii Speciale la Sonde Medias (SIRCOSS – Branch for Well Workover, Recompletions and Special Well Operations) having its office in Medias, 5 Soseaua Sibiului Street, 551009, Sibiu County, territorially organized in 3 sections and 5 workshops;
- ↳ Sucursala de Transport Tehnologic si Mentenanta Tirgu Mures (STTM – Technological Transport and Maintenance Branch) having its office in Tirgu Mures, 6 Barajului Street, 540101, Mures County, territorially organized in 3 sections and 3 workshops;
- ↳ Sucursala de Productie Energie Electrica Iernut (SPEE – Iernut Power Generation Branch) having its office in Iernut, 1 Energeticii Street, 545100, Mures County;

- ✎ Sucursala Bratislava (Bratislava Branch) having its office in Bratislava, City Business Centre V.-Karadžičova 16, cod 82108, Slovakia.

During January – September 2014, there were a number of changes in the structural organization of Romgaz , as follows:

- The decision no. 135/May 09, 2014 of the Director General concerning the change of organizational structure of STTM (The Technological Transport and Maintenance Branch) and the establishment of the Monitoring Fleet of vehicles Office and Commercial Office, respectively;
- The decision no. 67/March 3, 2014 of the Director General concerning the change of the organizational structure of Medias Branch and the reorganization of gas production formations within Agnita Natural gas Production Unit, respectively;
- The decision no. 165/June 13, 2014 on reorganization of the work formations within AMC and PRAM section of the Iernut Power Generation Branch
- The decision no. 224/August 8, 2014 of the Director General concerning the change of organizational structure of SNGN Romgaz SA- headquarter. By this measure, the activities related to corporate governance, investors and capital markets relationship were mainly reorganized by establishing some specialized organizational units to manage in a proper manner the mentioned activities. Therewith, a number of adjustment of the organizational structure were carried out by means of changing some subordination (Emergency Situation Office), disestablishing some organizational units (Technical-Acquisition Department) and establishing some new ones (Mechanical Direction, Regulatory and Authorization Office);
- The decision no 235/August 19, 2014 of the Director General concerning the change of organizational structure of Târgu Mureş Technological Transport and Maintenance Branch (STTM). By the mentioned decision the activity of STTM was reorganized in accordance with the main activities performed within the branch, namely the transport activity, auto repairs activity and maintenance activity, respectively.

2.3. The Company's Mission, Vision and Values

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

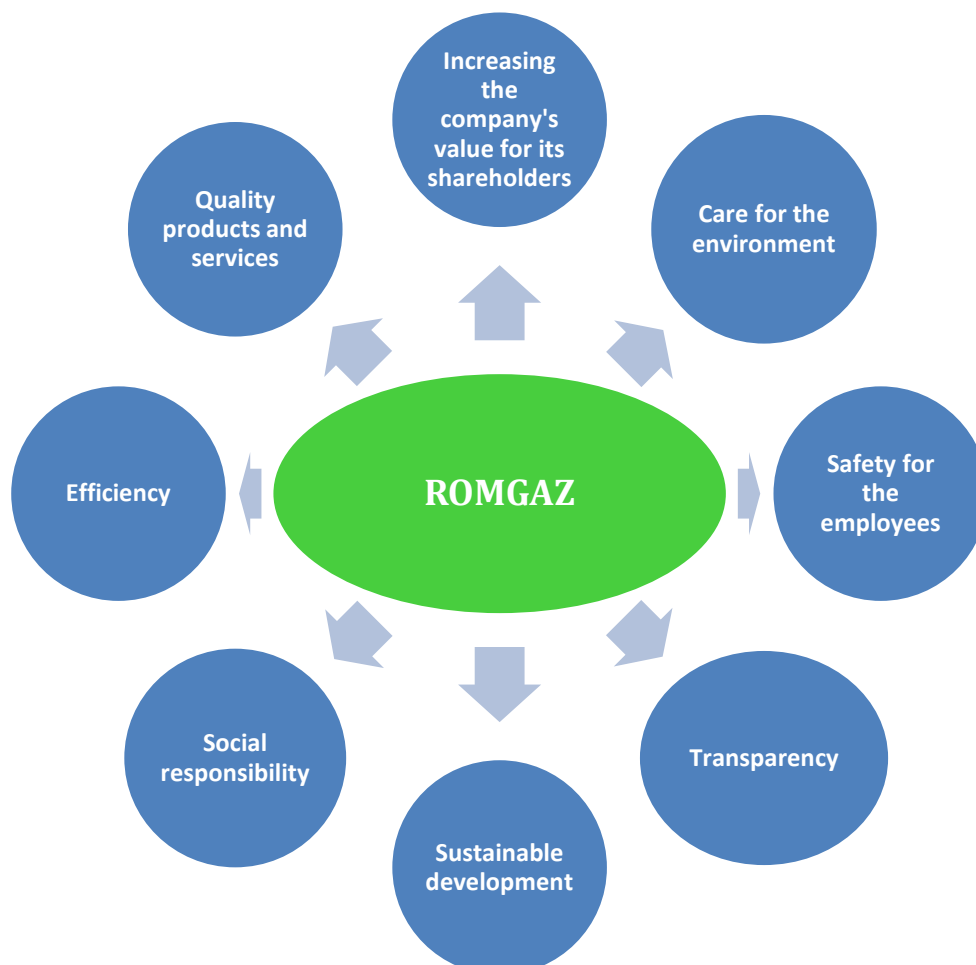
Mission

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

Vision

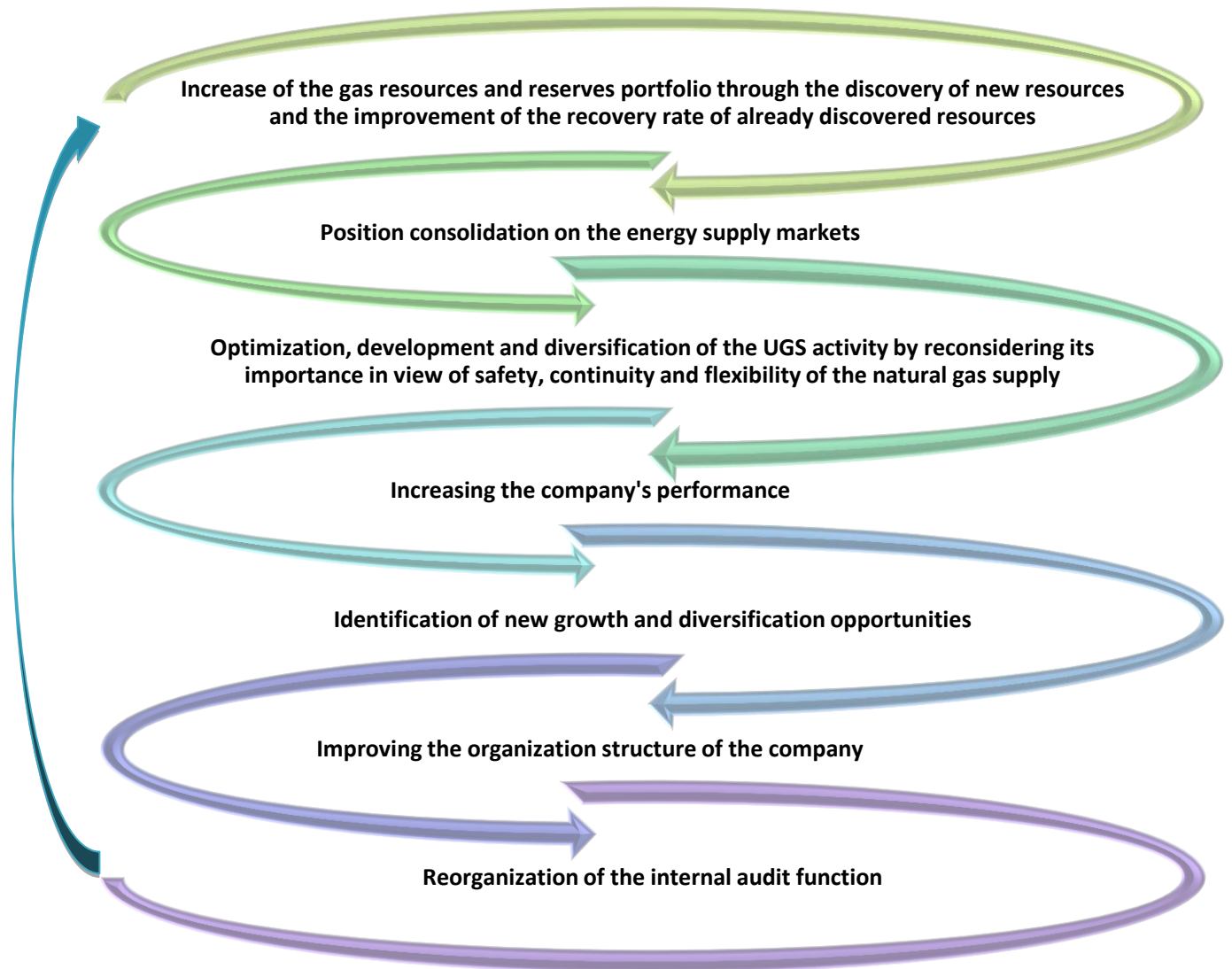
ROMGAZ has the potential and the ambition to consolidate and to develop its position as the most important natural gas company in Romania and to become a leading player on important Central and Eastern European markets by means of an efficient and competitive production able to face the increasing pressure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

Our values



2.4. Strategic Objectives

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



III. Review of the Company's Business

3.1. Business Segments

The company undertakes business in the following segments:

- ✎ natural gas exploration and production;
- ✎ UGS activity;
- ✎ natural gas supply;
- ✎ special well operations and services;
- ✎ maintenance and transportation services;
- ✎ power generation and supply;
- ✎ natural gas distribution.

Exploration-Production

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

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

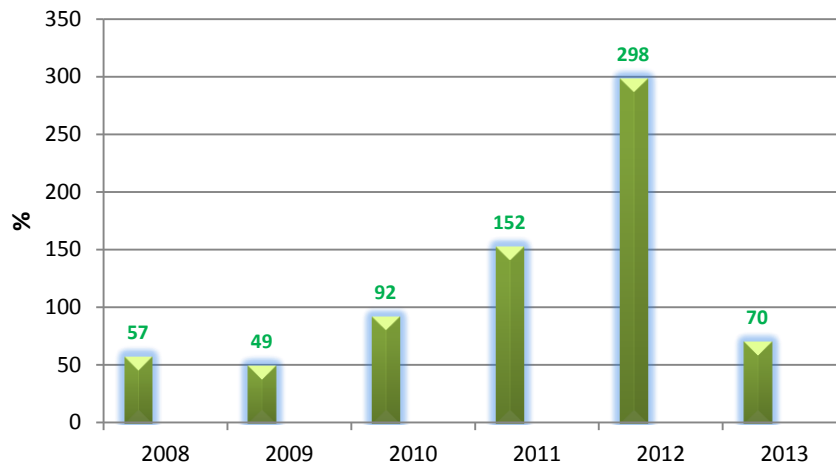
Exploration

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

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

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

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



Production



The valuation of Romgaz potential was possible through:

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

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

- ↳ continuous investments in modernizing the wells;
- ↳ acquisition of 3D seismic for outlining exploration and development targets in blocks Caragele-Faurei, Nades-Prod-Seleus, Deleni, Bazna, Filitelnic, Laslau (total seismic profiles in Romgaz blocks – 1,091.35 km² of 2D seismic and 1,498.331 km² of 3D seismic);
- ↳ increase of gas quality by commissioning 71 gas drying stations. This resulted in an increase of gas drying percentage from 70% in 2008 to 99% in 2012;
- ↳ upgrading the infrastructure of compressing stations Filitelnic, Cristur, Delenii, Balda, Sinmartin, Grebenis and development of compressing capacity by commissioning 17 booster compressors and 7 group compressors;
- ↳ partnerships concluded with Schlumberger, Amromco and Aurelian Oil&Gas.

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

Underground Gas Storage (UGS)



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

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

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

Natural Gas Supply



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

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

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

Law no. 123/2012 sets the legal framework to converge the domestic gas price to the import gas price. Government Decision no. 22/January 22, 2013, as amended by Government Decision no. 115/June 26, 2014 and Government Decision no. 816/September 22, 2014, set calendars of domestic gas price increase with respect to the regulated market. During the third quarter (Government Decision no. 551/2014) and fourth quarter (Government Decision no. 816/2014) the domestic gas price was the same price as in the second quarter (Government Decision no. 22/2013).

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

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

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

	M.U.	2006	2007	2008	2009	2010	2011	2012	2013
National consumption	BCM	17.3	16.4	15.5	13.3	14.0	14.4	13.5	12.5
Romgaz traded volumes (internal+ import)	BCM	7.1	6.4	6.0	6.1	6.4	6.3	5.9	5.7
Romgaz market share	%	41.04	39.02	38.71	45.86	45.81	43.87	42.82	44.5

Special Well Operations and Services

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

The branch performs two types of activities:

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

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

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

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

Transportation and Maintenance

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

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

Power Generation and Supply

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

CTE Iernut is Romgaz Power Generation Branch (SPEE).

It has an installed capacity of 800 MW split into 6 energy groups: four 100 MW energy units of Czechoslovakian origin and two 200 MW energy Soviet origin. The groups have been commissioned between 1963 and 1967.

Natural Gas Distribution

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

3.2. Company Business Performance

3.2.1. Company Overall Performance

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

Financial Results

* RON thousand *

No.	Description	Jan - Sep 2013	Jan - Sep 2014	Ratios (2014/2013)
0	1	2	3	4=3/2x100
1	Total income, out of which:	2,858,234	3,473,477	121.53%
2	*operating income	2,768,362	3,414,535	123.34%
3	*financial income	89,872	58,942	65.58%
4	Revenue	2,587,049	3,286,770	127.05%
5	Expenses - total, out of which:	1,900,750	2,066,235	108.71%
6	*operating expenses	1,872,181	2,052,096	109.61%
7	*financial expenses	28,569	14,139	49.49%
8	Gross Profit	957,484	1,407,242	146.97%
9	Income Tax	160,594	293,249	182.60%
10	Net Profit	796,890	1,113,993	139.79%

*) the figures do not include income and expenses with capitalised production

Total income for the first 9 months of 2014 has been higher than the income achieved in the same period of 2013 by 26.53%, variation which is explained in this chapter.

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

* RON thousand *

Description	TOTAL, out of which:	Production and gas delivery	Underground Gas Storage	Other Business	Settlement between Segments
1	2	3	4	5	6
January - September 2013					
Revenue	2,587,049	2,258,678	226,903	354,778	- 253,310
Profit before tax	957,484	835,422	96,871	25,191	
January - September 2014					
Revenue	3,286,770	2,819,048	307,253	488,520	- 328,051
Profit before tax	1,407,242	1,192,216	114,150	100,876	

Revenue

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

Actual revenue of the first 9 months of 2014 by business activities as compared to actual revenue of the first 9 months of 2013 as shown in the table below:

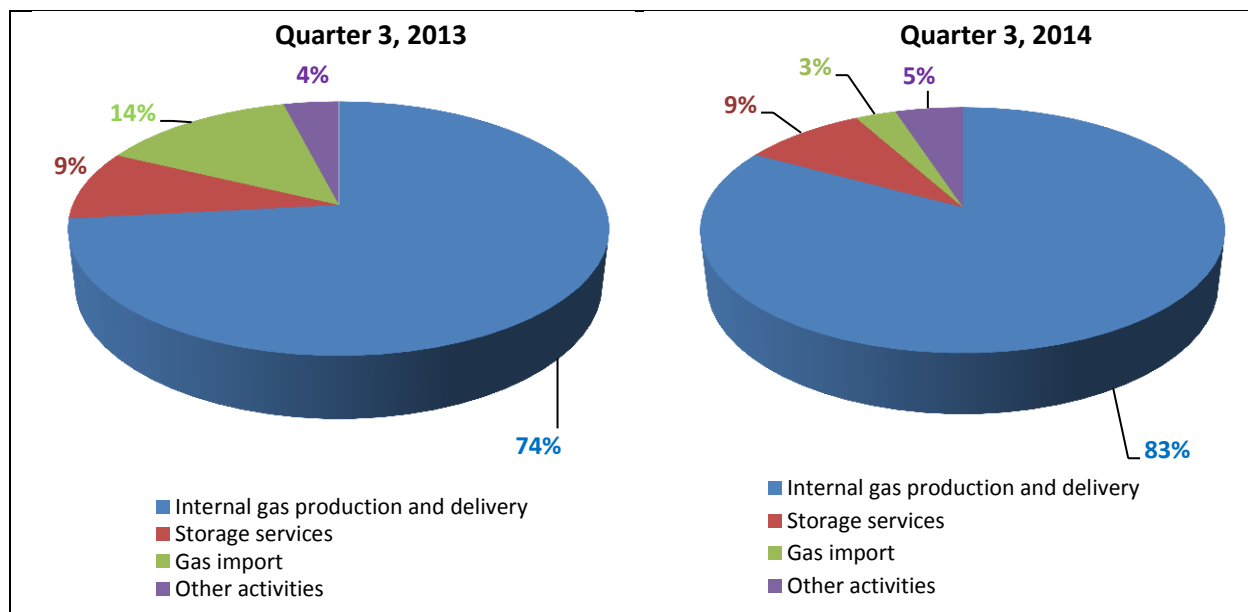
* RON thousand *

Description	Jan - Sep 2013	Jan - Sep 2014	Ratios (2014/2013)
1	2	3	4=3/2x100
Revenue – total, out of which:	2,587,049	3,286,770	127.05%
↙ gas production and delivery, out of which:	2,258,678	2,819,048	124.81%
- sale of gas production	1,789,389	2,479,960	138.59%
- sale of internal gas produced by joint ventures	76,724	104,154	135.75%
- sale of import gas	354,046	104,116	29.41%
- distribution	135	155	115.01%
- other revenues from production	38,384	130,663	340.41%
↙ underground gas storage business	226,903	307,253	135.41%
↙ other businesses*), out of which:	101,468	160,469	158.15%
- electric energy production	98,102	242,941	247.64%

*) – it includes settlements between segments

Revenue was greater than the previous year actual revenue by approx. 27%.

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



Revenue from Internal Production

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

Revenue from trade of internal gas production (excluding joint ventures)	Jan - Sep 2013 ($q_0 \cdot p_0$)	Jan - Sep 2014 ($q_1 \cdot p_1$)	Ratios (2014/2013)
1	2	3	4= $3/2 \times 100$
Volume (million cm)	3,423.3	3,699.4	108.06
Price (RON/1000 cm)	522.7	670.4	128.25
Value (thousand RON)	1,789,389	2,479,960	138.59
Difference (2014 - 2013) (thousand RON)	690,571		
Quantity influence ($q_1 \cdot p_0 - q_0 \cdot p_0$) (thousand RON)	144,297		
Price influence ($q_1 \cdot p_1 - q_1 \cdot p_0$) (thousand RON)	546,274		

Actual revenue for January - September 2014 from trade of internal gas production compared to the same period of 2013 was higher by RON 690,571 thousand.

Influential factors were as follows:

- quantity of sold gas production was higher by 8.06%, which resulted in higher revenues from gas deliveries to clients compared to the previous year revenue by RON 144,297 thousand. Gas delivery quantities do not include internal gas delivery for electric energy production;
- gas sale average price was greater by 28.25% than the previous year sale price which resulted in an increase of revenue by RON 546,274 thousand. The price is higher due to the implementation of the gas price deregulation calendar.

Revenue from Joint Ventures Internal Gas Production

Actual revenue from joint ventures obtained in the first 9 months of 2014 as compared to the previous year revenue is shown in the table below:

	Jan - Sep 2013			Jan - Sep 2014			Difference	
	Quantity	Price	Value	Quantity	Price	Value	mil.cm	thous. RON
	mil.mc	lei/mmc	mii lei	mil.mc	lei/mmc	thous. RON		
1	2	3	4	5	6	7	8=5-2	9=7-4
TOTAL	139.47	550.10	76,724	135.95	766.11	104,154	-3.5	27,430

Actual revenues from joint ventures obtained in January - September 2014 have been greater than the previous year similar period revenue although the delivered quantities have decreased by 2.5 %, due to an average higher price by approx. 39.3%, as a result of application gas price deregulation calendar.

Revenue from Sale of Import Gas

Revenue from sale of import gas	1H 2013 ($q_0 \cdot p_0$)	1H 2014 2013 ($q_1 \cdot p_1$)	Ratios (2013/2012)
1	2	3	4=3/2x100
Quantity (million cm)	237.9	72.9	30.64
Price (RON/1000 cm)	1,488.5	1,428.5	95.97
Value (thousand RON)	354,046	104,116	29.41
Difference (2014 - 2013) (thousand RON)	-249,930		
Quantity influence ($q_1 \cdot p_0 - q_0 \cdot p_0$) (thousand RON)	-245,559		
Price influence ($q_1 \cdot p_1 - q_1 \cdot p_0$) (thousand RON)	-4,371		

Revenue from sale of import gas was less than the previous period with RON 249,930 thousand. This decrease is due to volume and price variation, as follows:

- ↳ sale of import gas volume was less by 69.36% which resulted in less revenues by RON 245,559 thousand. The decrease of delivered gas volume is due to the decrease of gas demand on the market as well as to ANRE Order No. 24/2013 for approval of Allocation Methodology for internal gas production that is required to cover the regulated market demand;
- ↳ average sale price (RON/thousand cm) of the import gas by 4.03%, which resulted in less import gas revenues by RON 4,371 thousand.

Revenue from Gas Storage

Revenues invoiced for gas storage have the following structure:

Revenues from gas storage	Jan - Sep 2013	Jan - Sep 2014	Ratios (2014/2013)
1	2	3	4=3/2x100
Capacity reservation services	149,744	240,263	160.45
Gas injection services	39,145	44,459	113.58
Gas delivery services	37,831	22,304	58.96
Total revenues from storage services	226,720	307,026	135.42
Other revenues from storage business	183	227	124.03
TOTAL	226,903	307,253	135.41

Applied gas storage tariffs:

- ↳ For the period January 1, 2013– April 29, 2013 the tariffs were approved by ANRE Order No.63/2009, extended according to Order No. 18/May 11, 2012 until September 30, 2012, according to Order No. 36/2012 until December 31, 2012 and according to Order No. 49/2012 until the end of the 2012/2013 storage cycle;
- ↳ For the period April 30, 2013–April 14, 2014 the tariffs were approved by ANRE Order No.26 of April 26, 2013 and
- ↳ For the period April 15, 2014 – March 31, 2015 are those approved by ANRE no. 29 of April 9, 2014.

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

Tariff Components	U.M.	Tariffs (Jan 1, 2013 - Apr 29, 2013)	Tariffs (Apr 30, 2013 - Apr 14, 2014)	Tariffs (April 15, 2014 - Sep 30, 2014)
Volumetric component for the natural gas injection	RON/MWh	2.76	2.37	2.53
Fixed component for storage 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 35.41% due to the increase of storage tariff.

Revenue from Gas Distribution

The final gas delivery price is regulated and approved in accordance with ANRE Order Nr. 103/2008, modified by ANRE Order Nr. 58/2014. The distribution tariff is also regulated and approved by ANRE Order Nr. 103/2008, modified by ANRE Order Nr. 46/2013.

Revenue from distribution is shown in the table below:

Description	Jan - Sep 2013			Jan - Sep 2014			Ratios 2014/ 2013
	Thous. MWH	RON/ MWh	Thous RON	Thous. MWH	Thous. / MWh	Thous. RON	
1	2	3	4	5	6	7	8=7/4x100
Total revenue, out of which:			135.02			155.28	115.00
Distribution revenue	1.33	21.55	28.60	1.41	22.52	31.73	110.94
Supply revenue	1.33	17.04	22.61	1.41	20.39	28.72	127.02
Access revenue			31.72			18.45	58.17
Internal gas value	1.09	47.65	52.09	1.26	60.68	76.39	146.65

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

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

Revenues from Other Activities

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

Results of electric energy production activity for January – September 2014 were as follows:

Description	Value (thousand RON)
Total revenues, out of which:	319,695
*Revenue	242,941
Total expenses	252,710
Gross result	66,985

Financial Income

Actual financial income are less than the previous reporting period by 34.4%. Financial income consist mainly of interest related to bank deposits and state bonds.

Expenses

Description	Jan - Sep 2013 (thousand RON)	Jan - Sep 2014 (thousand RON)	Ratios (2014/2013)
1	2	3	4=3/2x100
Operating expense	1,872,181	2,052,096	109.61
Financial expenses	28,569	14,139	49.49
Total expenses	1,900,750	2,066,235	108.71

Costs incurred for the first 9 months of 2014 have been greater than the costs during the same period of previous year by 8.71%.

The main elements generating the expense increase are:

- ↳ Increase of additional tax on profit (windfall tax) obtained from deregulation of gas prices in natural gas sector;
- ↳ Increase of costs with royalties for gas due to average price increase based on which the royalty was calculated;
- ↳ Registration of tax on special constructions starting with 2014.

Financial Expenses

Financial expenses for January – September 2014 are less than the financial expenses of the same period of 2013 due to unfavourable lower exchange rates.

A detailed description of expenses by categories and comparative analysis is presented in Chapter 7.

Financial Results

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

Description	Jan - Sep 2013	Jan - Sep 2014	Ratios (2014/2013)
1	2	3	4=3/2x100
Operating results	896,181	1,362,439	152.03
Financial results	61,303	44,803	73.08
Gross result	957,484	1,407,242	146.97
Income tax	(160,594)	(293,249)	182.60
Net result	796,890	1,113,993	139.79

Gross result for the period January – September of 2014 of **RON 1,407,242 thousand** is higher than the actual gross result of the same period of 2013 by 46.97%.

Income tax calculated is by 82.6% higher than in the same period of 2013. The increase of expenses related to income tax is due mainly to the increase of gross profit.

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

Description	Jan - Sep 2013	Jan - Sep 2014	Ratios (2014/2013)
1	2	3	4=3/2x100
Gas production and delivery activity	835,422	1,192,216	142.71%
Gas storage activity result	96,871	114,150	117.84%
Electric energy production activity result	- 8,492	66,985	
Other activity result	33,683	33,891	100.61%
Gross result	957,484	1,407,242	146.97%
Income tax	- 160,594	- 293,249	182.60%
Net result	796,890	1,113,993	139.79%

During January - September 2014 the gross profit increased by 46.97% as compared to the same period of 2013, and net profit increased by 39.79% as compared to the same period of 2013.

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

Indicators	Calculation Formula	M.U.	Jan - Sep 2013	Jan - Sep 2014
1	2	3	4	5
Working Capital (WC)	$C_{lt} - A_f = E + L_{nc} + Pr + S_i - A_f$	Million RON	3,469	3,466
Working Capital Requirements (WCR)	$(A_c - L + P_p) - (L_{crt} - Cr_{st} + I_{df})$	Million RON	1,906	1,762
Net Cash Flow	$WC - WCR = L - Cr_{st}$	Million RON	1,564	1,704
Economic Rate of Return	$P_g / C_{lt} \times 100$	%	9.86	14.31
Return on Equity (ROE)	$P_n / E \times 100$	%	8.58	11.83
Return on Sales	$P_g / R \times 100$	%	37.01	42.82
Return on Assets	$P_n / A \times 100$	%	7.61	10.86
EBIT	$P_g + Ex_i - I_i$	Thousand RON	874	1,349
EBITDA	$EBIT + Am$	Thousand RON	1,475	1,918
ROCE	$EBIT / C_{emp} \times 100$	%	8.99	13.72
Current Liquidity	A_{crt} / L_{crt}	-	5.55	9.04
Asset Solvency	$E / L \times 100$	%	88.70	91.76

where:

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

3.2.2. Trading

Gas Production

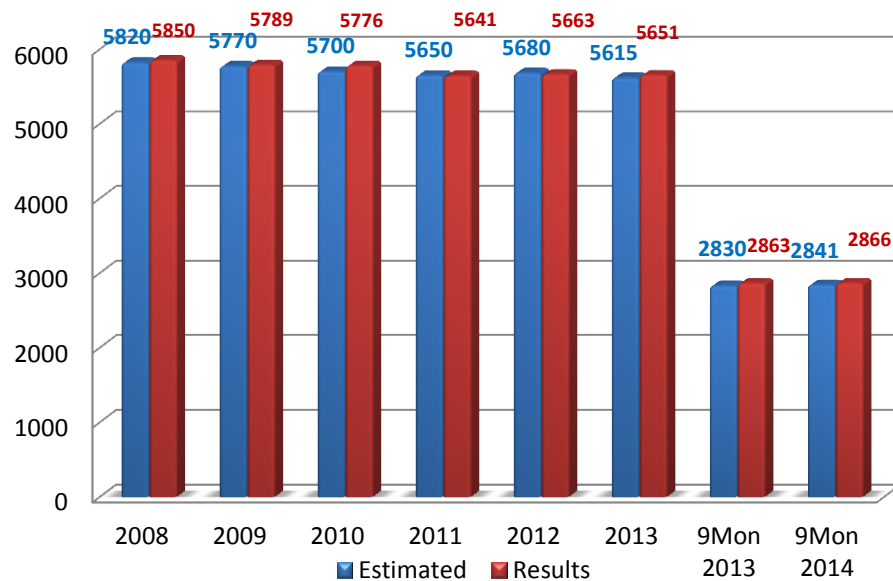
Production History

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

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

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

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



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

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

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

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

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

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

The table below shows the comparative status of gas volumes produced during the first 9 months of 2012, 2013 and respectively 2014:

Description		Jan - Sep 2012	Jan - Sep 2013	Jan - Sep 2014
1		2	3	4
Estimated (mill.cm)		4,128	4,141	4,139
Actual (mill.cm)		4,206	4,198	4,228
Differences (Actual - Estimated)	mill.cm	78	57	89
Actual	[%]	101.89	101.38	102.15

Gas Supply

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

Trade of Internal Gas Production

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

Description	Quantity (thous. MWh)	Price (RON/MWh)	Quantity (mill.mc)	Price (RON/1000 cm)	Value (thous. RON)
1	2	3	4	5	6
Jan - Sep 2013	36,626	49.85	3,491	523.0	1,825,824
Jan - Sep 2014	39,600	63.86	3,771	670.6	2,528,681
Differences					
*absolute	2,974	14.01	280	147.6	702,857
*relative	8.12%	28.10%	8.02%	28.22%	38.50%

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

Trade of Import Gas

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

Description	M.U.	Jan – Sept 2013	Jan – Sep 2014	Differences	
				absolute	relative
1	2	3	4	5=4-3	6=5/3x100
Quantity	thous. MWh	2,534.9	790.3	-1,744.6	-68.82
Price	RON/MWh	139.67	131.74	-7,93	-5.68
Value	thous. RON	354,046	104.116	-249,930	-70.59

Electric Power

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

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

- electric power quantity delivered to the National Energy Grid: 991,023 MWh;
- sold electric power: 1,510,114 MWh, out of which:
 - on different markets: 1,279,851 MWh;
 - self-supplied: 230,263 MWh;
- supply of system technology services (secondary regulation band, fast reserve of tertiary regulation): 163,998 MWh.

For the first 9 months of 2014, in spite of the fact the delivered electric energy was approx. 38% lower than the budgeted volume, the sold volume was only 7% lower than the budget (610,529 MWh).

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

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

Value of the electric energy sold on the energy markets is RON 235,995 thousand and the value for the technological system services (TSS) is RON 7,383 thousand.

Prices of the company are:

- Average sale price on the Day Ahead Market (DAM): RON 178.2/MWh;
- Average market price (OPCOM) on the Day Ahead Market: RON 145.5/MWh;
- Average sale price on the Balancing Market (BM)with TSS: RON 345.3/MWh;
- Average sale price on the Balancing Market (BM), without TSS: RON 230.5/MWH (January – May 2014);
- Average sale price on the Balancing Market (BM): RON 249.8/MWh (January – August)

Average electric power sale price:

- subject to the discharged electric power: RON 245.58/MWh;
- subject to the sold electric power: RON 190.16/MWh .

SPEE Iernut gas consumption was 304.042 thousand cm.

Underground Gas Storage (UGS)

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

The table below presents the status of the injected and respectively extracted gas volumes from the storages for the first 9 months of 2014 , and respectively 2013:

	M.U.	Jan - Sep 2013	Jan - Sep 2014	Differences (2014/2013)	Ratios (2014/2013)
1	2	3	4	5=4-3	6=4/3x100
Injected Volume	mill.cm	1,881.7	1,615.2	-266.5	-14.16
Extracted Volume	mill.cm	1,291.1	1,169.4	-121.7	-9.43

3.2.3. Human Resources

On September 30, 2014 the company had 6,361 employees.

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

Description	2011	2012	2013	Jan - Sep 2014
1	2	3	4	5
Employees at the beginning of year	5,975	5,945	5,921	6,472
New hired employees	80	129	681	52
Employees who terminated their labour relationship with the company	110	153	130	163
Employees at the end of the year	5,945	5,921	6,472	6,361

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

a) by level of education

- University 22.64 %
- Secondary education 25.01 %
- Foreman school 4.24 %
- Vocational school 35.07 %
- Middle school 13.03 %

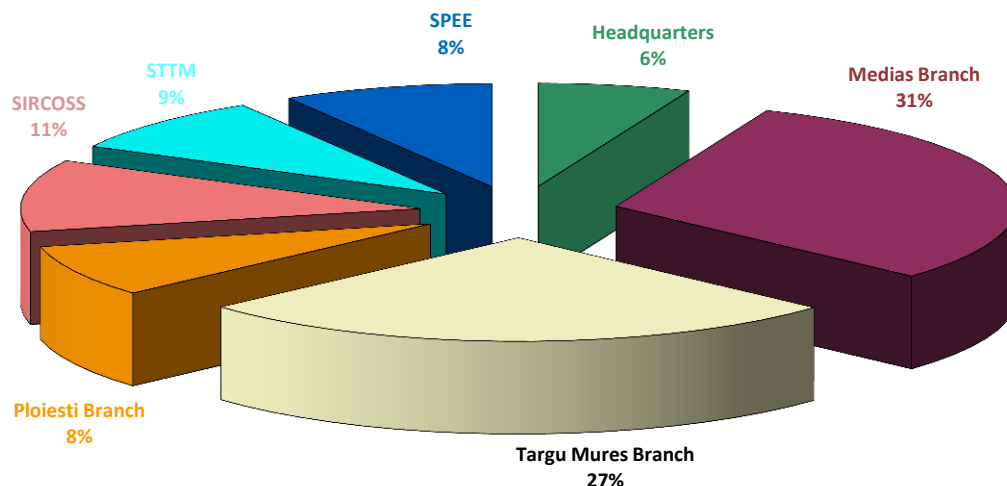
b) by age

- under 30 years 4.29 %
- 30-40 years 17.28 %
- 40-50 years 41.33 %
- 50-60 years 30.03 %
- above 60 years 7.07 %

c) by business

- gas production 62.08 %
- Production tests/well special operations 11.24 %
- Health 1.32 %
- Transportation 8.82 %
- Gas storage 8.00 %
- Electric power production 8.54 %

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



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

Entity	1	2	3	4	5
	Labourer	Foreman	Administrative		Entity
Headquarters	31			362	393
Medias Branch	1,501	85		358	1,944
Târgu-Mures Branch	1,360	56		277	1,693
Ploiesti Branch	330	28		154	512
SIRCROSS	517	50		148	715
STTM	434	16		111	561
Iernut Branch	366	45		132	543
TOTAL	4,539	280		1,542	6,361

During the period January 1 to September 30, 2014, the company's training activity focused on the following main areas:

- Administrative employees training – in various areas of activity, in cooperation with training providers from the country and abroad;
- Authorization/re-authorization, depending on specialization and the work place;
- Workers training and retraining by in-house training courses.

In the first nine months of the year 2014, a number of 1,130 persons were trained and the costs of such training courses amounted to RON 868,206.

The Annual Training Plan for the reviewed period was fulfilled as follows:

- 257 persons participated in training programs with professional themes required by the nature of activity, such as courses in the field of "Risk Management", where 23 persons were trained;
- 525 persons that were not trained during the last two years, participated in training courses during the reference period pursuant to the Labour Code, including 229 administrative employees and 296 workers; 348 persons participated in courses with the aim of obtaining re-authorizations and authorizations in accordance with their specialization and work place.

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

During the reference period, vocational training courses were organized within the company's branches and sustained by professionals of the branches, where 296 persons participated in.

Together with the in-house training courses, on-the-job training courses were also organized for "*special works operator*" and "*gas operator*" within the Medias and the SIRCOSS Branches, where 24 employees participated in.

3.2.4. Environmental Aspects

The environment protection activity in the first nine months of the year 2014, continued to focus on conforming Romgaz activities to the environmental legal requirements. Pursued was also fulfilment of specific objectives regarding:

- ↪ Efficiency rendering to such activity as a support for the Romgaz managerial process;
- ↪ 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 assumed by Romgaz branches, and identified in the Due Diligence Report;

The Romgaz environment protection activities focused on the following activity directions that have implied:

- fulfilment of requirements deriving from the ISO:14001 and 9001 standards;
- conforming to legal requirements as regards environmental authorization of all 134 Romgaz units. Among those, nine units are currently in the process of re-authorization, authorization revision has been requested for four units, authorization updating has been requested for one unit, shut-down documents have been submitted for one unit, and one unit is in the process of authorization. At the level of the company there is an application to monitor the environment authorizations, which seeks to permanently analyze and supervise compliance with legal requirements;
- conforming to legal requirements regarding water management authorization, for all 116 units, including: shut-down documents have been submitted for one unit, 10 units are in the process of re- authorization, and for four units authorization documents have been submitted;
- disposal of waste generated from own activity, in accordance with legal requirements in force;
- monitoring compliance with legal requirements as regards environmental protection, by monitoring ways to solve excess of limits permitted by regulations in force;
- further to extending the scope of activity by assimilating the Iernut thermoelectric power plant, conforming to the legal requirements applicable in the field has been pursued in Q3 2014 as well by monitoring for the burners IMA 1, 2, 3, 4 and 5 a total CO₂ volume of 215,967.242 tons. A number of 412,323 greenhouse gas emission certificates have been acquired, 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 GD 1096/2013. A number of 412,322 certificates relating to the second half year of 2014 (hence, including Q3 2014) shall be acquired in accordance with GD 1096/2013, respectively in Q4 at a reference price of EUR 6.04/certificate, as posted on the website of the Department for Energy. So, it is a continuous preoccupation for 2014 to conform the power production activity to the environmental legal requirements.

As of September 30, 2014, Romgaz held in the account of the Sole Register of Greenhouse Gas Emissions a number of 874,375 CO₂ certificates, as follows: the first portion relating to 2014 amounted to 412,323 certificates; out of the 962.085 certificates acquired in 2013, an amount of 507,620 certificates were deposited with the aim of conforming the 2013 emissions. Therefore, 454,465 certificates remained in Romgaz account; 7,587 certificates deposited in the

Register by Electrocentrale Bucuresti, in relation to conforming the January 2013 emissions, (Romgaz has pursued conformation since takeover of the Iernut power plant, that is February 2013);

- 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 Remediation Report of Significant Environment Issues has been prepared that has assumed costs, solution and implementation terms for remedy measures. In Q3 2014, implementation of remedy measures due in this quarter was pursued;
- the environmental internal inspection activity has been scheduled and organized in order to verify conformation with legal requirements applicable to inspected activities. In Q3 2014, nine environmental internal inspections have been scheduled and performed, further to which no Report of Determined/Potential Nonconformity was made;
- the conformation level to environmental protection requirements has been assessed for the contractors and sub-contractors of drilling works at wells 3 Boian, 18 Caragele, 19 Caragele, 22 Caragele, 400 Delenii, 3 Armeni and 324 Filitelnic;
- further to the inspections made by the Environment Guard (Garda de Mediu) in Q3 2014, Romgaz was sanctioned for “exceeding the Maximum Permitted Level of the equivalent noise level at the limit of the outer enclosure at the Sânmartin compressor station, county of Mures (72 dB(A) as compared to the permitted 65 dB(A). In this respect, the Memorandum of Necessity No. 26118/27 August 2014 has been submitted to the Development-Supervision Office of the Mures Branch, for requesting a specialized company to perform a study and a project to adopt a viable technical solution for equivalent noise level at the enclosure limit of the Sânmartin compressor station to conform to the legal norms. The Design Brief for the study and the project has also been prepared. Price offers have been requested from three companies with experience in the field for performing such works so that the 65 dB (A) permitted noise threshold should not be exceeded, in accordance with the environment authorization. The implementation term of the measure imposed by the Environment Guard is December 12, 2015;
- No environmental sanction/ complaint was recorded by Romgaz for the first nine months;
- Pursued was also implementation of the action/measure program for preventing and/or mitigating impact on the environment, and by the end of Q3 2014, from the 2014 planned amount of RON 43,576.36 thousand, an amount of RON 32,494.51 thousand was expended (implemented), the programs being implemented by 74.56%, as follows:
 1. *Waste water drainage construction works*
 - Connection of the SC Mures sewage pre-purification plant to the Corunca drainage system;
 - dismantling the tank of the Craiesti supply base and restoring land to its former condition
 2. *Environment improvement works*
 - Preventing landfall within the range of wells 141, 132 Corunca Nord, 171 Delureni and 10 Cucerdea;

- Environment protection works at the Bungard 2 well cluster;
 - Conversion of wells into injection wells;
 - Works to reduce noise level in SC Sânmartin;
 - Arrest landfall at Silivas 130 well cluster and Fantanele 173 well;
 - Environment protection works at Puini 8 well;
 - Environment protection works necessary for revamping 7 storage wells: one well in Urziceni, three wells in Balaceanca and three wells in Bilciuresti;
 - Environment protection works at the M2 Urziceni Compressor Station;
 - Environment protection works related to the drilling of three wells in the Urziceni UGS;
 - Environmental protection works related to construction of the Sarmasel Compressor Station;
 - Conversion of wells into injection wells Roman 433;
 - Waste water injection system Prod 10 well cluster;
 - Waste water injection well equipping at Comanesti 1 well cluster;
 - Waste water injection system at Prod 131 well cluster;
3. *Waste water pipeline construction works*
- Impurities evacuation system (Taga Dehydration Station, Fantanele Dehydration Station, the Buza and Puini structures);
 - installing a 30 m³ waste water collecting tank at Corunca Sanisor 1 well cluster;
 - installing a waste water collecting tank at the Balda Dehydration Station;
4. *Environment protection works within investment works (assessed at 3% from total investment value)*
5. *Payment of obligation to the Environment Fund*
6. *Payment of authorization taxes*
7. *Implementing the security measures comprised in the ERM Report by equipping the well clusters of the Ghercesti UGS with reliable electric generators*
8. *Implementing the security measures comprised in the ERM Report by building the infrastructure for 7 wells, which is necessary for interventions in case of major accidents*
9. *Implementing the security measures by equipping the well clusters at the Bilciuresti UGS with reliable electric generators*
10. *Payment of laboratory analyses*
11. *Performance of surface works*
- Non-polluting discharge system at well cluster 131, 271, 122, 61 Filitelnic
 - Non-polluting discharge installation at Glavanesti 3 well cluster;
 - Non-polluting discharge system at Roman 234 well cluster

- Non-polluting discharge installation at Laslau 7 well cluster;
- Non-polluting discharge system of liquid impurities at Glavanesti Dehydration Station;
- Non-polluting discharge installation of liquid impurities at Tazlau Dehydration Station;
- Modification of discharge installation at Huruiesti 11 well cluster;
- Non-polluting discharge system at Lasalu 8 well cluster;
- Waste water purifying station at the Bazna training center;

12. Refuse collecting services

13. Non-hazardous waste collecting services (selective waste collection)

14. Collecting services and disposal of specific waste from motor workshops

15. Collecting services and disposal of textile waste, impregnated foils, packaging contaminated with hazardous substances

16. Maintenance and cleaning services for industrial waste water separators

17. Services related to water evacuation-sewage, maintenance and verification of waste water purifying micro-station, separator cleaning, brine evacuation

18. Procurement of goods (warning tapes, PVC bags, PVC garbage cans, metallic containers)

19. Environmental works from investments – hydrocarbon drainage ditch and separator at ATTM Craiova +washing tub for pieces; hydrocarbon drainage ditch and separator at Craiova workshop

20. Washing tub for pieces

21. Administration tax of CO₂ account

22. CO₂ Validation Report

23. Study and Project regarding Reduction of NO_x Emission at boiler 4-Iernut

24. Measurements of NO_x emissions and powder at boiler 4-Iernut

25. Equivalent value of CO₂ certificates Q1+2+3 2014

3.2.5. Risk Management and Internal Control

Risk Management Policies and Objectives

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

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

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

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

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

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

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

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

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

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

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

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

General scope of the risk management activity:

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

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

All risks were analyzed from following perspectives:

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

Internal Control

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

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

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

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

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

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

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

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

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

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

- *Standard 3 - Competence, Performance* – the IT application “Training Needs” has been reviewed, identifying aspects to be improved, and application development and improvement measures have been set. Hence, when assessing the 2015 training needs, the updated application will be available, that could also be used to generate periodical reports, which represent input data for the analysis performed by the management.

Also within this standard, the employee performance assessment methodology has been updated/improved, and the new working procedure came into effect in June 2014.

- *Standard 4 – Sensitive Functions* – updating of sensitive functions at the level of each organizational unit has been initiated;
- *Standard 7 – Objectives* – the general and specific objectives of the company have been reviewed, and such action resulted in a document registered under No. 12420/06.05.2014;
- *Standard 11 – Risk Management* – the risk management system is currently being redesigned. For the first semester, all initially identified risks have been reviewed in relation to the updated objectives. This action is reflected in the Final Risk Register of Romgaz;
- *Standard 16 – Note of Irregularities* – as regards fulfilment of requirements of this standard, following actions have been already performed:
 - Assignment of responsibilities for irregularity treatment (irregularities noted from outside the organization, which need to be treated by a structure having control responsibilities);
 - Construction of a centralized data base at the level of the entire organization to include all irregularities (noted from outside as well as from inside the organization), currently in progress.

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

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

IV. INVESTMENTS

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

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

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

For the first nine months of 2014, Romgaz scheduled investments worth *RON 952 million* and made RON 751 million, approximately 78% more, i.e. RON 168 million more than the investments made in the similar period of 2013. Investments were financed exclusively from the company's own sources.

The value of fixed assets commissioned in the reviewed period amounted to RON 292 million.

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

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

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

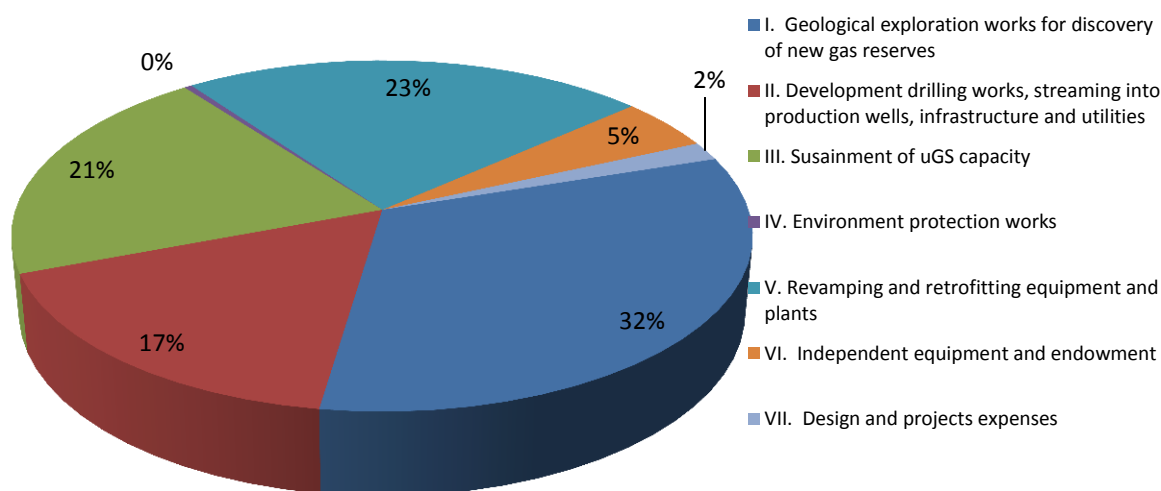
Investments made in the period January-September 2014 as compared to the scheduled ones are shown in the table below, detailed on main chapters:

thousand RON

Investment Chapter	Scheduled	Results	%
1	2	3	4=3/2x100
I. Geological exploration works for the discovery of new gas reserves	432,469	242,825	56.15
II. Exploitation drilling works, put into production of wells, infrastructure and utilities	140,744	126,963	90.21
III. Sustainment of the gas underground storage capacity	115,356	153,375	132.96
IV. Environmental protection works	11,199	2,889	25.80
V. Installation and equipment retrofitting and revamping	161,088	175,743	109.10
VI. Independent equipment and installations *)	63,962	36,155	56.53
VII. Study and project related expenses	27,282	12,848	47.09
TOTAL	952,100	750,798	78.86

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

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



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

Contracts concluded in 2013 were a major premise for recording high level results.

Such value of results also implied recording of significant physical results.

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

Item no.	Main Projects	Planned 2014	Results Jan-Sep 2014
1.	Drilling exploration	35 wells	15 wells
2.	Surveys 2D seismic	600 km	362 km
	3D seismic	2.100 km ²	571 km ²
	geochemical	2,000 modules	All services performed
	Magneto-telluric	500 units	Concluded contract
3.	Production drilling	6 wells	6 wells
4.	Surface facilities – gas wells	33 wells	<ul style="list-style-type: none"> • 10 wells • 6 wells in progress
5.	Compressor stations in gas fields	Compressor station Roman	Partially achieved (47%)
		Compressor station Ernei	Completed
6.	Sustainment of storage capacity	Sărmășel UGS: - drilling of 3 wells - compressor station	- completed - 63%
		Urziceni UGS - Compressor Station	- 96%
7.	Well modernization	125 wells	76 wells
8.	Well capitalizable repairs	140 wells	94 wells
9.	Electric power production	Feasibility Study	completed
10.	Partnerships	Aurelian Petroleum - 3D seismic processing	- 100%
		Lukoil: - drilling 2 wells in the Black Sea	contract performance in progress
		Schlumberger: - 2 wells	- completed
		Amromco	
		Slovakia: -G&G studies	completed
11.	Studies	Reservoir Study	- approx. 60%

Before the end of Q3 2014, procurement contracts to be performed in 2014 were concluded with a value amounting to RON 1,167,991 thousand, including works to be rendered by the company.

During the reviewed period, investments amounting to RON 292,000 thousand were put into operation, the main ones being mentioned below:

- Drillings : 20 wells;
- Technological installations at wells: 10 installations;
- Well modernization: 76 well;
- Well Capitalizable Repairs: 94 wells;
- Coiled Tubing Rig modernization;
- Cementing Rig modernization;
- Independent plant items.

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

V. SECURITIES MARKET

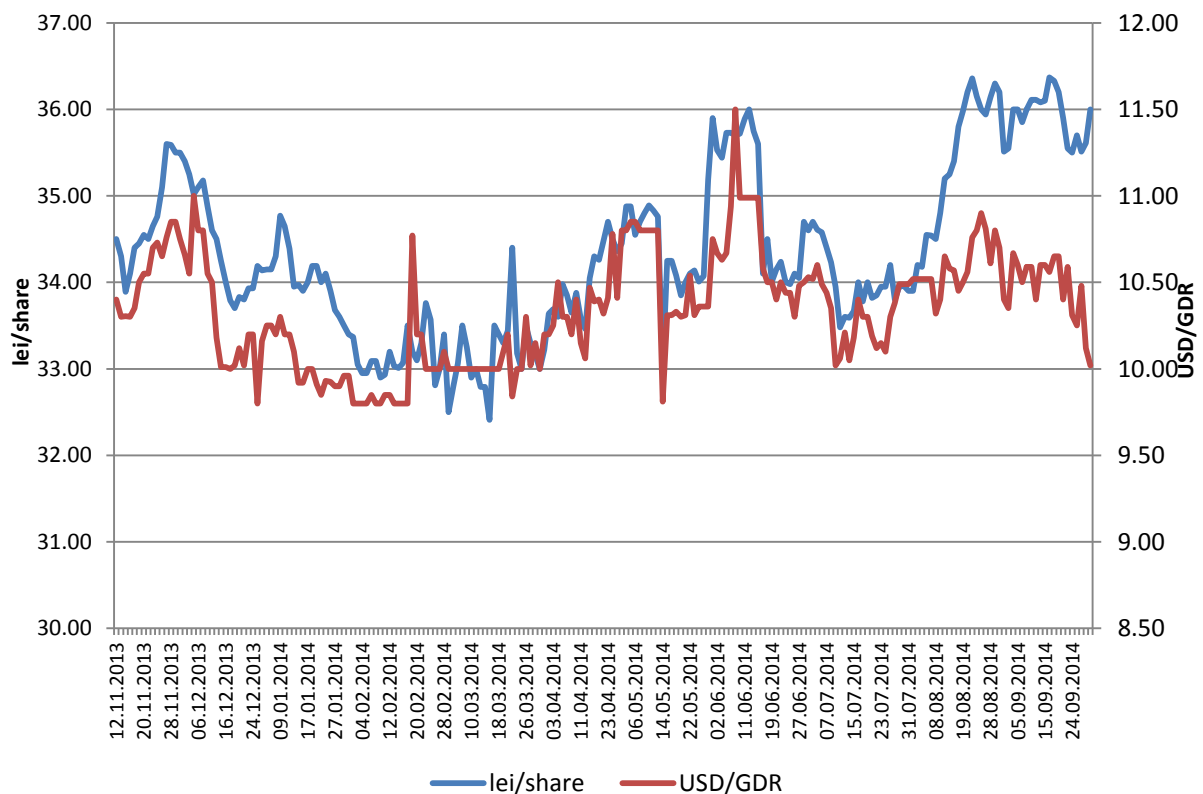
Romgaz – company listed on the Bucharest Stock Exchange (BVB) and the London Stock Exchange

“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” was approved under 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 the mandate of the public institution involved in the development of such process approved.

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

On the first trading day, the closing price of Romgaz shares was RON 34.5, by 15% higher the price paid by institutional investors and by investors which subscribed more than 10,000 shares (30 RON/share). The share price was also by 18.55% and 21%, respectively, above the price paid by retail investors with discount (3% and 5%, respectively). On LSE, the closing price for GDR’s was USD10.4, by 13.66% higher than the subscription price.

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



VI. MANAGEMENT

6.1. Board of Directors

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

Between January 1 and April 28, 2014

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

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

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

Between April 29 and December 29, 2013

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

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

Between December 30, 2013 and June 12, 2014

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

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

Between June, 13 and July 29, 2014

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

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

Since July 30, 2014

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

6.2. Executive Management

Virgil Marius Metea - Director General (CEO)

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

Other persons holding a management position but whom the Board of Directors did not delegate managing competencies are shown in the table below:

Name	Position
ROMGAZ - headquarters	
Cindrea Corin Emil	Deputy Director General
Rotar Dumitru Gheorghe	Deputy Director General
Dobrescu Dumitru	Deputy Director General
Ionascu Lucia	Economic Department Director
Ciolpan Vasile	Energy Trade Department 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	Mechanical 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
Ploiesti Branch	
Carstea Vasile	Director
Ionescu Viorica Maria	Economic Director
Scarlatescu Virgil	Commercial Director
Vecerdea Dan Adrian	Storage Director

Iernut Branch

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
Dimbean Gheorghe	Economic Director
Cioban Cristian Augustin	Operation-Development Director

According to the Articles of Incorporation, competence to appoint and dismiss executive directors lies with the Board of Directors; “*executive director*” means “*the person to whom the Board of Directors delegated competences to manage the Company*” – Article 24, paragraph (15).

The members of the company’s executive management, except for the director general, are employees of the company, under an individual employment agreement for an indefinite period.

The managing and execution personnel is employed, promoted and dismissed by the director general pursuant to the duties delegated by the Board of Directors.

VII. FINANCIAL- ACCOUNTING INFORMATION

7.1. Statement of Financial Position

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

Starting with the financial year ended at December 31, 2013, the statutory financial statements are prepared in accordance with *Ministry of Public Finance Order no. 881/2012 from June 25, 2012, applied to companies that are listed on a regulated stock market that must prepare IFRS financial statements, and that states the following: „Starting with the financial year ended at December 31, 2012, companies whose securities are admitted for trading on a regulated market are required to apply International Financial Reporting Standards (IFRS) 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 September 30, 2014, together with comparative data for the same period of 2013.

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

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

INDICATOR	30.09.2014 (RON thousand)	31.12.2013 (RON thousand)	Variation (%)
1	2	3	$4=(2-3)/3 \times 100$
ASSETS			
<i>Non-current assets</i>			
Property plant and equipment	5,921,138	5,767,267	2.67%
Other intangible assets	348,092	383,956	-9.34%
Associates	738	947	-22.07%
Other financial assets	76,889	76,900	-0.01%
Other non-current assets	17,445	17,093	2.06%
Total non-current assets	6,364,302	6,246,163	1.89%
<i>Current assets</i>			
Inventories	406,781	463,946	-12.32%
Trade and other receivables	447,496	1,086,628	-58.82%
Other financial assets	1,176,356	970,664	21.19%
Other assets	162,883	146,179	11.43%
Cash and cash equivalents	1,703,842	1,563,590	8.97%
Total current assets	3,897,358	4,231,007	-7.89%
TOTAL ASSETS	10,261,660	10,477,170	-2.06%
EQUITY AND LIABILITY			
<i>Capital and reserves</i>			
Share capital	385,422	1,892,681	-79.64%
Reserves	2,111,679	1,949,600	8.31%
Retained earnings	6,919,029	5,450,493	26.94%
Total equity	9,416,130	9,292,774	1.33%
<i>Non-current liabilities</i>			
Retirement benefit obligation	79,241	79,241	0%
Deferred tax liabilities	137,895	146,440	-5.84%
Provisions	197,301	196,950	0.18%
Total non-current liabilities	414,437	422,631	-1.94%
<i>Current liabilities</i>			
Trade and other payables	119,341	202,796	-41.15%
Current tax liabilities	69,462	200,982	-65.44%
Provisions	34,786	47,316	-26.48%
Other liabilities	207,504	310,671	-33.21%
Total current liabilities	431,093	761,765	-43.41%
Total liabilities	845,530	1,184,396	-28.61%
TOTAL EQUITY AND LIABILITY	10,261,660	10,477,170	-2.06%

NON-CURRENT ASSETS

The total non-current assets increased by 1.89%, i.e. RON 118,139 thousand, from RON 6,246,163 thousand as of December 31, 2013 to RON 6,364,302 thousand at the end of Q3, 2014. The increase is mainly due to procurement of tangible assets used especially in gas exploration, appraisal and production activities.

Other intangible assets

Other intangible assets decreased by RON 35,864 thousand in the period ended September 30, 2014, as compared to December 31, 2013, due to impairment of intangible assets in progress.

CURRENT ASSETS

Current assets have decreased by RON 336,649 thousand (7.89%) on September 30, 2014 mainly as a result of the decrease of trade receivables.

Inventories

The decrease by 12.32% (RON 57,165 thousand) at the end of the reporting period is due to the decrease of the gas inventory as a result of increased deliveries of gas from internal current production, both to Romgaz clients and to SPEE Iernut, and the decrease of purchased import gas quantities.

Trade receivables and other receivables

Trade receivables and other receivables decreased by RON 639,132 thousand as compared to December 31, 2013, due to allowances for doubtful debts and to reduction of accounts receivable balance as a result of lower gas consumption during the summer months compared to winter months.

Cash and cash balances. Other short term financial assets

Cash, cash equivalent and other short term financial assets increased during the reporting period by RON 345,944 thousand (13.65%) from RON 2,534,254 thousand to RON 2,880,198 thousand. This is due to increased value of delivered gas production and of related receipts.

EQUITY 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 was transferred to the retained earnings.

Retained earnings

Retained earnings increased mainly by the value of net profit made in the first nine months of 2014 and by the transfer of the account "Share-capital adjustments" to the "Retained Earnings" account. In 2014 it was decided the allocation of dividends in amount of RON 990,637 thousand.

NON-CURRENT LIABILITIES

Decrease of non-current liabilities by 1.94% is due to the decrease of deferred tax liabilities.

CURRENT LIABILITIES

Current liabilities decreased by RON 330,672 thousand (43.41%) due to decrease of current tax liability and decrease of VAT obligations.

Trade and other payables

The decrease by 41.15% is mainly due to the fact that the beneficiaries of gas delivered by the Company made lower advance payments as compared to the end of the year 2013.

Current tax liabilities

Current tax liabilities decreased by RON 131,520 thousand due to the reduction of the tax base.

Provisions

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

Other liabilities

The VAT that is due decreased by 33.21% due to decrease of revenue from delivery of gas in September 2014 as compared to December 2013.

7.2. Statement of Comprehensive Income

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

thousand RON

Indicator	Jan-Sep 2014	Jan-Sep 2013	Variation (%) (2014/2013)
	2	3	4=(2-3)/3X100
Revenue	3,286,770	2,587,049	27.05%
Cost of commodities sold	(154,940)	(337,510)	-54.09%
Investment income	58,029	83,796	-30.75%
Other gains and losses	(195,600)	(41,345)	373.09%
Changes in inventory	30,202	140,625	-78.52%
Raw materials and consumables used	(38,398)	(87,742)	-56.24%
Depreciation, amortization and impairment expenses	(568,506)	(601,746)	-5.52%
Employee benefit expense	(323,624)	(387,900)	-16.57%
Finance cost	(11,589)	(15,289)	-24.20%
Exploration expense	(21,140)	(24,991)	-15.41%
Other expenses	(751,371)	(397,707)	88.93%
Other income	97,409	40,244	142.05%
Profit before tax	1,407,242	957,484	46.97%
Income tax expense	(293,249)	(160,594)	82.60%
Net Profit	1,113,993	796,890	39.79%

Revenue

For the first nine months of 2014, SNGN Romgaz SA generated revenue of RON 3,286,770 thousand compared to RON 2,587,049 thousand generated for the similar period of 2013, resulting in increase of the revenue by 27.05%.

The highest share of the revenue was generated by the revenue from sale of internal production.

Detailed Breakdown of Revenue

(Thousand RON)

1	9 months ended Sep 30, 2014	9 months ended Sep 30, 2013	Absolute variation	Relative variation
	2	3	4=2-3	5=4/3x100
Revenue from gas sale - internal production	2,584,126	1,866,142	717,984	38.47%
Revenue from underground gas storage services	307,026	226,720	80,306	35.42%
Revenue from import gas resale	104,116	354,046	(249,930)	-70.59%
Revenue from sale of electric power	242,941	98,102	144,839	147.64%
Other revenues	48,561	42,039	6,522	15.51%
TOTAL	3,286,770	2,587,049	699,721	27.05%

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

Revenue from sale of internal production	Jan -Sep, 2014	Jan- Sep, 2013	Ratios 2014 / 2013
- Quantity (million m ³)	3,835.3	3,562.8	107.65%
- Price (RON/thousand m ³)	673.8	523.8	128.63%
- Value (thousand RON)	2,584,126.0	1,866,142.0	138.47%
Difference 2014-R 2013 (thousand RON)	717,984.0		
Quantity influence (q1*p0-q0*p0) (thousand RON)	142,765.9		
Price influence (q1*p1-q1*p0) (thousand RON)	575,218.1		

The revenue from sale of internal production for the period January – September 2014, as compared to the same period of 2013 was higher by RON 717,984 thousand. The influences by factors are the following:

- higher production sale by 7.65 % which resulted in higher revenues from sale of internal production by RON 142,765 thousand. The increase of gas delivery was generated by higher demand of beneficiaries for the scope of consumption or trading on the gas market.

- gas sale at a higher average price by 28.63 % than in 2013, which had a positive influence on revenue increase from sale of internal production by RON 575,218.1 thousand.

Revenue from underground gas storage services was highly influenced by the changes of applied underground storage tariffs starting from April 30, 2013, as shown in the table below:

Tariff component	M.U.	(1.01.2013-29.04.2013)	(30.04.2013-14.04.2014)	15.04.2014-30.09.2014
Volumetric component for natural gas injection	RON/MWh	2.76	2.37	2.53
Fixed component for capacity booking	RON/MWh/full storage cycle	5.65	13.12	13.14
Volumetric component for natural gas withdrawal	RON/MWh	2.76	1.80	1.80

Import gas delivery volumes decreased during the first three quarters of 2014 compared to the same period of last year by 69.36%, as shown in the „Detailed Breakdown of Revenue” table from above, and the related revenue decreased by 70.59% as compared to the similar period of 2013. The reduction in import gas delivery volumes is due to provisions of ANRE Order No. 24/2013 for approval of allocation methodology for domestic gas production that is required for coverage of regulated market consumption,

according to which the gas producers are no longer bound to deliver domestic gas mixed with import gas.

Revenues from electric power sale increased during the reporting period by RON 144,839 thousand as compared to 2013.

Cost of Commodities Sold

For the nine months ended September 30, 2014, as compared to the same period of 2013, cost of commodities sold decreased by 55.09%, from RON 337,510 thousand to RON 154,940 thousand, mainly due to a reduction in sales of imported natural gas, and to the increase related to acquisition of electric power services sold to Romgaz clients.

Investment Income

For the reporting period the investment income decreased by 30.75%, as a result of interest rate revenue decrease, driven by the reduction of interest rates of the cash placed in state bonds and term deposits.

Other revenues and losses

During the first three quarters of 2014 the Company recorded a loss of RON 195,600 thousand due to an impairment of receivables of RON 179,144 thousand, out of which the highest value is the impairment of Electrocentrale Galati receivable of RON 131,991 thousand, followed by the adjustment of Interagro receivable, in amount of RON 47,962 thousand. At the end of the reporting period, the total adjustment for Electrocentrale Galati and Interagro is RON 176,658 thousand, and RON 261,072 thousand, respectively. The net favorable amount of the impairment reversal for the other clients is RON 809 thousand. The insolvency procedure for the client Eletrocentrale Galati was opened, by Civil Court Decision No.603/16.06.2014.

Changes in Inventory

The difference between the cost of gas injected in UGSs and the cost of gas withdrawn from UGSs was higher in the first nine months of 2013 as compared to the same period of 2014.

Depreciation and Amortization

In the nine months ended 30 September 2014, depreciation, amortization and impairment expense decreased by 5.52% from RON 601,746 thousand (September 2013) to RON 568,506 thousand (September 2014). This decrease was due to decrease of fixed assets and intangible assets depreciation and amortization by RON 121,940 thousand, and increase of their impairment by the amount of RON 88,700 thousand.

Employee benefit expense

For the reporting period the employee benefit expenses of RON 323,624 thousand (where the capitalized costs of RON 79,947 thousand are added) have increased as compared to the same period of the previous year by 4.04% mainly due to the increase in number of employees following the takeover of CTE Iernut on February 1st, 2013.

Exploration expense

For the reporting period ended September 30, 2014 the exploration expenses decreased by 15.41% compared to the period ended September 30, 2013, due to a lower value of approval to abandon exploration projects.

Other expenses

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

thousand RON

Indicator	Jan-Sep 2014	Jan-Sep 2013	Variation (2014/2013) (thousand lei)	Variation (2014/2013) (%)
1	2	3	4=2-3	5=4/3x100
Electricity	14,813	74,898	(60,085)	-80.22%
Royalty for gas production	204,801	159,264	45,537	28.59%
Royalty for underground storage	9,211	6,802	2,409	35.42%
Windfall tax	235,255	56,134	179,121	319.10%
Special construction tax	67,141	-	67,141	100.00%
Duties and taxes from joint partnerships	24,934	6,461	18,473	285.92%
Duties and taxes	39,088	40,510	(1,422)	-3.51%
Net provision expenses	(20,931)	8,171	(29,102)	-356.16%
Other operating expenses	177,059	45,467	131,592	289.42%
Total	751,371	397,707	353,664	88.93%

“Other expenses” recorded an increase of 88.93% as of September 30, 2014 compared to the same period of 2013, from RON 397,707 thousand to RON 751,371 thousand. This increase is mainly due to the expenses with other duties and taxes, namely:

- Increase of natural gas royalty costs, as a result of natural gas sale price increase;
- Recording the tax on special construction in the amount of RON 67,141 thousand. This tax was introduced in 2014, by Government Order no. 102/2013 for the modification and completion of Law 571/2003 regarding the Fiscal Code and for the regulation of certain financial-fiscal measures;
- Introduction starting from February 1, 2013 of the additional tax on the additional revenue (windfall tax) obtained as a result of deregulation of natural gas prices, which determined an increase of expenses of RON 179,121 thousand.

“Net provision expenses” of thousand RON (20,931) recorded in the nine-month period ended September 30, 2014 reflect the net movement of provisions during the year. In 2014, the provision for greenhouse gas emission certificates of thousand RON 10,158 recorded as of December 31, 2013 was reversed, as the Company acquired the needed certificates. Also, in the net provision expenses is included the effect of the change in the decommissioning provision of thousand RON (10,964). The net change in other provisions is of thousand RON 191. In the similar period of 2013, the Company recorded a net provision expense of thousand RON 8,171, of which thousand RON 5,438 related to greenhouse gas emission certificates. As of September 30, 2014 the Company does not need to acquire additional certificates.

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

Other income

In the nine months ended on September 30, 2014, the other income increased by RON 57,165 thousand, increase due to penalties applied to the clients who did not pay in due term the gas purchased from Romgaz.

Income tax expense

As of September 30, 2014, the Company recorded current income tax expense in amount of RON 301,794 thousand as compared to current income tax expense of RON 216,467 thousand for the nine months period ended September 30, 2013. The difference up to the income tax value is the deferred income tax of thousand RON 8,545 in the nine-month period ended September 30, 2014 (nine-month period ended September 30, 2013 – thousand RON 55,873).. The current income tax expense increase is mainly due to the increase of gross results during the first nine months of 2014, compared to the same period of last year.

Profit for the year

In the first three quarters of 2014, the Company's net profit increased by RON 317,103 thousand (39.79%) from RON 796,890 thousand to RON 1,113,993 thousand, due to increase of revenue by higher percentage than the increase of expenses.

7.3. Statement of Cash Flows

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

Thousand RON

Indicator	Jan-Sep 2014	Jan-Sep 2013
Cash flows from operating activities		
Net profit for the year	1,113,993	796,890
<i>Adjustments for:</i>		
Income tax expense	293,249	160,594
Interest expense	24	25
Unwinding of decommissioning provision	11,565	15,264
Interest revenue	(58,029)	(83,796)
(Gain)/Loss on disposal of non-current assets	14,803	2,627
Change in decommissioning provision recognized in profit or loss, other than unwinding	(10,964)	(3,924)
Change in other provisions	(12,983)	12,095
Impairment of exploration assets	137,485	37,404
Exploration projects written-off	21,140	24,991
Impairment of property, plant and equipment	56,192	67,573
Depreciation and amortization	374,829	496,769
Impairment of investment in associates	220	7,039
Losses from trade receivables and other assets	179,159	60,422
Receivables reactivated	-	(28,941)
	2,120,683	1,565,032
Movements in working capital:		
(Increase)/Decrease in inventory	57,104	(52,735)
(Increase)/Decrease in trade and other receivables	425,624	150,483
Increase/(Decrease) in trade and other liabilities	(171,879)	(134,713)
Cash generated from operations	2,431,532	1,528,067
Interest paid	(24)	-
Income taxes paid	(433,314)	(215,090)
Net cash generated by/(used in) operating activities	1,998,194	1,312,977
Cash flows from investing activities		
Acquisition of investments in associates	-	(393)
Decrease/(Increase) in other financial assets	(207,133)	411,941
Interest received	59,470	126,251
Proceeds from sale of non-current assets	-	(1,590)
Acquisition of non-current assets	(254,271)	(374,505)
Acquisition of exploration assets	(469,458)	(264,228)
Net cash used in investing activities	(871,392)	(102,524)
Cash flows from financing activities		
Dividends paid	(986,550)	(1,060,115)
Net cash used in financing activities	(986,550)	(1,060,115)
Net increase/(decrease) in cash and cash equivalents	140,252	150,338
Cash and cash equivalents at the beginning of the year	1,563,590	1,739,330
Cash and cash equivalents at the end of the year	1,703,842	1,889,668

Statement of cash flows presented above presents the cash flows for January – September 2014 compared with the similar period of 2013, classified by type of activity: operating, investing and financing. Company's Statement of cash flows is prepared using

the indirect method, whereby net profit is adjusted for the effects of transactions of non-cash nature, any deferrals or accruals of cash payments or receipts from operations, past or future, and items of income or expense associated with the cash flows from investing or financing.

Reconciliation of profit before taxation to cash flow generated from operating activities (before changes in net current assets) resulted in a net upward adjustment of RON 713,441 thousand for January – September 2014 compared to RON 607,548 thousand in January – September 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 254,271 thousand) and exploration assets in amount of RON 469,458 thousand, as per the investment plans approved by the Company. Dividends paid to shareholders during the first nine months of 2014, amount to RON 986,550 thousand, as compared to RON 1,060,115 thousand paid during the same period of previous year.

VIII. CORPORATE GOVERNANCE

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

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

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

Principles included in the Ordinance are as follows:

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

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

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

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

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

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

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

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

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

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

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

Some of the *already implemented measures*:

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

Some of the measures to be implemented:

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

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

The action plan will comprise at least the following:

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

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

The internal audit activity will be as follows:

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

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

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

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

General Meeting of Shareholders

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

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

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

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

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

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

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

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

Board of Directors

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

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

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

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

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

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

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

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

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

- 👉 identifies the directors' selection criteria;
- 👉 advances proposals for director positions;
- 👉 drafts and submits to the Board the candidates selection process for executive director and other management positions;
- 👉 assists the Board of Directors in the fulfilment of personnel policy control, analysis and assessment;
- 👉 identifies criteria and objectives required for elaborating the remuneration scheme on the basis of performance criteria;
- 👉 Drafts the directors and executive directors remuneration policy that will include at least:
 - a) Remuneration structure, with explanations on the fixed and variable component;
 - b) Performance criteria that substantiate the variable component of remuneration, the ratio between actual performance and remuneration;
 - c) Reasons behind any annual bonus scheme or non-cash benefits;
 - d) Information on the term of the contract, negotiated notice period, the amount of the damages for dismissal without just cause;
- 👉 Submits proposals for remuneration of executive directors and other management positions;

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

Responsibilities and Duties of the Audit Committee are as follows:

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

For 2014 the advisory committees' structure is the following:

I) Nomination and Remuneration Committee:

- ✎ Negrut Aurora
- ✎ Popescu Ecaterina
- ✎ Klingensmith Davis Harris
- ✎ Jansen Petrus Antonius Maria

II) Audit Committee:

- ✎ Klingensmith Davis Harris
- ✎ Jansen Petrus Antonius Maria
- ✎ Chisăliță Dumitru (as from September 25, 2014, according to BoD Resolution No. 20/2014)

Director General

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

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

A. Responsibilities and duties related to internal management:

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

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

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

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

Internal Audit

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

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

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

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

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

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

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

The 2014 Audit Plan includes 3 conformity audit missions:

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

Below are the first nine months of 2014 **audit missions**:

I. Assurance mission related to financial management control

The following audit objectives were pursued:

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

- Completeness of the „Annual Report” of the Financial Management Control Office.

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

II. Assurance Mission for the Natural Gas Compression Activity

The 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” of Public Finance Minister Order no. 946/2005;
 - Existing proposals for substantiating the required number of employees based on jobs, positions, objectives and “Labor and Personnel-Related Norms”, organizing and monitoring personnel records according to Standard 3 - “Competence, Performance” of Public Finance Minister Order no. 946/2005;
 - Professional training of employees working at natural gas compressor stations;
 - Analysis and verification of gas compressing stations organization according to Standard 6 - “Organization Structure” of Public Finance Minister Order no. 946/2005;
- 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” of Public Finance Minister Order no. 946/2005;
 - Drafting and monitoring of „Risk Registry” for the company’s compression stations - Risk mitigation strategy and planning through the implementation of “Risk Mitigation Measures” according to Standard 11 - “Risk Management” of Public Finance Minister Order no. 946/2005;
- Actual activity performance, having the following audit objectives:
 - Activity performance according to Standard 17 - “Procedures” of Public Finance Minister Order no. 946/2005 - existence and applicability of operation procedures and working instructions for gas compressing sections;
 - Activity performance related to explosions prevention by operation, repair and maintenance of AntiEx equipment;
- 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 Safety Activity

For this mission:

- The objectives are the same as for the previous missions;
- The mission preparation stage was fulfilled;
- The audit intervention is currently in progress at the location.

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 is in process of updating the operation procedures on "Performing an Internal Audit Mission for Regularity/Conformity" according to the approved Rules.

Corporate Social Responsibility (CSR)

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

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

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

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

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

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

CSR projects, actions and initiatives

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

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

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

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

Sport

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

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

The sport of the mind- Chess

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

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

Education, Culture and Community

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

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

Romgaz focuses on supporting the activities of interest for the community, providing support in organizing events with a positive impact on the education and development

of the society, such as: the “Academic Days ULBS 45” Sibiu, the international conference “*Challenges, Performances and Tendencies in the Organization Management*”, organized by the Management Academic Society of Romania, the 41th edition of the International Symposium ICOHTEC 2014, on the theme “Technology in times of transition” held by The Transylvania University from Brasov.

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

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

IX. Performing the Mandate Contract/the Directors' Contracts

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

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

9.1. Objectives and performance criteria

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

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

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

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

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

- Human resources management;
- Corporate governance and social responsibility;

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

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

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

No.	Indicator	U.M.	Performance criterion	Indicator	Weighting coefficient
0	1	2	3	4	5
1.	EBITDA	thousand 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 for RON 1000 operating income	RON	decreasing	0.60%/ year	0.10
5.	Geological resources	million m ³	decreasing	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:

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

where: $i=1\div 3$;

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

9.2. Q3 2014 Results

The achievement of performance indicators and criteria in Q3 2014 is shown below:

	Weighting factor	Indicator	Average value 2011-2013	Target value	Achieved value	Achievement rate	Weight
1	2	3	4	5	6	7	8=2x7
EBITDA	0.25	+4.5%	1,537,871.6	1,607,075.8	2,167,490.6	134.9	33.73
CA	0.20	+6%	2,775,241.5	2,941,756.0	3,286,768.0	111.7	22.34
W	0.10	+6%	468.7	496.8	528.3	106.3	10.63
C_{expl}/V_{expl}	0.10	-0.6%	667.2	663.2	580.4	114.3	11.43
RES	0.10	+1%	1,410.0	1,424.1	1,070.0	75.1	7.51
d_Q	0.15	-1.5%	4,205.7 ²	4,080.5	4,227.9	103.6	15.54
P_{res}	0.10	0	0	0	0	110.00	11.00
Total	1.00	-	-	-	-	-	112.18

- 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_Q – gas production decline (%);
 P_{res} – outstanding payments (thousand RON).

The performance indicators and objectives achievement degree is **112.18%**.

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

- 👉 *EBITDA* – higher by RON 560 million (+34.9%) compared to target value;
- 👉 *Revenue* – higher by RON 345 million (+11.7%) compared to target value;
- 👉 *Labour productivity* – higher by 31.5 thousand RON/employee (+6.3%) compared to target value;
- 👉 *Operating expenses at 1000 RON operating income* (RON) – lower by RON 82.8 (-12.5%) compared to target value;
- 👉 *Gas production decline* – lower by 147.4 million m³ compared to target value.

² It is the production of the first 3 quarters of 2012, year 2012 considered as “base year”.



Signatures:

Chairman of the Board of Directors .

AURORA NEGRUȚ

.....

Director General.

MARIUS VIRGIL METEA

Economic Department Director.

LUCIA IONAȘCU
