



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

Board of Director's Report

2013





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I. ROMGAZ 2013 - OVERVIEW

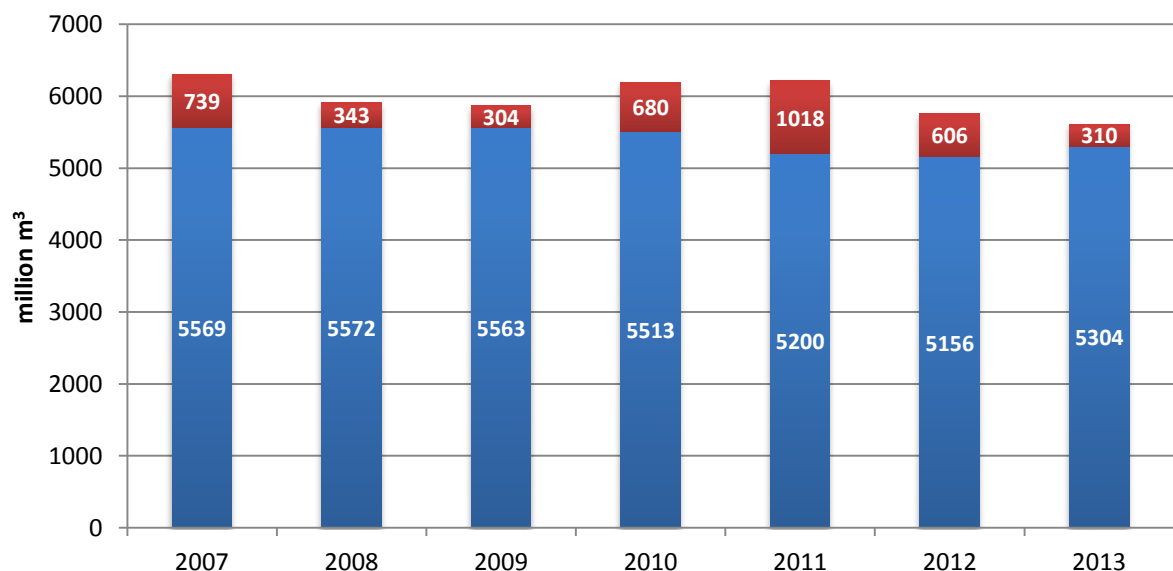
1.1. Results

Operational results (million cm):

	2011	2012	2013
Produced gas, out of which:	5,640.9	5,663.3	5,650.8
*internal production	5,465.0	5,474.2	5,467.8
*Schlumberger (100%)	175.9	189.1	183.0
Internal gas deliveries (including 50% Schlumberger), out of which:	5,199.9	5,156.0	5,303.5*)
*gas purchased from third parties	7.6	8.5	13.3
Internal gas deliveries (partnerships excluded)	5,120.0	5,061.5	5,212.0*)
Gas withdrawn from the storages	2,079.6	1,892.7	2,017.9
Gas injected in the storages	2,118.1	2,158.0	1,993.1
Import gas deliveries	1,018.3	605.8	309.5

*)including gas consumption of CTE Iernut

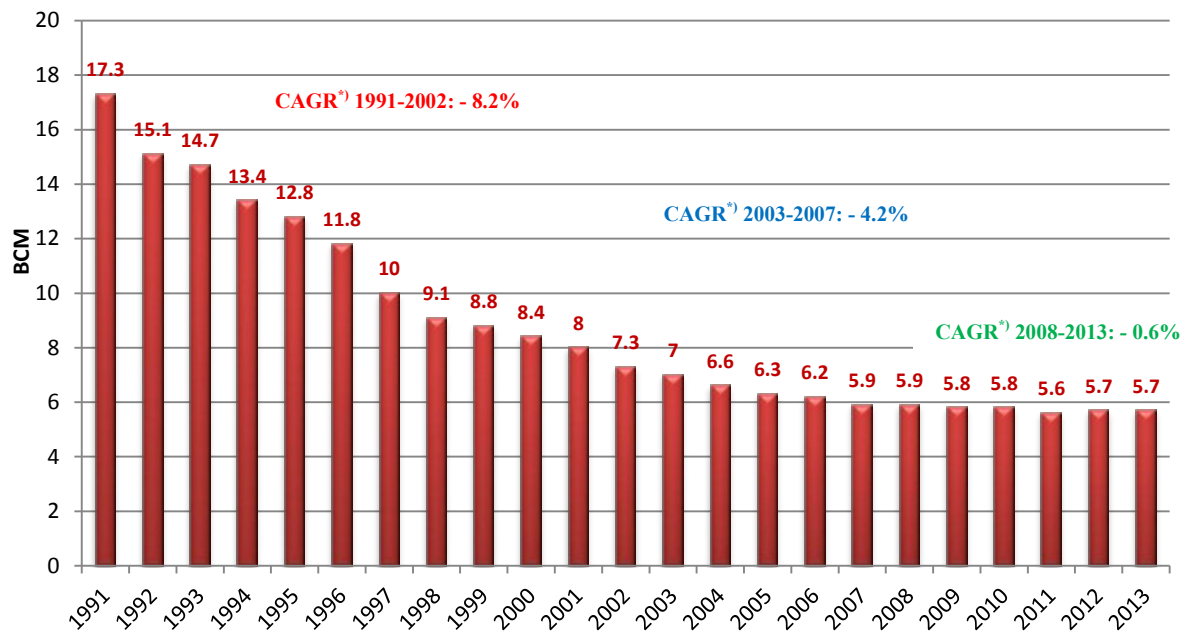
Romgaz is the largest gas supplier in Romania. The evolution of gas supplies during 2007-2013 is indicated below:



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	2012	2013	Ratio (2013/2012)
0	1	2	3	$4=3/2 \times 100$
1	Income - total, out of which:	4,517.2	4,846.4	107.29%
2	*operating income	4,358.0	4,713.2	108.15%
3	*financial income	159.2	133.2	83.67%
4	Revenue	3,837.9	3,894.3	101.47%
5	Expenses - total, out of which:	3,121.6	3,545.7	113.59%
6	*operating expenses	3,071.3	3,516.5	114.50%
7	*financial expenses	50.2	29.2	58.17%
8	Gross profit	1,395.6	1,300.6	93.19%
9	Profit tax	276.5	305.1	110.34%
10	Net profit	1,119.2	995.6	88.96%
11	EBITDA	1,854.0	1,959.8	105.71%
12	Earnings per share-EPS (RON)	29.22	2.58 ¹	88.30% ²
13	Return on sale (Gross profit/Revenue)	36.33%	33.40%	91.85%

Investments play an important part in arresting the production decline, which is achieved through the discovery of new reserves, the improvement of the current

¹ - during the 2013 financial year, the share capital was increased and the nominal share value was split from 10/share to 11eu/share;

² - the comparison considered the splitting of the nominal share value;

recovery rate, and the rehabilitation, development and modernization of existing facilities.

For 2013, Romgaz scheduled investments worth RON 900 million and invested RON 848 million, approximately 63% more, i.e. RON 329 million more, than the investments made in 2012. The company financed all investments from own sources.

The value of fixed assets commissioned during 2013 was approx. RON 384 million. The company invested during 2011-2013 approximately **RON 2 billion**, as shown below:

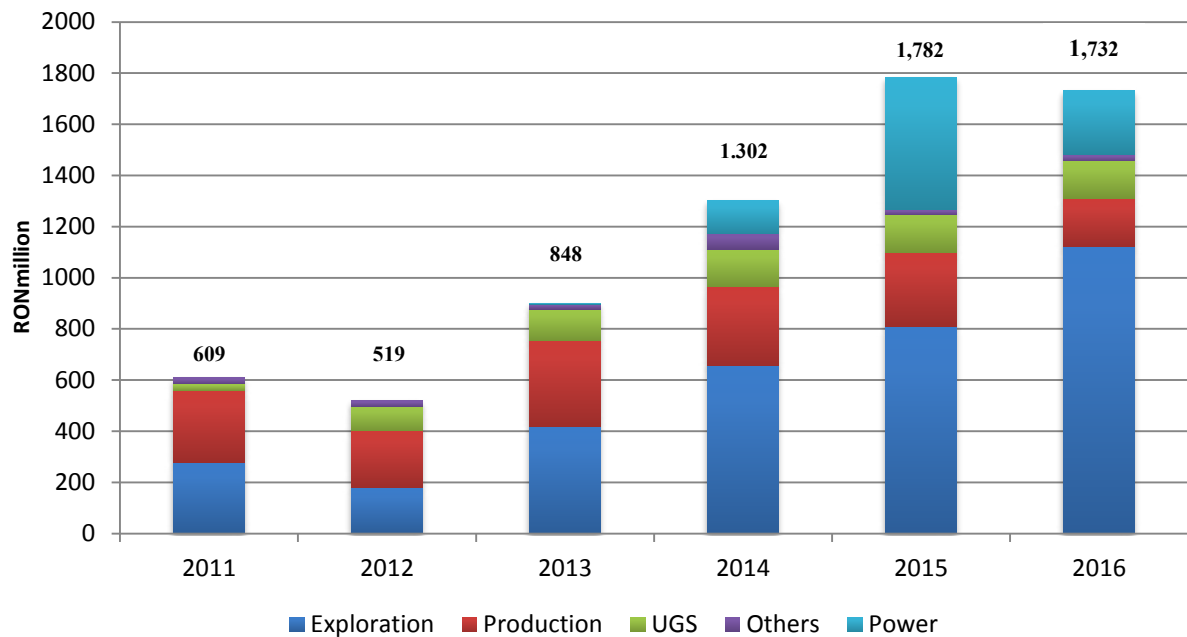
Year	2011	2012	2013	Total
Amount (RON thousand)	609,241	519,053	848,247	1,976,541

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

** RON thousand **

Investment chapter	Scheduled 2013	Achieved 2013	%
1	2	3	4=3/2x100
I. Geological exploration works for the discovery of new gas reserves	413,180	419,829	101.61
II. Exploitation drilling works, putting into production of wells, infrastructure and utilities	137,112	82,484	60.16
III. Maintaining the UGS capacity	82,910	84,639	102.09
IV. Environment protection works	7,862	6,054	77.00
V. Revamping and modernization of installation and pieces of equipment	159,569	208,223	130.49
VI. Independent equipment and installations	63,777	37,509	58.81
VII. Expenses in connection with studies and projects	35,590	9,509	26.72
TOTAL	900,000	848,247	94.25

For the following years, Romgaz has an ambitious investment program:



The selling at the end of 2013 of 15% of the company's shares from the portfolio of the Ministry of Economy and the listing of the company's shares on the regulated market governed by Bucharest Stock Exchange and, simultaneously, the transaction of GDRs (Global Depositary Receipt) on the regulated market governed by the London Stock Exchange was a success.

The confidence shown by the investors is an indicator for the appreciation of the company's performance. Concurrently, the company is obliged to maintain this level of performance and to increase such to an extent that meets the shareholders' and the stakeholders' (clients, suppliers, state authorities and institutions, mass-media) expectations.

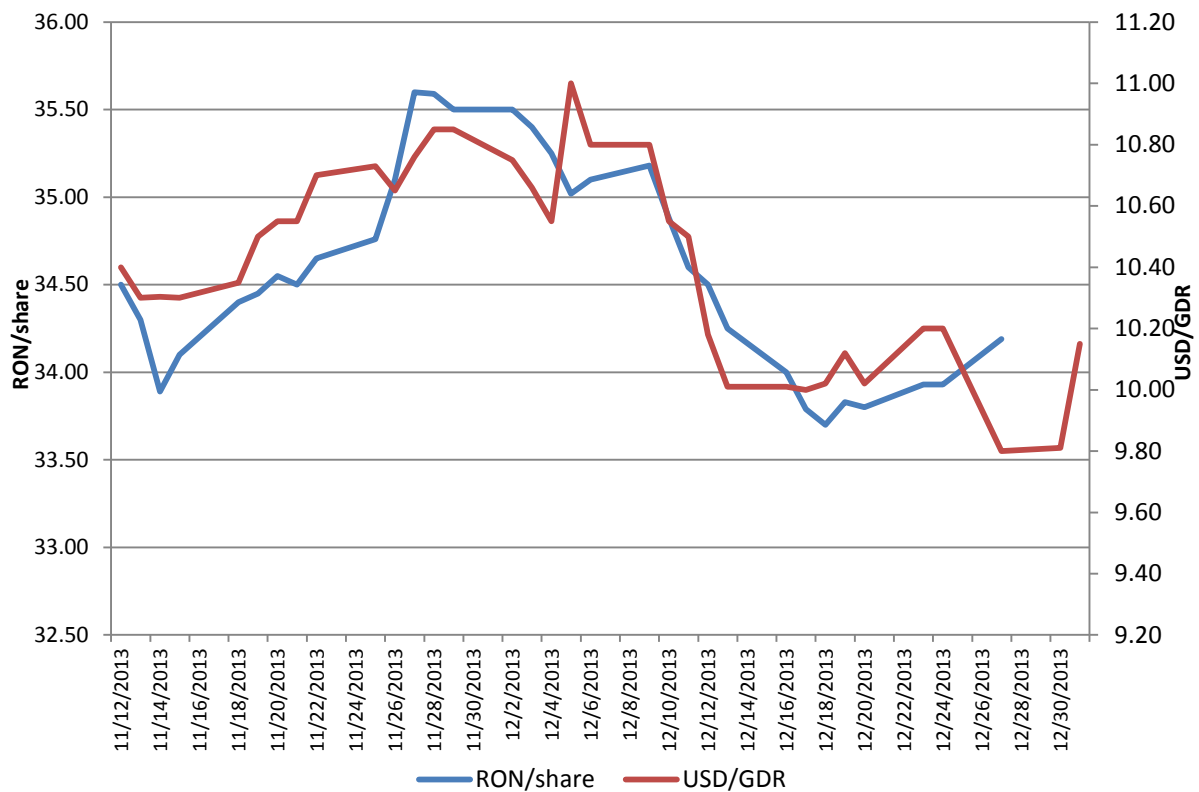
Some of the IPO's features are:

- ✘ the largest initial public offering made and the first privatization of a company in Romania to have GDRs traded on London Stock Exchange;
- ✘ 57,813,360 is the number of existing company shares held by the Ministry of Economy, and offered for sale as shares and GDRs;
- ✘ RON30/share – share sale price set during the subscription process; the price is at the upper limit of the subscription price range of RON 25-32/share;
- ✘ USD 9.25/GDR – GDR sale price, one GDR represents an interest in one share;
- ✘ total size of the offer was RON 1.7 billion (USD 534 million);
- ✘ the offer price means a market capitalization of the company of RON 11.6 billion (USD 3.6 billion);
- ✘ 40% of the shares and the GDRs have been sold to the Romanian institutions and public and 60% to institutional investors outside Romania;
- ✘ following the high subscription degree of the retail investors – their demand exceeded twice the entire package offered for sale by the state and more than 15 times the segment initially allocated to them, the tranche for retail investors has been increased from 15% to 20% of the total offer.

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

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

The evolution of Romgaz shares' quotations and of the GDRs since the listing and up to the date of the report is shown below:



Note: On December 30, 2013 the trading of Romgaz shares was suspended because of GMS.

1.2. 2013 Highlights

February 1, 2013

Romgaz took over Iernut Power Plant (CTE Iernut) from S.C. "Electrocentrale Bucuresti" S.A. – Sucursala Electrocentrale Mures, along with all the elements closely related to it: employees, contracts, current assets. The property title transfer to Romgaz was made for the settlement of receivables from S.C. Electrocentrale Bucuresti" S.A.

February 1, 2013

Government Ordinance no. 7 dated January 23, 2013 for establishing the tax on additional income resulting from the price deregulation in the natural gas sector has entered into force. In accordance with this ordinance, the economic operators performing production and sale activities of the natural gas produced in Romania are obliged to calculate, file and pay a 60% tax on the additional income resulting from the deregulation of prices in the natural gas sector, out of which the royalties relating to this income and the investments made in the upstream segment are deductible up to 30% of the additional income.

April 26, 2013

ANRE (National Energy Regulatory Authority) issued *Order no. 26/2013 on the establishment of the regulated tariff for supply of UGS-related services by S.C. ROMGAZ S.A. Medias*, whereby the regulated income for the first year of the third regulatory period (April 2012-March 2013), the regulated income for the second year of the third regulatory period (April 2013-March 2014) and the regulated tariffs to be applied during April 2013-March 2014 were approved.

A comparison of the UGS tariffs is shown below:

<i>Tariff component</i>	<i>M.U.</i>	<i>Value 1*)</i>	<i>Value 2**)</i>
<i>Volumetric component for the natural gas injection</i>	RON/MWh	2.76	2.37
<i>Fixed component for capacity reservation</i>	RON/MWh/full storing cycle	5.65	13.12
<i>Volumetric component for the natural gas withdrawal</i>	RON/MWh	2.76	1.80

*) – tariffs applied until March 31, 2013 in accordance with ANRE Order no. 63/2009;

***) – tariffs applied as of April 1, 2013 approved by ANRE Order no. 26/2013.

April 29, 2013

In accordance with the selection process made as per the cumulative voting procedure pursuant to the applicable legal requirements, the General Meeting of Shareholders appointed the Board of Directors members:

- ✎ Aurora Negrut;
- ✎ Eugen Dragos Doros;
- ✎ Virgil Marius Metea;
- ✎ Eufemia Musat; and
- ✎ Constantin-Adrian Volintiru.

June 12, 2013

The Board of Directors appointed Mr. Virgil Marius Metea as Director General to whom it delegated several powers and the right act as representative.

July 26, 2013

The General Meeting of Shareholders approved the form of the Director Agreement to be concluded with the Board of Directors members.

September 25, 2013

The General Meeting of Shareholders approved the 2013-2017 Business Management Plan presented and prepared by the Board of Directors.

October 22-31, 2013

The subscription process under the IPO for the sale of 15% of the shares held by the Ministry of Economy was carried out.

November 12, 2013



The company's shares have been traded for the first time on the regulated market governed by Bucharest Stock Exchange and on the regulated market governed by the London Stock Exchange in form of GDRs.

December 30, 2013

In accordance with the selection process made as per the cumulative voting procedure the General Meeting of Shareholders appointed the new Board of Directors members:

✎ *reconfirmed directors:*

- ↳ Aurora Negrut;
- ↳ Virgil Marius Metea;
- ↳ Constantin Adrian Volintiru; and
- ↳ Eugen Dragos Doros;

✎ *newly appointed directors:*

- ↳ Ecaterina Popescu;
- ↳ Petrus Antonius Maria Jansen; and
- ↳ Davis Harris Klingensmith.

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

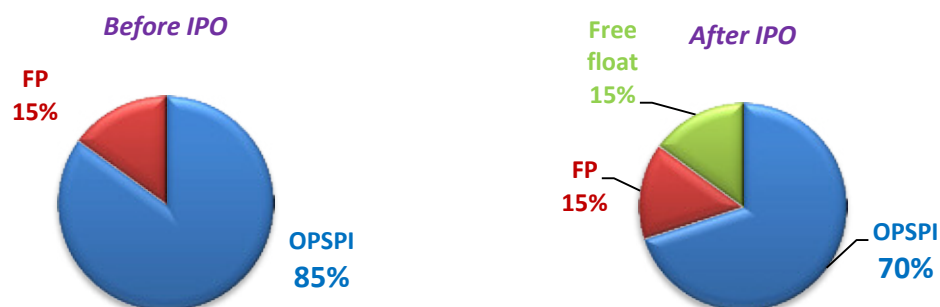
Web: www.romgaz.ro

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

	Before IPO		After IPO	
	Number of shares	%	Number of shares	%
The Romanian State through the Ministry of Economy ³	327,636,440	85.0071	269,823,080	70.0071
SC "Fondul Proprietatea" SA	57,785,960	14.9929	57,785,960	14.9929
Free float			57,813,360	15.0000
Total	385,422,400	100.0000	385,422,400	100.0000



³ Ministry of Economy through the Energy Department;

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:

- ↳ Sucursala de Productie Gaze Medias (Medias Gas Production Branch) having its office in Medias, 5 Garii Street, postal code 551025, Sibiu County, territorially organized in 8 sections;
- ↳ Sucursala de Productie Gaze Tirgu Mures (Tirgu Mures Gas Production Branch) having its office in Tirgu Mures, 23 Salcamilor Street, postal code 540202, jud.Mures, territorially organized in 8 sections;
- ↳ Sucursala de Inmagazinare Subterana a Gazelor Naturale Ploiesti (Ploiesti UGS 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.

The company's organization chart is attached hereto as **Annex no. 1**.

2.3. The Company's Mission, Vision and Values

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

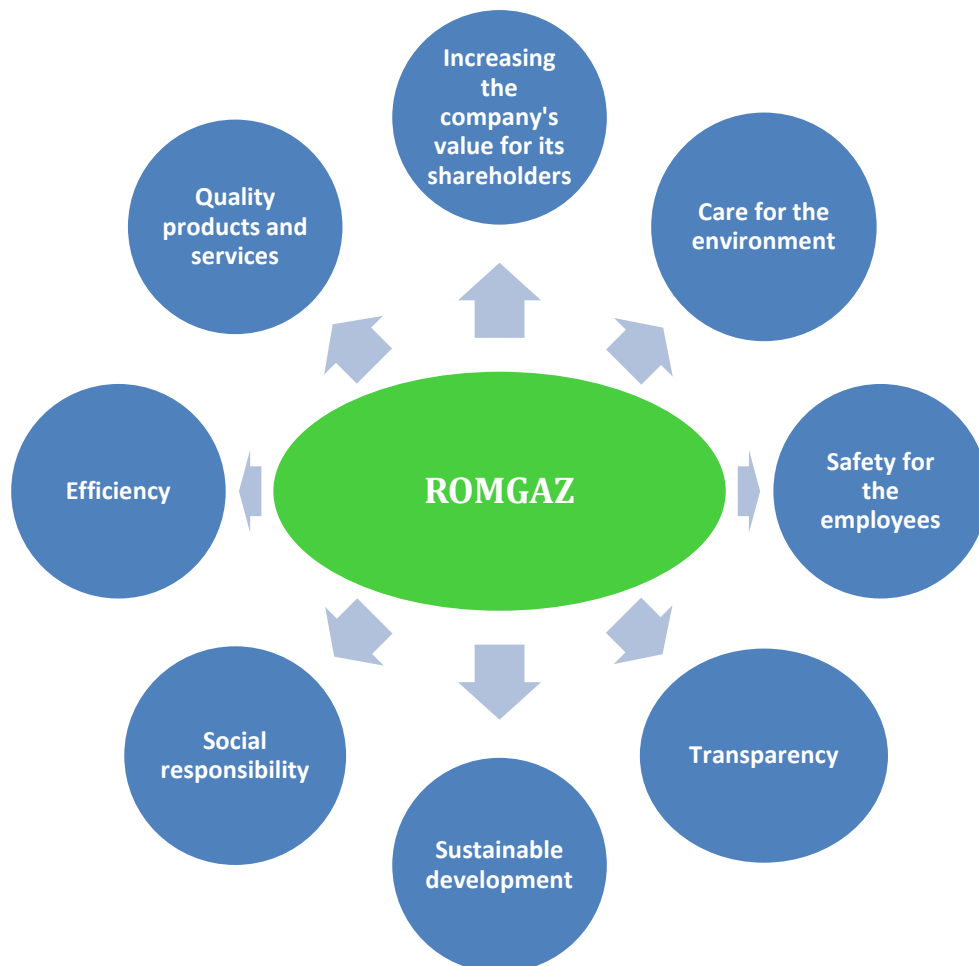
Mission

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

Vision

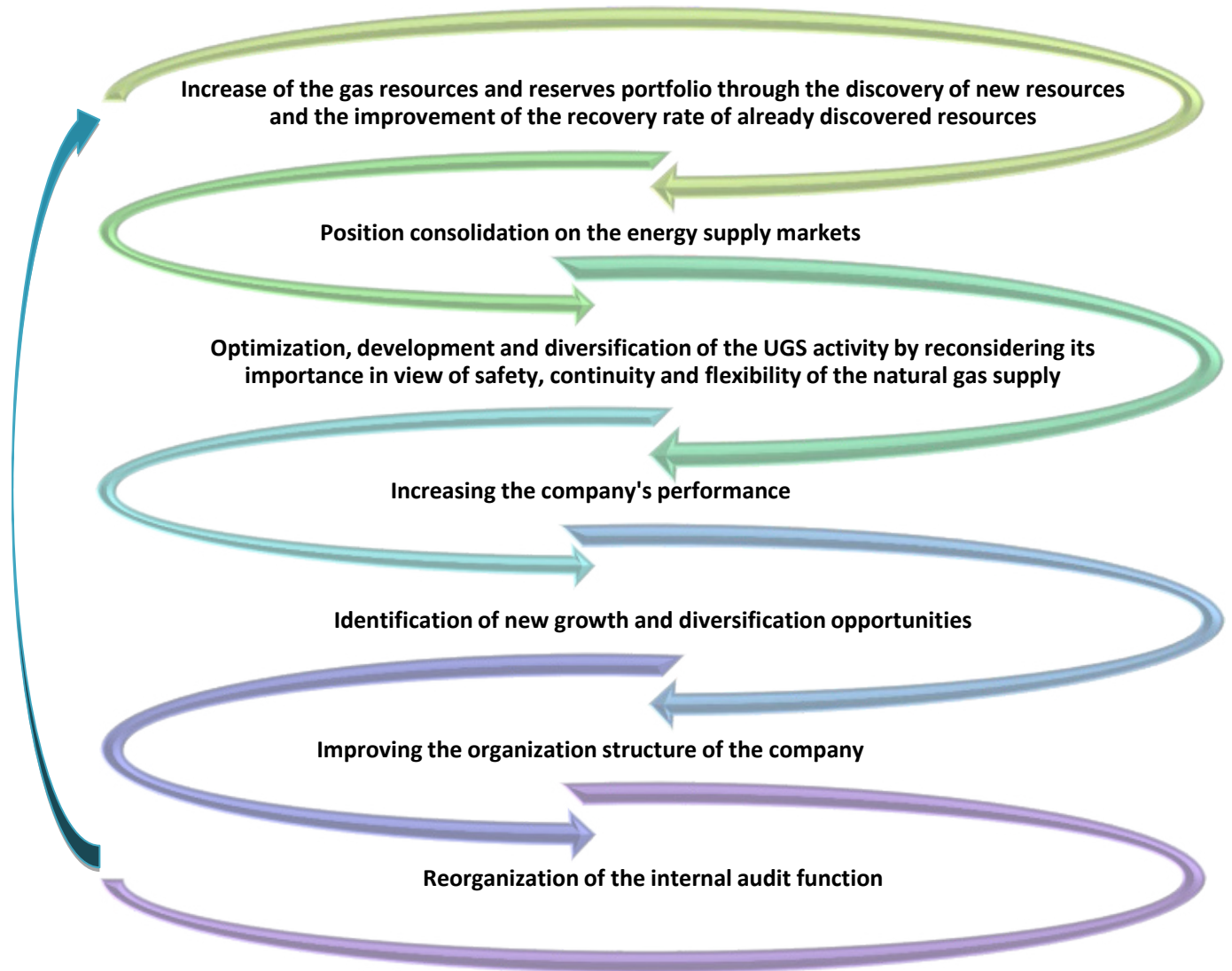
ROMGAZ has the potential and the ambition to consolidate and to develop its position as the most important natural gas company in Romania and to become a leading player on important Central and Eastern European markets by means of an efficient and competitive production able to face the increasing pressure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

Our values



2.4. Strategic Objectives

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



III. REVIEW OF THE COMPANY'S BUSINESS

3.1. Business Segments

The company undertakes business in the following segments:

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

Exploration-Production

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

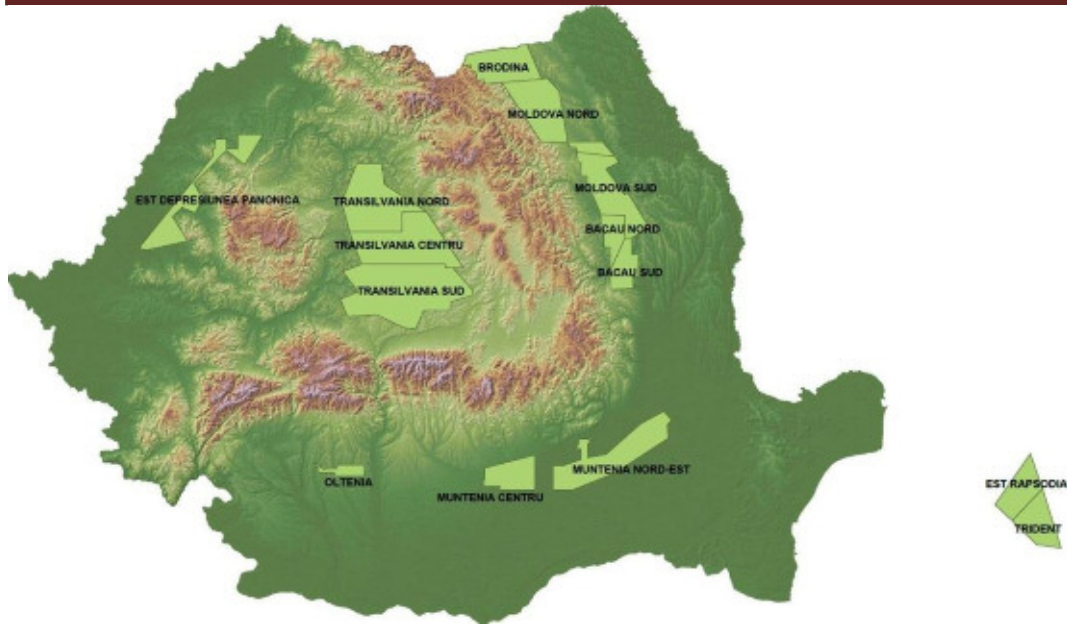
- ✎ petroleum operations for exploration-development-production in 9 blocks with 100% participation interest and in 4 blocks as co-titleholder, in accordance with concession contracts;
- ✎ 143 commercial fields;
- ✎ 5 reservoirs recording experimental production;
- ✎ exploration and production rights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

Exploration



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

Currently, the company benefits of the third extension (for a period of 5 years) of the exploration phase according to Addendum no. 4 approved by Gov. Decision no.968/2011.



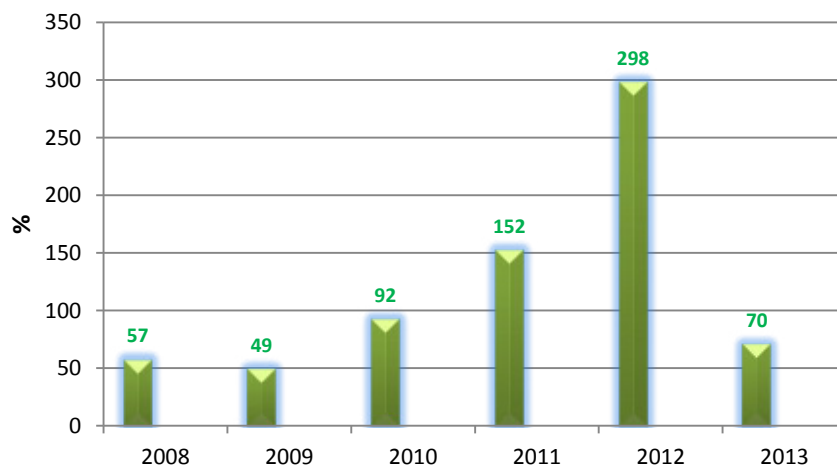
The minimum work program undertaken during the negotiation is mandatory to be carried out until the extension period lapses (November 9, 2016) and provides specific exploration works amounting RON 1,770 million.

Also Romgaz carries out exploration works in block EVIII-8 Est Depresiunea Panonica (East Pannonian Depression) in accordance with the Concession Contract approved by Gov. Decision no. 631/2011. The exploration works are currently performed under the first mandatory 3 year phase (June 27, 2011-June 27, 2014) of the initial exploration period and consist of the acquisition and processing of 250 km of 2D seismic and the drilling of 3 exploration wells.

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). Exploration works are 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

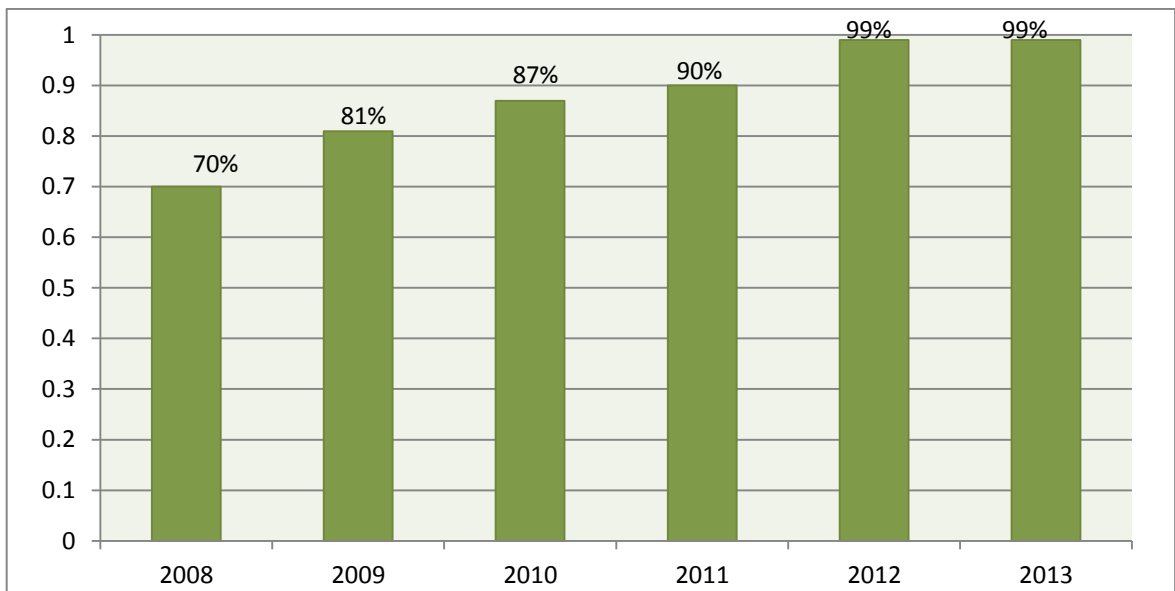


The valuation of Romgaz potential was possible through:

- ↳ 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 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.

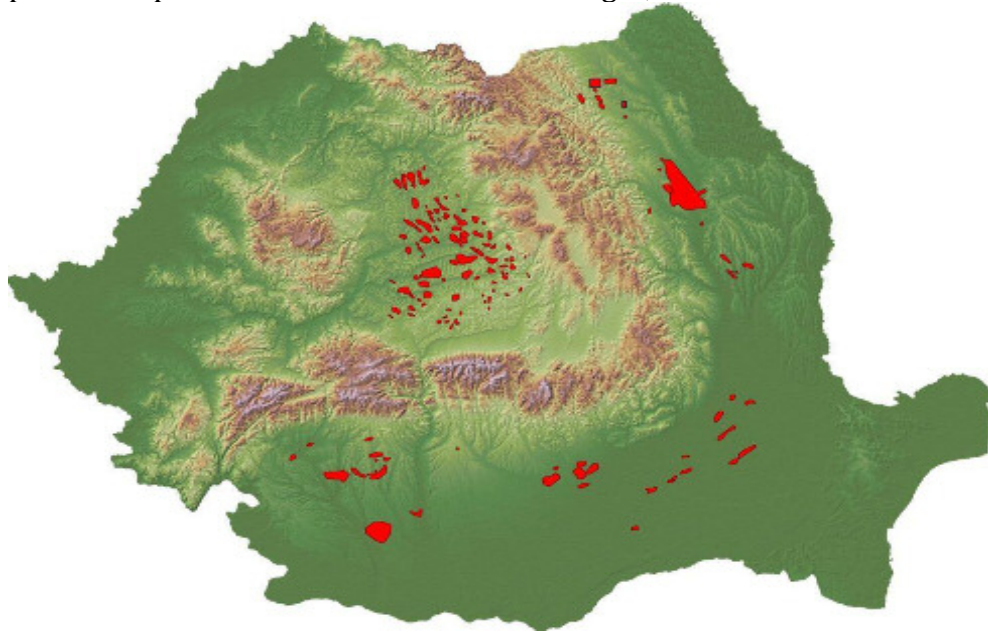
The restructuring and modernization made during the past 5 years consolidated the exploration and production activity thanks to:

- ↳ 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 1,498.33 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. The evolution of gas drying level is shown below:

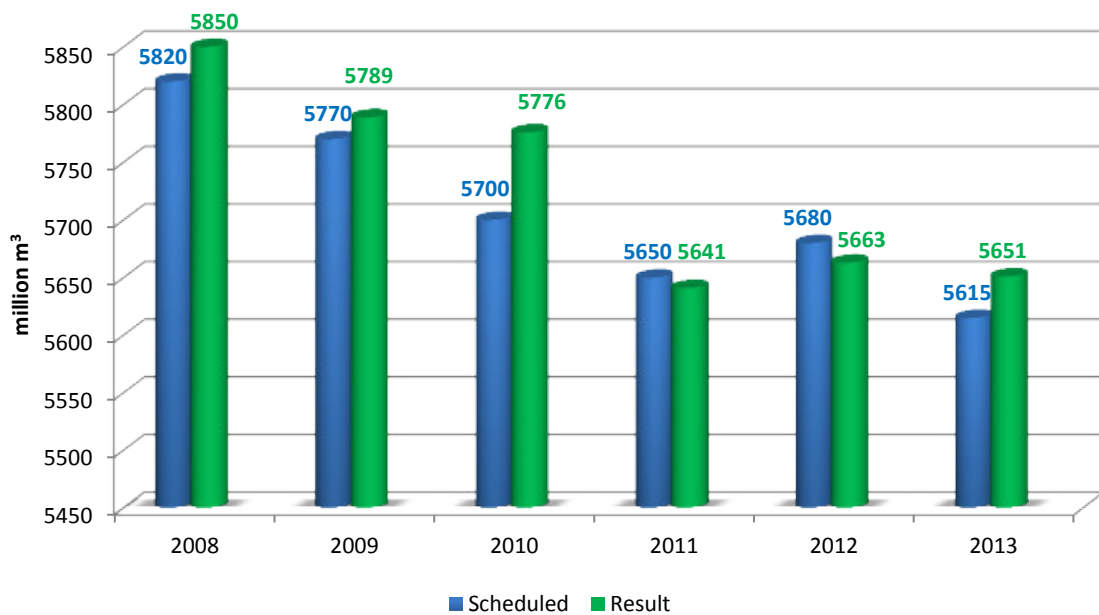


- ↳ upgrading the infrastructure of compressing stations Filitelnic, Cristur, Delenii, Balda, Sinmartin, Grebenis and development of compressing capacity by commissioning 17 booster compressors and 7 group compressors;

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.

Below is a summary of the current status of UGSs:

Bilciuresti UGS – located at approximately 40 km from Bucharest has a working volume of 1,310 million cm/cycle due to the 57 wells existing on the site using Butimanu compressor station. The maximum injection pressure is 150 bars.

From 2007 to 2012, investments were made and the withdrawal potential was increased from 12.5 million cm/day to 17 million cm/day (at the beginning of withdrawal cycle) by increasing the cushion gas by 300 million cm. The storage has its own gas drying station.

Sarmasel UGS – located in Northern Transylvania Basin at 35km NV of Tirgu Mures and 48 km E of Cluj has a working volume of 800 million cm/cycle through the 59 existing wells and by using Sarmasel gas compressing station.

From 2007 to 2012, investments were made to replace the compressor station, to upgrade surface installations and to construct a gas dehydration station at the interface with the National Gas Transmission System. Thus, the investments and the increase of cushion gas by 540 million cm resulted in extending the capacity from 650 million cm to 800 million cm. The daily delivery capacity is to increase from 6.5 million cm/day to 7.5 million cm/day (at the beginning of the withdrawal cycle).

Urziceni UGS – has a working volume of 250 million cm/cycle and exploited by 26 wells. Both the investment works and the increase of cushion gas by 75 million cm were performed during 2007-2012 in order to extend the capacity from 2 million cm/day to 2.7 million cm/day (at the beginning of the withdrawal cycle). Additionally, other ongoing investments including the construction of a compressor station (completion expected in 2014), upgrade of surface facilities and increase of number of wells are made for increasing the storage capacity to 360 million cm/cycle (2014/2015) and of the daily maximum delivery capacity to 3.6 million cm/day (at the beginning of the withdrawal cycle).

Cetatea de Balta UGS – located in Alba county at 12 km from Tirnaveni has a working volume of 200 million cm/cycle. It is accessed through the 15 wells existing at the site and by using Botorca compressor station – module I. The maximum withdrawal flow at the beginning of the cycle is 1 million cm/day.

Ghercesti UGS – located in the vicinity of Craiova, has a working volume of 150 million cm/cycle. The storage facility is operated through the 83 wells existing at the site. Between 2007 and 2012, investments were made resulting in increasing the daily delivery capacity from 1 million cm/day to 1.5 million cm/day (at the beginning of the withdrawal cycle).

Balaceanca UGS – located at 4 km from Bucharest has a working volume of 50 million cm/cycle and is operated by 21 wells and is equipped with a module of alternative piston compressor and a gas conditioning station. Investments were made during 2007-2012 resulting in a daily delivery capacity increase from 0.55 million cm/day to 1.2 million cm/day (at the beginning of the withdrawal cycle).

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

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

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

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

Additionally, ANRE Order no. 24/2013 sets rules and domestic gas allocation methods for the priority covering of the demand on the regulated market, and the volumes required for the minimum inventory as applicable for the regulated segment.

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 supplied to CTE Iernut.

In terms of gas 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	13.8	12.8*)
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

*) estimated value

The table below shows the natural gas volumes traded by Romgaz during 2005-2012 split on internal and import, and their sale price:

	M.U.	2006	2007	2008	2009	2010	2011	2012	2013
Internal production	million cm	6,108	5,640	5,621	5,627	5,704	5,296	5,260	5,395
Internal production price	RON/1000 cm	332.79	431.53	453.91	426.46	419.63	463.92	476.55	548.12
Import volumes	million cm	965	739	343	462	730	1,018	606	310
Import Price	RON/1000 cm	819.2	744.3	1,079	963.62	1,093.9	1,324.1	1,729.0	1,503.9
Import/Internal gas ratio	%	15.80	13.10	6.11	8.21	12.80	19.26	11.54	6.06

Note: the 2009 and 2010 import gas price includes also the “new gas”.

Special Well Operations and Services

SIRCOSS was established in 2003 as a result of a reorganization process and in accordance with the GSM Resolution no. 5 dated June 13, 2003. This branch reunited all work teams and equipment used for the well workover and special well operations activities.

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.

When operations with rig installations are performed, support operations are also carried out by means of specific equipment.

The following well operations are carried out by means of rigs installations:

- up-hole withdrawal by plugging the unproductive layer and perforating a superior one. After the depletion of all productive layers in a well, well abandonment works are commenced;
- well abandonment by successively placing cement plugs over a 50m interval in the perforated areas and a surface plug – in between, drilling mud is placed;
- well completions (packers, stainless steel screens, circulating valves, plunger lift, etc.);
- reactivation works are performed for re-bringing into production gas reservoirs that contain proved resources of economic interest. These works are performed at those wells which during the production tests indicated insufficient pressure for exploitation through the gathering pipes due to the high pressure of the other wells, the former being thus temporarily abandoned. Along with the pressure drop in the gas field, the temporarily abandoned wells can be brought back into production.

- gravel packing of poorly consolidated layers with sand inflow by means of introducing a bottom-hole assembly (packers, circulation valves, nipples etc.) followed by quartz sand packing;
- side-tracking and re-entry operations performed for reaching the interest zone.

28 work formations carry out the activity of this branch. They are territorially spread out in accordance with the location of the company's fields.

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.

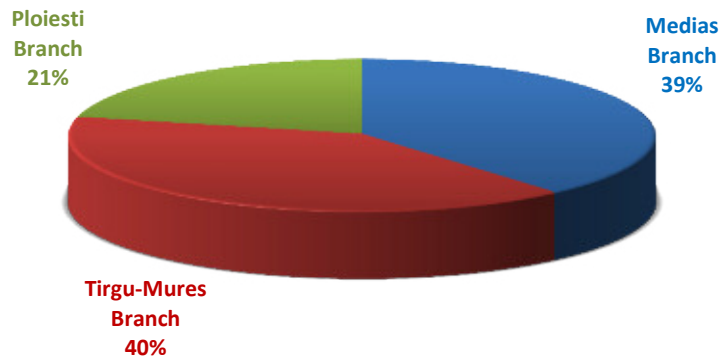
Most of services were supplied for the wells within the company's portfolio, yet, well interventions and special well operations were also supplied to other companies in Romania.

Between 2003 and 2013 well interventions, overhaul operations and production tests were performed by means of the workover rig at more than 2,000 wells.

In 2013, the branch supplied the following services:

Specifications	Number of interventions/operations
Workover services	
Operation services for IC5-T30-T50-T80 testing installations	205
Total number of special well operations, out of which:	10,543
Operation of coiled tubing unit	312
Operation of cementing unit	3,896
Operation of pumping unit	224
Operation of cement tank	258
Operation of agitator	420
Operation of bottom-hole measurement equipment	2,227
Operation of run-in-hole device	644
Cased hole investigation services	114
Technical assistance services for several special operations	64
Operation of nitrogen convertor	530
Operation of nitrogen tank	504
Operation of cement plug drilling installation	659
Operation of shale shaker	20
Operation of discharge-metering installation	423
Operation of filtering unit	159
Sand control operations	16
Operation of packer assembling device	8
Ecometer operations	21
Drill Stem Testing operations	30
Operation of mobile devices for production pipes thickness check-up	19

The split of special operations performed by SIRCOSS in 2013 for the company's production branches is indicated below:



Transportation and Maintenance

STTM was established in October 2003 as a result of a reorganization process. The means of transportation were taken over from Medias, Tirgu-Mures and Ploiesti production branches. The reasons behind the establishment of STTM are:

- ↪ reduction of existing transportation capacities;
- ↪ the company made high investments because of its obligation to equip its own fleet with technological transportation and maintenance equipment in order to support the company's main scope of activity;
- ↪ creation of a unitary operation and maintenance policy in connection with the means for transportation and maintenance;
- ↪ strict compliance with the applicable legislation in the field of transportation, which became increasingly restrictive over the years.

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

The transportation activity represents approximately 80% of the branch's activity and is carried out by 2 technological transportation sections (Tirgu-Mures and Medias), 2 technological transportation workshops (Ploiesti and Roman) and one work location in Craiova.

Maintenance activity is carried out by Tirgu-Mures Maintenance Section, by the Automation Laboratory, by Tirgu-Mures Auto Maintenance Workshop and by the maintenance formations of Medias, Ploiesti and Roman Transportation Sections/Workshops. The maintenance activity represents approximately 20% of the branch's activity.

The activities are:

- ↪ diagnosis, maintenance and repairs of vehicles (including tractors and bulldozers);
- ↪ metallic plate works and pipeline repairs;
- ↪ cutting manufacturing;
- ↪ repair and winding of electric motors;
- ↪ verification and charging of extinguishers;
- ↪ maintenance, inspection, and repairs of drying stations, water pumps, pressure regulators, and construction of water and gas installations;

- ↳ general attendance (carpentry, central heating etc.);
- ↳ automation, electrical and electronic revisions and maintenance for gas compressors;
- ↳ construction and maintenance of well access roads;
- ↳ pavement of platforms and of access roads;
- ↳ construction of well perimeter and restoration of land to the agricultural circuit.

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

The gas is supplied directly from the NTS through the gas regulation and metering station located in the vicinity of the plant. The gas regulation and metering station is the property of Transgaz.

The gas consumption for the maximum output of the plant is 212,000 Ncm/hour.

Demineralized water required for the supplying the tanks is prepared by the purification station.

8 high capacity water pumps pump out of Mures River the cooling water required for the plant operation. The cooling water flow required during the plant's maximum power output is 26 cm/second.

The medium and long term objectives make the branch's activity more efficient and promote investments targeting the following:

- ✓ increasing the plant's efficiency to minimum 55%;
- ✓ compliance with environmental regulations regarding NOx emissions;
- ✓ increasing operational safety.

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.

The final gas delivery price and the distribution tariffs are regulated according to ANRE order 103/2008 as amended from time to time.

Ghercesti Distribution

Contract no.73 dated August 23, 2004 was concluded with the Ministry of Economy and Commerce and its scope is to concession to Romgaz the natural gas distribution services for Ghercesti area (the commune and surrounding villages Ghercesti, Garlesti, Luncsoru, Ungureni and Ungurenii Mici from Dolj County).

Based on the technical documentation, Romgaz obtained the establishment permit no. 933 dated July 29, 2008. Later on, investments were made and parts of the distribution systems were commissioned and aligned to the system access requirements (according to the provisions of the Regulation on access to distribution systems no. 1043 dated July 01, 2004). As a result, the company obtained the natural gas distribution functioning permit no. 988 dated January 8, 2009 and changed the company's distribution and supply licenses.

The following works were made:

- number of connections constructed and made to the distribution systems: 135
- length of distribution pipelines 13.348 PE + 0.084 OL = 13,432 km.

The distribution network was commissioned in 2009 and currently there are 135 clients.

The annual delivered quantities are:

- ↳ 2009: 50,124 cm (532,969 MWh);
- ↳ 2010: 87,818 cm (942,496 MWh);
- ↳ 2011: 99,060 cm (1,052,406 MWh);
- ↳ 2012: 96,512 cm (1,028,022 MWh);
- ↳ 2013: 126,229 cm (1,344,162 MWh).

The distribution system development is conditioned by the population's demand for network connection (there are connection requests), but also by the future perspective determined by the administrative expansion of the dwelling's perimeter.

Piscu Stejari Distribution

The natural gas distribution service for Piscu Stejari was awarded by concession in 2000; the parties that signed the concession contract no. 935/2000 are Piscu Stejari Town hall, on one hand, and the former SNDSGN „Depogaz” SA Ploiesti, on the other hand.

The establishment permit for the natural gas distribution granted by ANRGN Decision no. 614/ June 6, 2002 provides for several investment such as 41.73 km of distribution pipelines, and one connection point, representing the distribution system for the villages Balosani, Bacesti, Stejari, Popesti and Piscoiu belonging to Piscu Stejari Commune. The investments authorized by ANRGN according to functioning permit no. 258 (Decision no. 711/September 17, 2003) and distribution license no. 297/ February 2, 2004 (replaced by license no. 879 according to Decision 213/February 7, 2008) are located only in Stejari and consist of 2.78 km of distribution pipeline and 9 connection points.

The following works were made:

- number of connections constructed and made to the distribution systems: 32
- length of distribution pipeline 2.74 PE + 0.04 OL = 2.78 km.

The distribution network was commissioned in 2005 and currently there are 32 clients.

The annual delivered quantities are:

- ↪ 2009: 66,567 cm (703,620 MWh);
- ↪ 2010: 54,975 cm (584,230 MWh);
- ↪ 2011: 56,593 cm (601,147 MWh);
- ↪ 2012: 59,890 cm (634,997 MWh);
- ↪ 2013: 65,833 cm (699,096 MWh).

The distribution system development is conditioned by the household consumers' demand for network connection, but also by the future development perspective of economic operators, which is presently rather reduced.

3.2. Historic Overview



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

The most important historic benchmarks are:

1909	• Natural gas discovery in Sarmasel (Transylvanian Basin)
1913	• First gas production recorded in Romania (113,000 m ³)
1925	• Establishment of the National Gas Company "SONAMETAN"
1958	• First UGS in Romania constructed in Ilimbav, Sibiu County
1972	• Use of compressors in the course of production
1976	• Maximum gas production obtained by Romgaz (29,834 million m ³)
1979	• The natural gas import from the Russian Federation begins
1991	• Centrala Gazului Metan was reorganized to Regia Autonoma "ROMGAZ" RA
1998	• "ROMGAZ" RA became Societatea Nationala de Gaze Naturale "ROMGAZ" SA
2000	• SNGN "ROMGAZ" SA was reorganized into five independent companies (SC "Exprogaz" SA Medias, SNDSGN "Depogaz" SA Ploiesti, SNTGN "Transgaz" SA Medias, SC "Distrigaz Sud" SA Bucuresti SC "Distrigaz Nord" SA Tirgu-Mures)
2001	• The present SNGN "ROMGAZ" SA Medias was established

3.3. Mergers and Reorganizations, Acquisitions and Divestment of Assets

During the 2013 financial year, the company made no *mergers*.

In 2013, the *organization structure* was changed:

- a) Board of Directors Resolution dated January 29, 2013:
 - annulled the Deputy Director General (for shareholding-UGS) position;
 - established the Deputy Director General (investments) position;
 - established the Energy Trading Department by reorganizing the Energy Trading Direction;
 - subordinated the IT and Telecommunication Direction to the Director General;
 - re-established the Internal Audit Office by reorganizing the Internal Audit Office and the Director General Control Office;
 - established a new direction: Environment, Quality, Corporate Management;
 - provided the organization structure of SPEE Iernut;
- b) establishment and registration as secondary work point of SPEE Iernut following the taking over of Iernut Power plant from ELCEN Bucuresti;
- c) Board of Direction Resolution dated February 28, 2013:
 - supplemented the organization structure of SPEE Iernut with specialized organization units for energy trading;
- d) Board of Directors Resolution dated March 21, 2013:
 - reorganized SPEE Iernut (approved a new organization chart);
 - changed the names of some organization unit and made new subordination relations for Romgaz headquarters;
 - established the Financial Reporting and Accounting Methodologies Office within the Economic Department;
- e) Board of Directors Resolution dated April 19, 2013:
 - established a Deputy Director General position coordinating the following activities: gas trading, human resources, IT, environment, quality and corporate management;
 - Director General Decision no. 483/November 21, 2013 on changing the organization structure of STTM Tirgu Mures established the Transportation Schedule Dispatching Office subordinated to development and operations director;
 - Director General Decision no. 385/August 26, 2013 on the organization structure of Medias Branch and Tirgu Mures Branch established the Land Register Compartment.

3.4. Company Business Performance

3.4.1. Company Overall Performance

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

Revenues

thousand RON

Crt. No.	Indicator	2012	2013	Ratios (2013/2012)
0	1	2	3	$4=3/2 \times 100$
1	Total income, out of which:	4,517,215	4,846,369	107.29%
2	*operating income	4,358,003	4,713,189	108.15%
3	*financial income	159,212	133,180	83.65%
4	Revenue	3,837,941	3,894,267	101.47%
5	Expenses – total, out of which:	3,121,574	3,545,727	113.59%
6	* operating expenses	3,071,336	3,516,534	114.50%
7	* financial expenses	50,238	29,193	58.11%
8	Gross profit	1,395,641	1,300,642	93.19%
9	Income tax	276,462	305,088	110.35%
10	Net profit	1,119,179	995,554	88.95%

Total income of 2013 has been greater than the income of 2012 by 7.29%, variation which is explained in this chapter.

Financial ratios structure by business segments of financial years 2012 and 2013 are shown in the following tables:

thousand RON

Description	Year 2012	Production and gas delivery	Underground gas storage	Other business	Settlement between segments
1	2	3	4	5	6
Revenue	3,837,941	3,594,986	245,075	342,851	- 344,971
Cost of commodities sold	- 904,580	- 904,738	- 31	189	
Investment income	148,326	8,208	4,164	135,954	
Other gains or losses	- 49,806	- 28,969	- 4,781	- 16,056	
Changes in inventory of finished goods and work in progress	110,852	110,852			
Raw materials and consumables used	- 118,364	- 58,952	- 14,113	- 45,299	
Depreciation, amortization and impairment expenses	- 606,114	- 431,443	- 88,372	- 86,299	
Employee benefit expense	- 503,044	- 291,136	- 45,210	- 166,698	
Finance cost	- 24,233	- 23,904	- 329		
Exploration expense	- 193,304	- 193,304			
Other expense	- 435,705	- 562,054	- 101,522	- 117,100	344,971
Other income	133,672	129,139	441	4,092	
Profit before tax	1,395,641	1,348,685	- 4,678	51,634	
Income tax expense	- 276,462			- 276,462	
Profit for the year	1,119,179	1,348,685	- 4,678	- 224,828	

* thousand RON *

Description	Year 2013	Production and gas delivery	Underground gas storage	Other business	Settlement between segments
1	2	3	4	5	6
Revenue	3,894,267	3,314,196	364,937	551,402	- 336,268
Cost of commodities sold	- 439,178	- 437,923	- 96	- 1,159	
Investment income	123,279	9,205	3,177	110,897	
Other gains or losses	- 204,396	- 194,800	274	- 9,870	
Changes in inventory of finished goods and work in progress	55,673	89,868	65,264	39,118	- 138,577
Raw materials and consumables used	- 79,311	- 54,251	- 11,371	- 17,475	3,786
Depreciation, amortization and impairment expenses	- 782,433	- 484,496	- 103,547	- 194,390	
Employee benefit expense	- 480,685	- 291,861	- 44,843	- 143,981	
Finance cost	- 13,229	- 13,197		- 32	
Exploration expense	- 59,221	- 59,221			
Other expense	- 767,756	- 852,761	- 104,513	- 311,989	501,507
Other income	53,632	51,911	342	31,827	- 30,448

Profit before tax	1,300,642	1,076,670	169,624	54,348	
Income tax expense	- 305,088			- 305,088	
Profit for the year	995,554	1,076,670	169,624	- 250,740	

Revenue

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

Actual revenue of 2013, by business activities, compared to actual revenue of 2012, is shown in the table below:

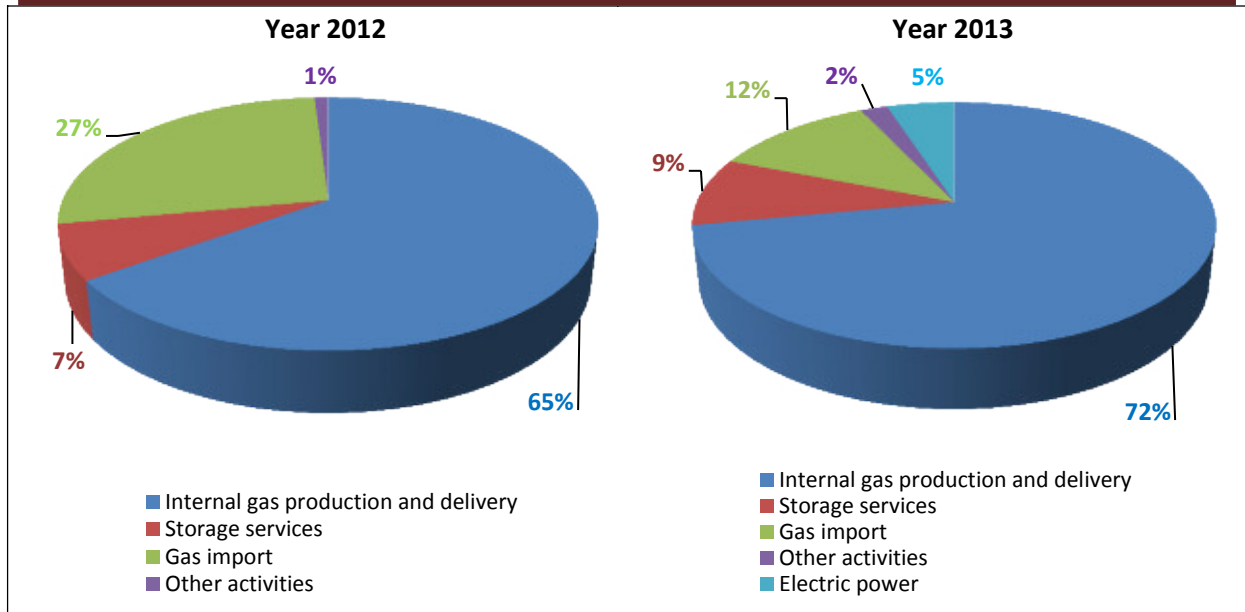
thousand RON

Description	2012	2013	Ratios (2013/2012)
1	2	3	4=3/2x100
Revenue – total, out of which:	3,837,941	3,894,267	101.47%
↳ gas production and delivery, out of which:	3,594,986	3,314,196	92.19%
- sale of internal gas production	2,407,896	2,699,677	112.12%
- sale of internal gas produced by joint ventures	94,457	108,683	115.06%
- sale of import gas	1,047,464	452,731	43.22%
- distribution	126	205	162.70%
- other revenues from production	45,043	5,900	13.10%
↳ underground gas storage business	245,075	364,937	148.91%
↳ other businesses ^{*)} , out of which:	-2,120	215,134	
- electric energy production		207,274	

*) it includes settlements between segments

Revenue was greater than the previous year actual revenue by 1.47%.

Structure by business of actual revenues obtained in 2012 and 2013 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)	2012 ($q_0 \cdot p_0$)	2013 ($q_1 \cdot p_1$)	Ratios (2013/2012)
1	2	3	4=3/2x100
Volume (million cm)	5,053.0	4,929.5	97.56%
Price (RON/1000 cm)	476.5	547.7	114.94%
Value (thousand RON)	2,407,895	2,699,677	112.12%
Difference (2013 - 2012)	291,781		
Quantity influence ($q_1 \cdot p_0 - q_0 \cdot p_0$)	-58,843		
Price influence ($q_1 \cdot p_1 - q_1 \cdot p_0$)	350,624		

Actual revenue for 2013 from trade of internal gas production compared to 2012 was higher by RON 291,781 thousand. Influential factors were as follows:

- quantity of sold gas production was smaller by 2.44% which resulted in less revenues from gas deliveries to clients compared to the previous year revenue by RON 58,843 thousand. Gas delivery quantities in 2013 do not include internal gas delivery for electric energy production;
- gas sale average price was greater by 14.94% than the previous year sale price which resulted in an increase of revenue by RON 350,624 thousand. The price is higher than the previous year price due to the implementation of the gas price deregulation calendar.

Revenue from Joint Ventures Internal Gas Production

Actual revenue from joint ventures obtained in 2013 as compared to the previous year revenue is shown in the table below:

	2012			2013			Difference	
	Quantity	Price	Value	Quantity	Price	Value	mill. cm	thous. RON
	mill.cm	RON/th. cm	thous. RON	mill. cm	RON/th. cm	thous. RON		
1	2	3	4	5	6	7	8=5-2	9=7-4
TOTAL	197.54	478.16	94,457	188.32	577.11	108,683	-9.2	14,226

Actual revenues from joint ventures obtained in 2013 have been greater than the previous year revenue although the delivered quantities have decreased by 5%, due to a higher price as a result of application gas price deregulation calendar.

Revenue from Sale of Import Gas

Revenue from sale of import gas	2012 ($q_0 \cdot p_0$)	2013 ($q_1 \cdot p_1$)	Ratios (2012/2013)
1	2	3	4=3/2x100
Volume (million cm)	605.8	309.5	51.09%
Price (RON/1000 cm)	1,729.0	1,462.6	84.59%
Value (thousand RON)	1,047,464	452,731	43.22%
Difference (2013 - 2012)	-594,733		
Quantity influence ($q_1 \cdot p_0 - q_0 \cdot p_0$)	-512,282		
Price influence ($q_1 \cdot p_1 - q_1 \cdot p_0$)	-82,451		

Revenue from sale of import gas was less than the previous year revenue by RON 594,733 thousand. This decrease is due to volume and price variation, as follows:

- ↳ Sale of import gas volume was less than the previous year revenue by 48.91% which resulted in less import revenues by RON 512,282 thousand. The import sale decrease 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 was less than the price of 2012 by 15.41 %, which resulted in less import gas revenues by RON 82,451 thousand.

Revenue from Gas Storage

Revenues invoiced for gas storage have the following structure:

Revenues from storage	2012	2013	Ratios (2013/2012)
1	2	3	4=3/2x100
Capacity reservation services	135,237	263,253	194.66%
Gas injection services	54,490	49,584	90.83%
Gas delivery services	55,217	51,719	93.66%
Other revenues from storage	131	382	291.60%

thousand RON

TOTAL	245,075	364,937	148.91%
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Applied gas storage tariffs:

- ↪ For the period January 1st – March 31, 2013 the tariffs were approved by ANRE Order 63/2009, extended according to Order No. 18/May 11, 2012 until September 30, 2012, according to Order No. 36/2012 until December 31, 2012 and according to Order No. 49/2012 until the end of the 2012/2013 storage cycle; and
- ↪ For the period April 1st - December 31, 2013 the tariffs were approved by ANRE Order No. 26 of April 26, 2013.

Compared storage tariffs for the Financial Year 2013 are shown in the table below:

Tariff Components	M.U.	Tariffs (Jan. 1 - Mar.31)	Tariffs (April 1 - Dec. 31)
Volumetric component for the natural gas injection	RON/MWh	2.76	2.37
Fixed component for capacity reservation	RON/MWh/full storage cycle	5.65	13.12
Volumetric component for the natural gas withdrawal	RON/MWh	2.76	1.80

Revenue from storage business is greater than the previous year revenue by 48.83% due to the increase of storage tariff.

Revenue from Gas Distribution

Gas distribution business is regulated and it is performed in Piscu Stejari and Ghercesti areas. This business is performed by Tirgu-Mures Branch. Final gas delivery price is regulated according to ANRE Order No. 103/2008, as amended by ANRE Order No. 107/2013. Distribution tariff is also regulated, according to ANRE Order No. 103/2008, as amended by ANRE Order No. 46/2013.

Revenue from distribution is shown in the table below:

Description	2012			2013			Ratios 2013/2012
	Thousand MWH	RON/MWh	Thousand RON	Thousand MWH	RON/MWh	Thousand RON	
1	2	3	4	5	6	7	8=7/4x100
Total revenue, out of which:			125.67			205.50	163.52
Distribution revenue	1.65	21.61	35.70	2.04	21.90	44.73	125.29
Supply revenue	1.65	21.18	35.00	2.04	18.01	36.79	105.11
Access revenue			16.12			36.35	225.50
Internal gas value	1.23	31.50	38.85	1.73	50.57	87.63	225.56

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

Actual revenues obtained in 2012 in amount of RON 45,043 thousand and in 2013 of RON 52,900 thousand come from compression services provided to third parties,

condensate deliveries, sale of gas purchased from other producers (Foraj Sonde Craiova) and rental of specific fixed assets.

Revenues from Other Activities

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

Results of electric energy production activity in 2013 were as follows:

Description	Value (thousand RON)
Total revenues, out of which:	237,416
*Revenue	207,274
Total expenses	298,569
Gross result	- 61,153

Financial Revenues

Actual financial revenues are greater than a year before by 16.35%. Financial revenues consist mainly of interest related to bank deposits and state bonds.

Expenses

thousand RON

Description	2012	2013	Ratios (2013/2012)
1	2	3	4=3/2x100
Operating expense	3,071,336	3,516,534	114.50%
Financial costs	50,238	29,193	58.11%
Total expenses	3,121,574	3,545,727	113.59%

Costs incurred between January – December 2013 have been greater than the costs during the same period of previous year by 13.59%.

The main elements generating the expense increase as compared to 2012 are:

- ↳ Taking over of CTE Iernut on February 1st, 2013;
- ↳ Additional tax on profit (windfall tax), calculated from February 2013, following the provisions of *GEO No. 7/2013 on additional tax on profit obtained from deregulation of gas prices.*

Financial Costs

Financial costs during the period January – December 2013 are less than the actual financial costs of the same period of 2012 due to unfavourable lower exchange rates.

Detailed expenses by category and comparative analyses are presented in Chapter 7.

Financial Results

Compared financial results are shown in the table below:

thousand RON

Description	2012	2013	Ratios (2013/2012)
1	2	3	4=3/2x100
Operating results	1,286,667	1,196,655	93.00%
Financial results	108,974	103,987	95.42%
Gross result	1,395,641	1,300,642	93.19%
Income tax	-276,462	-305,088	110.35%
Net result	1,119,179	995,554	88.95%

Gross result for the period January – December 2013 of **RON 1,300,642 thousand** is lower than the actual gross result of the same period of 2012 by 6.81%.

Operating and financial results of 2013 are below those of 2012, because the expenses increased in 2013 more than the revenues.

Income tax calculated for 2013 is 10.35% higher than in 2012. The increase of expenses related to the income tax in 2013 is due to application of tax legislation, namely restatement of financial statements and switch from OMFP (Order of Ministry of Public Finance) No. 3055/2009 to IFRS.

Gross result structure by businesses is as follows:

thousand RON

Description	2012	2013	Ratios (2013/2012)
1	2	3	4=3/2x100
Gas production and delivery activity result	1,348,685	1,076,670	79.83%
Gas storage activity result	-4,678	169,624	
Electric energy production activity result		-61,153	
Other activity result	51,634	115,501	223.69%
Gross result	1,395,641	1,300,642	93.19%
Income tax	-276,462	-305,088	110.35%
Net result	1,119,179	995,554	88.95%

In 2013 the Company gross profit decreased mainly due to losses incurred by the electric energy activity, and net profit decreased even more than the gross profit due to the cumulated effect of the above mentioned.

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

Indicators	Calculation formula	M.U.	2012	2013
1	2		3	4
Working Capital (WC)	$C_{lt}-A_f = E+L_{nc} +Pr+S_i-A_f$	million RON	3,641	3,469
Working Capital Requirements (WCR)	$(A_c-L+ Pp)-(L_{crt}-Cr_{st}+ I_{df})$	million RON	1,901	1,906
Net Cash Flow	$WC-WCR = L-Cr_{st}$	million RON	1,739	1,564
Economic Rate of Return	$P_g/C_{lt} \times 100$	%	14.20	13.39
Return on Equity	$P_n/C_{lt} \times 100$	%	11.98	10.71
Return on Sales	$P_g/R \times 100$	%	36.36	9.50
Return on Assets	$P_n/A \times 100$	%	10.76	33.40
EBIT	P_g+Ex_i	million RON	1,248	1,177
EBITDA	$EBIT+Am+Pr$	million RON	1,854	1,960
ROCE	$EBIT/C_{emp} \times 100$	%	12.69	12.12
Current Liquidity	A_{crt}/L_{crt}	-	7.34	5.55
Asset Solvency	$E/L \times 100$	%	89.81	88.70

where:

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

3.4.2. Procurement

Public procurements have been performed by complying with the following legal provisions:

- ☞ GEO no.34/2006 on the award of public procurement contracts, public works concession contracts, services concession contracts, as subsequently amended and supplemented, approved by Law no. 337/2006, as subsequently amended and supplemented;
- ☞ Government Decision no.925/2006 on approving the enforcement guidelines of GEO no.34/2006 on the award of public procurement contracts, public works concession contracts, services concession contracts;
- ☞ Government Decision no.1660/2006 on approving the enforcement guidelines related to the award of public procurement contracts by electronic means;
- ☞ The Order issued by the National Authority for Regulation and Monitoring of Public Procurements-Autoritatea Nationala pentru Reglementarea si Monitorizarea Achizitiilor Publice (ANRMAP) no.314 of October 12/2010 on the implementation of the participation certificate in biddings with independent bid, published in the Official Gazette of Romania, Part I, no.701 of October 20, 2010;
- ☞ ANRMAP Order no.302 of June 1, 2011 for the approval of standard forms of the opening bids statement and of the procedure report, related to award procedure of the public procurement contracts, works concession contracts and services concession contracts, published in the Official Gazette of Romania, Part I, no. 415 of June 14, 2011;
- ☞ ANRMAP Order no.509 of October 12, 2011 on the qualification and selection criteria, published in the Official Gazette of Romania, Part I, no. 687 of September 28, 2011;
- ☞ Romgaz internal procedures on public procurements.

The percent of electronically awarded contracts is 81.96% (final stage electronic bidding), supporting therefore the scope of the above mentioned legal requirements:

- promoting competition;
- equal treatment and non-discrimination of economic operators;
- ensuring transparency and integrity of the public procurement process;
- ensuring an efficient use of public funds.

Products, services and works prices obtained by applying the public procurements law on have competitive prices on the open market.

In terms of value, the main share of procurements consists of those contracts directly related to the core business of the company (gas extraction and underground storage):

- drilling contracts, surface facilities, streaming wells into production, etc.;
- service contracts for 2D and 3D seismic surveys, geophysical surveys, Gore Sorber, magento-telluric surveys, perforations, cementing, etc.;
- products required for well drilling, for example cement G, tubing, production casing, christmas trees, casing heads, cementing additives, drilling bits, etc. and booster compressors.

3.4.3. Trading

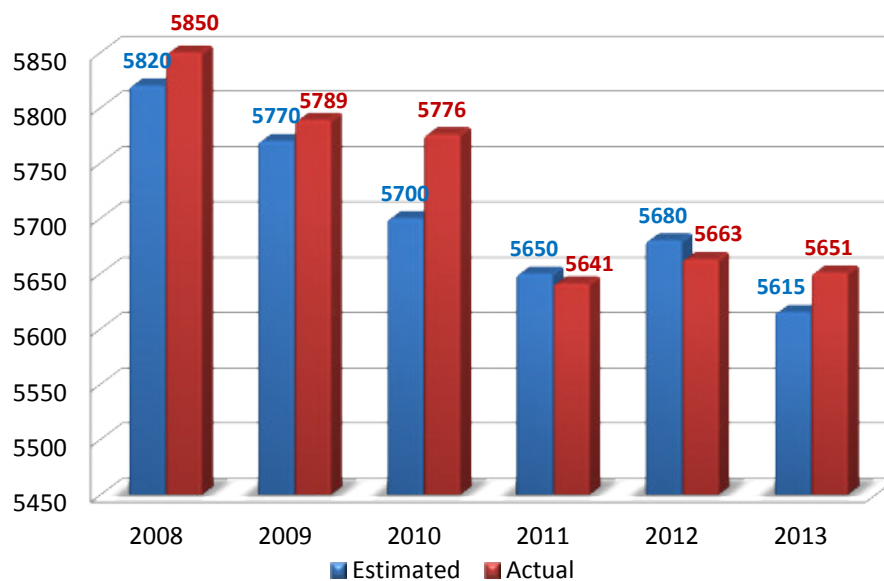
Gas Production

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 and 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 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.

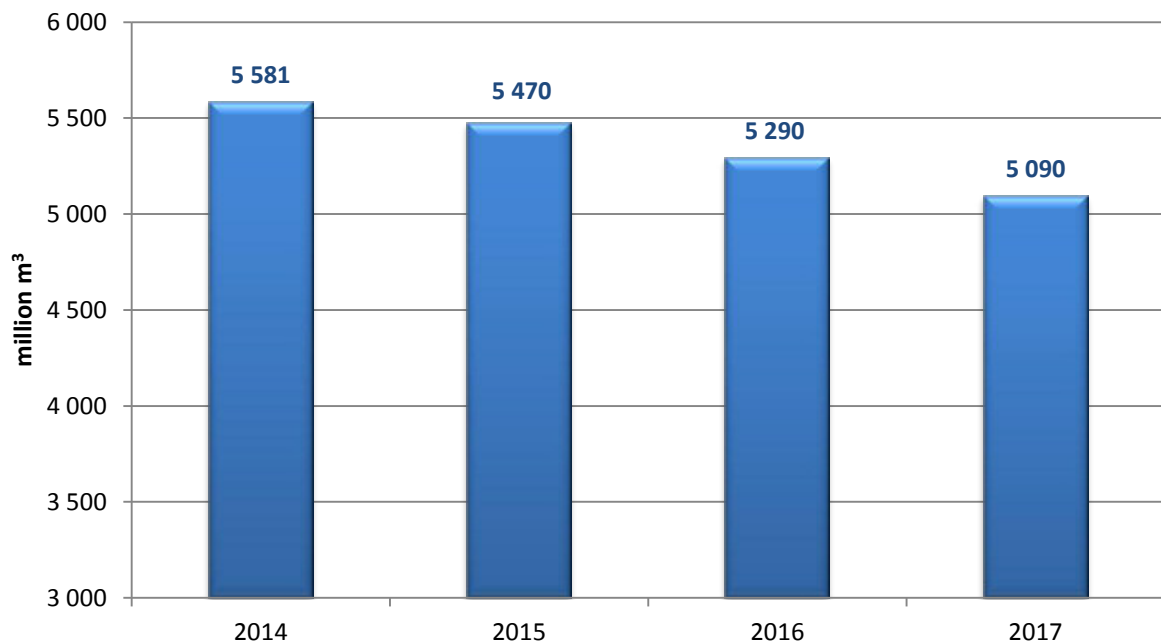
Production Estimate for 2014-2017

Increase of recovery factor and production optimization are key objectives over the next period.

Romgaz potential could be further sustained and leveraged by:

- ↳ redevelopment of natural gas fields by using reservoir modelling-simulation technologies for identification of new gas saturated zones;
- ↳ further resizing and modernization of surface infrastructure in order to accommodate to the new field operating conditions, and for compliance with the work safety, gas quality and environment rules;
- ↳ extending and generalizing production enhancement procedure on the main fields;
- ↳ valuation of the experience gained from joint ventures for production enhancement;
- ↳ increased efficiency in managing operation-development expenses.

The figure below shows Romgaz gas production estimate for the period 2014-2017:



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 (th. MWh)	Price (RON/MWh)	Quantity (mil.cm)	Price (RON/1000 cm)	Value (th. RON)
1	2	3	4	5	6
2012	53,974	45.87	5,148	480.89	2,475,600
2013	52,718	52.17	5,021	547.80	2,750,505
Differences					
*absolute	-1,256	6.30	-127	66.91	274,905
*relative	-2.33%	13.73%	-2.47%	13.91%	11.10%

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 selling prices and the resulting revenues are compared in the table below:

Description	M.U.	2012	2013	Differences	
				absolute	relative
1	2	3	4	5=4-3	6=5/3x100
Quantity	th. MWh	6,419	3,298	-3,121	-48.62%
Price	RON/MWh	163.18	137.27	-25.91	-15.88%
Value	thousand RON	1,047,464	452,731	-594,733	-56.78%

Electric Power

Electric power trading has a specific characteristic, the seasonality, namely periods of higher demand and periods of lower demand; therefore 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 selling price and resulting revenues are the following:

- ↳ electric power quantity delivered to the National Grid: 871,349 MWh;
- ↳ sold electric power: 1,163,000 MWh.

During 2013, in spite of the fact that the delivered electric energy was approximately 30% lower than the budgeted volume, the sold volume was only 9% lower than the budget (1,278,000 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 electrical energy: RON 237,000,000.

Prices:

- SPEE Iernut average sale price on the Day Ahead Market: 230 RON/MWh;
- average market price (OPCOM) on the Day Ahead Market: 165 RON/MWh;
- SPEE Iernut average sale price on the Balancing Market: 253 RON/MWh;
- average sale price on the Balancing Market: 237.8 RON MWh (January-October 2013).

Average electric power price:

- subject to the discharged electric power: 272 RON/MWh;
- subject to the sold electric power: 204 RON/MWh.

SPEE Iernut gas consumption was 273,094,538 cm.

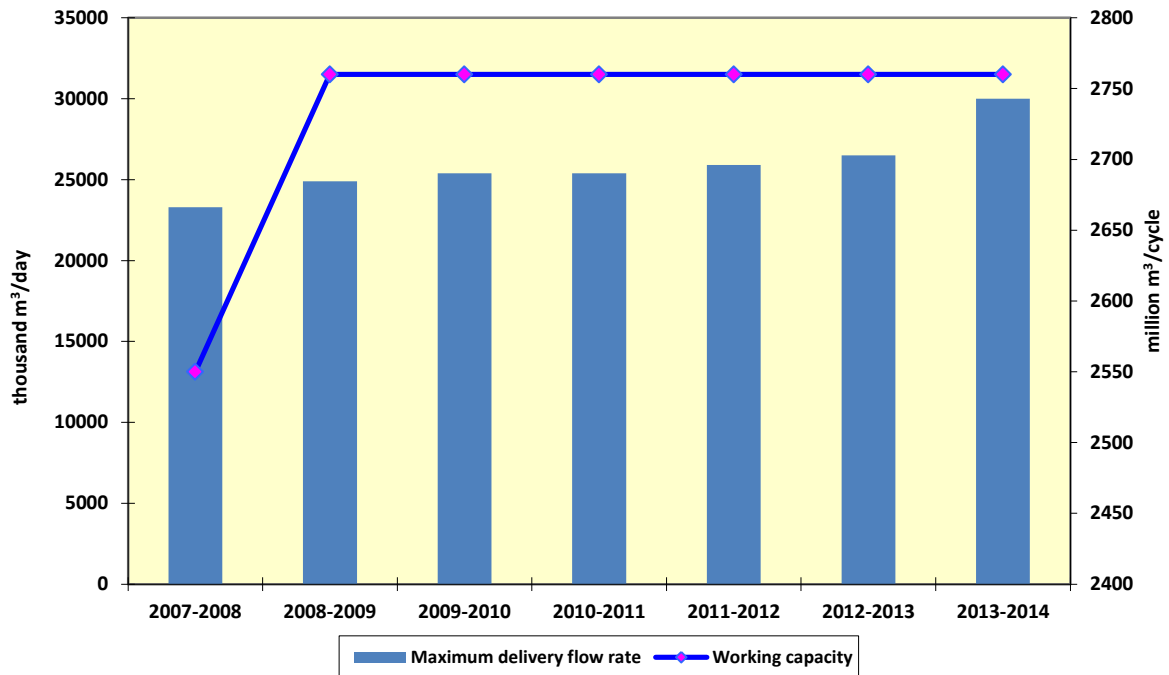
Underground Gas Storage (UGS)

Romgaz operates 6 of the 8 existing underground gas storages in Romania. The gas storage capacity of the 6 storages is **3.925 billion cm** and the working capacity is **2.760 billion cm**.

Current working storage capacity is **2.76 billion cm** and the maximum daily delivery flow rate is about **30 million cm**.

The table below presents the evolution of total working storage capacity and maximum daily flow rate cumulated for the 6 storages.

	M.U.	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Capacity	bill. cm/cycle	2.55	2.76	2.76	2.76	2.76	2.76	2.76
Maximum flow rate	thousand cm/day	23,290	24,900	25,400	25,400	25,900	26,500	26,500



Prices and tariffs

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

businesses of the regulated market comprise:

- ↪ supply of natural gas on the regulated market at regulated price under frame contracts until December 31, 2014 to non-households consumers, unless, upon that date, there is a significant difference between domestic production trade price and European market import price which could jeopardize market stability, when the term would be extended until December 31, 2015;
- ↪ supply of natural gas at regulated price to households consumers under frame contracts until December 31, 2018;
- ↪ supply of last resort of natural gas to final consumers at regulated price under frame contracts;
- ↪ centralised markets management;
- ↪ natural gas transmission;
- ↪ natural gas transmission through upstream supply pipelines, according to the provisions of license validity conditions;
- ↪ underground gas storage;
- ↪ pipeline gas storage;
- ↪ natural gas, bio-gas and bio-methane distribution;
- ↪ related activities performed by licensed operators;

- prices and tariffs on the regulated market are set by ANRE, under approved methodologies that are published by the authority, further to informing and consultation with all interested parties;
- the calendar for gradual deregulation of prices at the final customers is set by the Government in compliance with the schedule of producer prices proposed by ANRE and ANRM, taking into account possible adverse effects of price deregulation, in order to have the least impact on the customers;
- ANRE will monitor the annual results of the calendar of price deregulation and will propose the Government, as the case may be, trading of domestic natural gas on the domestic market until completion of approved calendar, namely December 31, 2018.

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

Underground Gas Storage

Underground gas storage business belongs to the regulated segment of the gas market.

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

According to ANRE regulations, regulated revenue is determined for 5 years regulatory period, with the exception of the first period of 3 years (April 1st, 2004 – March 31, 2007). Gas year starts on April 1st, with the exception of the first gas year of the third regulatory period which started on October 1st, 2012.

Total regulated revenue is set at the beginning of the first year of the regulatory period, revenue that is adjusted starting from the second year only by the adjusting formula which is specific for each business.

Calculation of Total Revenue

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

$$VT = VTR + CS$$

Total regulated revenue of the first year of the regulatory period is equal to the basic revenue (VB), where:

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

where:

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

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

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

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

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

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

CS - directly absorbed costs: these are costs that cannot be controlled and the operator cannot intervene upon, like, for instance: contributions to the wages fund, contributions to special funds, royalties, taxes and dues.

2. Regulated revenue is adjusted annually, for every year of the any regulatory period, except for the first year.

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

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

where:

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

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

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

where:

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

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

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

CE^{ds}_{i-1} - contingent costs, in year "i-1", due to factors that are contingent, external and outside the operator's control:

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

where:

RoR - regulated rate of return of the regulated period;

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

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

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

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

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

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

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

where:

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

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

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

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

where:

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

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

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

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

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

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

Calculation of Underground Storage Tariffs

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

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

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

where:

T^{ds} - is the storage tariff;

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

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

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

The Fixed Component (RC^{ds}) for capacity reservation quantifies fixed costs related to development of underground storage capacity, not related to stored quantities, which

covers the amortization of tangible and intangible assets of storage system, direct costs for continuous operation and maintenance of storage system operation safety, as well as part of overhead costs for maintenance of the system.

Fixed costs are allocated according to the working capacity of the underground storage.

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

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

Although Romgaz submitted to ANRM the substantiation documentation for storage tariff adjustment, starting from 2009 ANRE was systematically in breach of the legal provisions related to adjustment, as follows:

- 👉 Order No.102/June 26, 2008 - sets „*the regulated tariffs for underground gas storage services provided by Societatea Nationala de Gaze Naturale "Romgaz" - S.A. Medias for the 2008-2009 full storage cycle*;
- 👉 Order No. 52/April 14, 2009 –extends the validity of the tariffs set by Order No.102/2008 to the 2009-2010 storage cycle;
- 👉 Order No. 63/June 16, 2009 – sets the storage tariffs for the 2009-2010 storage cycle ;
- 👉 Order No. 12/April 15, 2010 - extends the validity of the tariffs set by Order No.63/2009 to the 2010-2011 storage cycle;
- 👉 Order No. 22/April 21, 2011 - extends the validity of the tariffs set by Order No.63/2009 to the 2011-2012 storage cycle;
- 👉 Order No. 18/May 11, 2012 extends the validity of the tariffs set by Order No.63/2009 until September 30, 2012;
- 👉 Order No. 36/September 26, 2012 - extends the validity of the tariffs set by Order No.63/2009 until December 31, 2012;
- 👉 Order No. 49/ December 19, 2012 - extends the validity of the tariffs set by Order No.63/2009 until the end of the 2012-2013 storage cycle.

The documentation for a new storage tariff was submitted in April 2012 to ANRE, bearing in mind that 2011 -2012 was the last year of the second regulatory period.

In May 2012 the Order No. 22 was issued, which repeals Decision No. 1078/2003, Decision No. 339/2004 and Decision No. 311/2005, therefore Romgaz redrafted the documentation according to the requirements of the new order, and in July 2012 submitted the new documentation to ANRE.

In October 2012 an ANRE-Romgaz meeting was convened where some requirements have been emphasized.

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

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

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

Tariffs approved by Order 26/2013 are as follows:

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

Natural Gas Supply

Final gas price at the client is equal to addition of weighted average price of acquisition, of transmission, storage and distribution tariffs and of the trading component, according to the following formula:

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

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

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

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

At the same time, according to Article 124, paragraph (1), letter e) of Law 123/2012, the gas producer is obliged to provide prevalently to suppliers the gas quantities from their own production required to cover the regulated market, according to ANRE regulations for compliance with the calendar for price deregulation, and to cover the demand of captive consumers; suppliers are obliged to observe the destination of such gas quantities. Remaining internal production, less the fuel gas for technological consumption, will be available for the competitive market.

Internal gas production allocated to final consumers of the regulated market comprises current gas production and a part of the storage gas.

The table below shows the gas supply average prices of the period 2011-2013:

Description	M.U.	2011	2012	2013
1	2	3	4	5
Supply average price for internal gas production	RON/1000 cm	463.92	476.5	548.12
	RON/MWh	44.31	45.45	52.20
Supply average price for import gas	RON/1000 cm	1,324.1	1,729.0	1,462.6
	RON/MWh	124.52	163.19	137.28

Natural Gas Distribution

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

Distribution tariffs by consumers are as follows:

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

Final regulated prices, by consumers, are as follows:

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

3.4.4. Human Resources

On December 31, 2013 the company had 6,472 employees.

Evolution of the number of company employees between 2011 and 2013 is shown in the table below:

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

Employees' structure at the end of 2013 was as follows:

a) by level of education

- University 22.17 %
- Secondary education 24.92 %
- Foreman school 4.37 %
- Vocational school 35.14 %
- Middle school 13.40 %

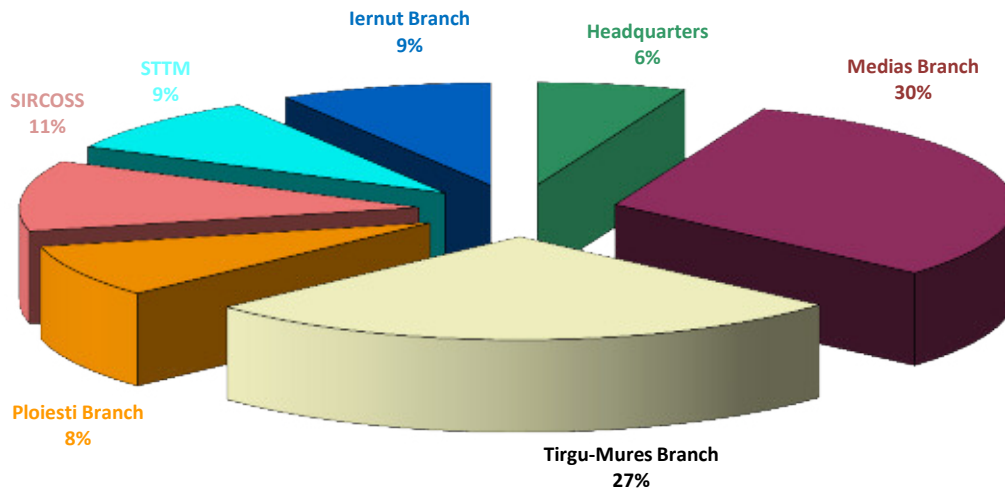
b) by age

- below 30 years 4.59 %
- 30-40 years 18.67 %
- 40-50 years 40.33 %
- 50-60 years 29.16 %
- above 60 years 7.26 %

c) by business

- Gas production 61.99 %
- Production tests/well special operations 11.16 %
- Health 1.34 %
- Transportation 8.87 %
- Gas Storage 8.17 %
- Electric energy production 8.47 %.

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



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

Entity	Labourer	Foreman	Administrative	Total
1	2	3	4	5
Headquarters	31		361	392
Medias Branch	1,524	89	364	1,977
Tirgu-Mures Branch	1,393	55	279	1,727
Ploiesti Branch	342	28	162	532
SIRCROSS	526	48	148	722
STTM	445	17	112	574
Iernut Branch	371	48	129	548
TOTAL	4,632	285	1,555	6,472

The main areas of training are:

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

A number of 1,916 persons were trained during 2013, and the costs of such training courses amounted to RON 1,694,182.42. In accordance with the Labour Code, a total of 947 persons that have not been trained during the last two years were trained, out of which 310 administrative employees and 637 workers, and 818 persons have been reauthorized and authorized according to their specialization and work place.

Internal training courses have also been organized for workers, as well as training courses at the workplace for “special operations” and “chief driller” speciality by SIRCROSS Branch, where 17 employees were trained.

At the same time training courses for workers have been organized by company's branches and conducted by company's professionals, where 637 employees participated, as follows: Medias Branch – 215, Tirgu Mures Banch - 96, Ploiesti Branch - 27, SPEE Iernut - 298 and STTM - 1.

Romgaz has a single union organisation called "*Sindicatul Liber din cadrul SNGN Romgaz SA*" consisting of 6,459 members out of a total of 6,472 employees, and representing 99.81% of the total.

The manager - employee relationship: following the negotiation of the Collective Labour Agreement, the parties agreed upon extending the existing agreement until December 31, 2014, by concluding an addendum to this agreement.

Related to Iernut Branch, the parties agreed upon concluding an agreement related to the provisions of the collective labour contract applicable to this branch, filed with the Territorial Labour Inspectorate of Bucharest City under No. 313/July 31, 2012, as amended until the date of assignment of CTE Iernut to SNGN Romgaz SA.

There were no conflicting events between the employers and the syndicate during 2013.

3.4.5. Environmental Aspects

Environment protection activity continued to focus in 2013 on the efficient use of natural resources and reduction of generated waste, and paid special attention to compliance of Romgaz activities with applicable environment law.

Romgaz Environment System is certified according to SR EN ISO 14001 reference standard by SRAC- IQ Net Management System certification body.

Environment activities and actions performed during 2013 envisaged the following:

- *monitoring compliance with legal requirements for environmental authorization of the 138 authorized units.* Out of them: 5 are in the process of authorization, 23 in the process of reauthorization, authorization revision was requested for one unit and the shutdown documents have been submitted for one unit. At the same time, authorizations have been revised for 5 units and reauthorizing procedure was reopened for one unit. A computer application was developed for the company to monitor the environmental authorizations, of assistance for permanent analysis and continuous monitoring of compliance with the law;
- *monitoring the waste generated from its own activity, according to the law in force.* In 2013, 676.962 tons of waste were recycled, 39.120 tons were disposed by incineration and 9,267.782 tons were disposed by storage;
- *monitoring compliance with legal requirements for environmental protection, by performing monitoring programs required by authorizations.* A computer application was developed for the company to supervise the monitoring and measurement of all factors affecting the environment further to performance of authorized activities.

Related to electric energy production of recently taken-over Iernut energy plant, the following actions were performed for environmental protection:

- improvement of waste water quality that is disposed in Mures river, by modernization of water treatment plant. Upgrading and modernization works have been commissioned on December 30, 2013. The value of investment included in the action plan of the Integrated Environmental Authorization was Euro 250,534, the value in the 2013 Acquisition Plan was RON 1,064 thousand, and final value of works RON 802 thousand;
- Romgaz undertook to fulfil the action plan included in the Integrated Environmental Authorization when it took over Iernut energy plant, namely to acquire and install burners with reduced NO_x emission at IMA1 and IMA4 energy unit, commissioning deadline December 31, 2013. The value included in the Integrated Environmental Authorization was Euro 12 million. To achieve that, SPEE Iernut obtained the agreement to replace the proposed method by burned gas recirculation and permanent use of gas recirculation fans method, which is included in the BAT list of NO_x emissions reduction techniques. In order to obtain the Integrated Environmental Authorization the Project and Study for NO_x emission reduction was submitted to the Environmental Protection Agency Mures for Unit 1 and Unit 4. Burned gas recirculation solution and permanent use of gas recirculation fans solution was implemented 100% in unit 1, while for unit 4 the works have been performed in proportion of 80%.

In 2013 Romgaz contracted an Environmental Due Diligence Study to determine the conformity of the Company with the environment law in force, to identify past and current environmental issues, as well as future environmental risks of the company. This study provided recommendations for improvement of environment performance. On the basis of this recommendation Romgaz elaborated a Report on Significant Environment Aspects Correction Measures, where costs, solutions and terms of remedial have been assumed.

At the same time, the company environmental activity was audited in 2013 by the internal audit, and recommendations for activity improvement have been issued. Auditors' recommendations have been solved and implemented in due time.

The most significant action plan/preventive measures and/or environment impact limitations refer to:

- Acquisition of anti-polluting discharge systems at Filitelnic 131, 271, 122 and 61 clusters, Roman 234 cluster, Laslau 7 and 8 clusters;
- Impurities discharge plant at Glavanesti 3 well and Huruiesti 11 cluster;
- Non-polluting Glavanesti dehydration station and Tazlau dehydration station;
- Turning gas production wells into reservoir water injection wells (well 433 Roman), hazardous substances management, ecologic accidents simulations, safety equipment installed at 3 UGS wells to prevent major ecological accidents and to limit the consequences on population health and on environment.

Following the inspection of environment institution in charge (Environment Police), in 2013 Romgaz was not subject to any penalties for non-conformity with the specific environmental law.

In 2013 Romgaz received one complaint for exceeding the noise level at the outside limit of Sanmartin compressor station. In terms of correction, the decision was to prepare a solution study for reduction of noise level at the outer limit of the compressor hall, below the maximum admitted level (MAL). Analyses bulletin issued by an authorized laboratory will be requested upon work completion, to certify that noise level is below MAL limits. Implementation time limit is September 30, 2014.

3.4.6. 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 the implementation of an efficient management system.

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. Significant concerns consist also of the need for a direct involvement in this process as well as of the alignment to the newest practices by complying with the effective laws, standards and norms.

The company's risk management system is applied 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 plans adequate treatment in order to limit the possible consequences of such risks and appoints employees responsible for applying these 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 analysis when drafting a complex document related to:

- well drilling projects;
- technical projects related to the execution of investment objects;
- feasibility studies;
- studies for evaluating geological resources and production performance.

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

The main benefit of the risk management process is the improvement of the company's performance by identifying, analysing, assessing and managing all risks that may occur,

in order to minimize the consequences of negative risks, or as the case may be, increase the effects of positive risks.

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 risk 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 head of the organizational unit 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 methodology 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 analysed risk categories are: financial risks, market risks, risks related to occupational health and safety, personnel risks, risks related to informational systems, legal and regulating risks.

All risks were analysed from these 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.

IV. TANGIBLE ASSETS

4.1. Main Production Facilities

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

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

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

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

Exploration – Production

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

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

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

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

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

The production facilities pertaining to the company's infrastructure:

1. Gas wells:
 - actually producing wells,
 - temporary suspended wells waiting for reactivation or recompletion operations,
 - wells that can be written off,
 - wells for injection of reservoir waters resulted further to extraction and separation from the gas flow;

2. Pipelines of the following types:

- flowlines for almost all wells,
- gathering pipelines, their layout may be annular or branched, these connect the well clusters,
- waste water pipelines,
- industrial water pipelines;

3. Gas heaters;

4. Gas separators, depending on the placement on the ground these can be:

- underground separators,
- surface separators;

5. Flow metering panels:

- technological flow metering panels for almost every gas field,
- fiscal or commercial flow metering panel located at the interface with the NTS;

6. Gas dehydration stations (conditioning):

- gas dehydration stations with silycicalgel,
- gas dehydration stations with TEG (triethylene glycol),
- gas dehydration stations with deliquescent salts (anhydrous solid salt);

7. Gas compression units:

- low capacity portable compressors installed at the well head or at the cluster,
- booster compressors for one or more fields,
- compressor stations, usually consisting of one or more units, intermediate or final compressor stations (outlet to the NTS);

8. Industrial or reservoir water pumping stations together with the proper facilities;

9. Other facilities (buildings, workshops, electric lines, well access roads etc.).

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

Currently 148 gas fields are producing wherefrom 143 are well defined blocks and the rest are fields with experimental production. The geographical layout of the latter is the following:

- Transylvanian Basin: 4 [Visa (Sibiu county)-the field hasn't been producing since June 2012, Herepea (Mures county), Cojocna (Cluj county), Bogatul Roman (Sibiu county)- the field hasn't been producing since August 2013];
- Moldavia: 1 [Valea Moldovei (Suceava county)];
- Muntenia: 1 [Bilciuresti Nord (Dambovita county)].

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

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

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

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

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

Underground Gas Storage

Bilciuresti Storage

Bilciuresti field is located in Dambovită county, approximately 40 km W-NW from Bucharest.

The field has been developed and operates as an underground storage since 1983 where gas is stored (injected) into/delivered (withdrawn) from at the consumers' request.

The current working capacity is of 1,310 million Scm/cycle and the maximum daily deliverability is 17 million Scm.

The fixed assets used for the storage process are the following:

↳ 62 wells, out of which 57 are injection /withdrawal wells, 4 monitoring wells and 1 waste water injection well.

The wells used for storing gas have been brought in between 1962-2011, 53 wells have a filter-packer assembly, 2 wells have parameter monitoring systems and 47 wells have TRSV (tubing-retrievable safety valve);

↳ Surface facilities:

- 26 km gathering pipelines for the 62 wells;
- 50 gas heaters;
- 21 vertical coalescer separators and 3 horizontal separators with demister;
- 14 gas measuring facilities, out of them 7 measuring facilities for the entire cluster and 7 well calibration facilities;
- 7 TEG dehydration stations;
- 11 km gathering pipeline DN400, PN150 bar provided with stations for the go-devil;
- 11 km gathering pipeline DN400, PN90 bar;

- 11 km gathering pipeline DN350 PN75 bar;
- bi-directional fiscal metering system equipped with ultrasonic meter, line chromatograph and on-line devices for determining water dew point;
- Butimanu compressor station consists of:
 - the existing module with 9 compressors of type C280 and 3 compressors of type C160
 $P_{suc} = 13-21$ bar and $P_{dis} = 51-80$ bar;
 - module 1 with 2 compressors 4HHE VL1
 $P_{suc} = 70-80$ ata and $P_{dis} = 90-150$ ata;
 - module 2 with 4 compressors 4HHE VL2 in two stages:
 - I. with $P_{suc} = 13-19$ ata and $P_{dis} = 45-75$ ata;
 - II. with $P_{suc} = 45-75$ ata and $P_{dis} = 75-150$ ata;
- waste water injection station.

Sarmasel Storage

Sarmasel field is located near Sarmasel, approximately 35 km NW from Tirgu-Mures, 35 km north from Ludus and 48 km east from Cluj-Napoca.

The field has been developed and operates as an underground storage since 1996 where gas is stored (injected) into/delivered (withdrawn) from at the consumers' request.

The current working capacity is of 800 million Scm/cycle and the maximum daily deliverability is 6.5 million Scm.

The fixed assets used for the storage process are the following:

↪ 61 wells, out of which 59 are injection/withdrawal wells and 2 monitoring wells.

The wells used for storing gas have been brought in between 1938-2010, 6 of them have recoverable packers, one well has a parameter monitoring system, 6 wells have TRSV valves.

6 wells were drilled in year 2010 having the following specifications:

- 7 inch production casing;
- recoverable packer for protecting the production casing;
- 3^{1/2} inch tubing;

↪ The surface infrastructure consists of:

- 26.341 km gathering pipeline for the 61 wells;
- 2.240 km gathering pipelines DN200, PN40;
- 0.230 km gathering pipeline DN350, PN40;
- 0.400 km gathering pipeline DN400, PN40;
- 1.800 km gathering pipeline DN500, PN40;
- 59 underground SOL 12^{3/4} separators;
- 18 vertical separators;

- bi-directional fiscal metering system equipped with ultrasonic meters and line chromatograph;
- Sarmasel compressor station

The station has been commissioned in 1988 and consisted initially of four gas engine compressors 10GKNA.

Two other gas engine compressors have been added in 1995, all six compressors have been grouped in Compressor Hall no.1 ($P_{suc} = 11 \text{ bar}$, $P_{dis} = 40 \text{ bar}$).

The station capacity has been increased in 1999 by commissioning 6 gas engine compressors grouped in Compressor Hall no.2 ($P_{suc} = 7 \text{ bar}$, $P_{dis} = 17 \text{ bar}$)

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

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

Urziceni Storage

Urziceni field is located in Ialomita county approximately 50 km NE from Bucharest.

The field has been developed and operates as an underground storage since 1978 where gas is stored (injected) into/delivered (withdrawn) from at the consumers' request.

The current working capacity is of 250 million Scm/cycle and the maximum daily deliverability is 2.70 million Scm.

The fixed assets used for the storage process are the following:

↪ 27 wells, out of which 26 are injection/withdrawal wells and 1 monitoring well.

The wells used for storing gas have been brought in between 1960-2008, 25 have filter-packer assemblies, 3 wells have parameter monitoring systems, 22 have TRSV valves.

8 wells were drilled between years 1995 – 2008 having the following specifications:

- 7 inch production casing;
- open hole enlarged to 13 inch near the storage layer;
- filter-packer assembly;
- double sealed 4 inch tubing;

↪ the surface infrastructure consist of:

- 17.300 km gathering pipelines for 27 wells;
- 3.871 km suction gathering pipeline DN300, PN64;
- 3.260 km discharge gathering pipeline DN200, PN125;
- 6 gas measuring facilities, out of which:
 - 3 measuring facilities for the entire cluster;
 - 3 well calibration facility;

- 28 heaters type III x 140 bar;
- 1 TEG dehydration station;
- fiber optic data acquisition system;
- bi-directional fiscal metering system equipped with ultrasonic meters, line chromatograph and on-line devices for determining water dew point for the delivered gas;
- Urziceni compressor station consists of:
 - the Existing Module (EM) – commissioned in 1978 with three electro compressors C160, one compression stage, upgraded to two stages; between 1994-1995 another compressor of the same type was added ($P_{suc} = 16-21$ bar, $P_{dis} = 61-86$ bar);
 - Module M1 – located outside the built-over areas of Urziceni was commissioned between 2003-2004 with two electro compressors C160, one compression stage ($P_{suc} = 79-86$ bar, $P_{dis} = 86-125$ bar).

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

- gas compressor station;
- modernizing surface infrastructure.

Cetatea de Balta Storage

Cetatea de Balta field is located approximately 12 km S-W from Tarnaveni.

The field has been developed and operates as an underground storage since 2002 where gas is stored (injected) into/delivered (withdrawn) from, at the consumers' request.

The current working capacity is of 200 million Scm/cycle and the maximum daily deliverability is 1 million Scm.

The fixed assets used for the storage process are the following:

↳ 16 wells, out of which 14 are injection/withdrawal wells and 2 monitoring wells.

The wells used for storing gas have been brought in between 1947-2004, 6 have recoverable packers, 6 have TRSV valves.

Six wells were drilled between years 2003-2004 having the following specifications:

- 7 inch production casing;
- recoverable packer for protecting the production casing;
- 4 inch tubing;
- ↳ the surface infrastructure consists of:
 - 6.640 km gathering pipelines for the 16 wells;
 - gathering pipelines:
 - 1.485 km gathering pipeline DN300, PN64;
 - 7.890 km gathering pipeline DN500, PN64;
 - 6 gas measuring facilities, out of which:

- 3 measuring facilities for the entire cluster;
- 3 well calibration facilities;
- 6 separators with coalescer, out of which:
 - 3 vertical separators for the entire cluster;
 - 3 vertical separators for calibration;
- field supervising system and on-line gas chromatograph;
- fiber optic data acquisition system;

Ghercesti Storage

Ghercesti field is located in Dolj county near Craiova.

The field has been developed and operates as an underground storage since 2002 where gas is stored (injected) into/delivered (withdrawn) from at the consumers' request.

The current working capacity is of 150 million Scm /cycle and the maximum daily deliverability is 1.5 million Scm.

The fixed assets used for the storage process are the following:

↳ 86 wells, out of which 83 are injection/withdrawal wells and 3 monitoring wells.

The wells used for storing gas have been brought in between 1958-2005, 62 have filter-packer assemblies, 7 have parameter monitoring systems and 25 have TRSV valves.

Twenty-two wells were drilled between years 2004-2005 having the following specifications:

- 7 inch production casing;
- filter-packer assembly;
- 4 inch tubing;
- ↳ the surface infrastructure consist of:
 - 156.931 km gathering pipelines for the 86 wells;
 - gathering pipelines:
 - 19.258 km gathering pipeline DN500, PN40;
 - 2.660 km gathering pipeline DN300, PN40;
 - 5.188 km gathering pipeline DN350, PN40;
 - 2.322 km gathering pipeline DN400, PN40;
 - 12.570 km gathering pipeline DN600, PN40;
 - 13 horizontal separators with demister, out of which:
 - 7 vertical separators for the entire cluster;
 - 6 vertical separators for calibration;
 - 6 gas measuring facilities, out of which:
 - 3 measuring facilities for the entire cluster;
 - 3 well calibration facilities;

- TEG dehydration station;
- fiber optic data acquisition system;
- bi-directional fiscal metering system with two metering lines, equipped with ultrasonic meters, line chromatograph and on-line devices for determining water dew point and gas dew point.

Balaceanca Storage

Balaceanca filed is located approximately 4 km from Bucharest.

The field has been developed and operates as an underground storage since 1989 where gas is stored (injected) into/delivered (withdrawn) from at the consumers' request.

The current working capacity is of 50 million Scm/cycle and the maximum daily deliverability is 1.2 million Scm.

The fixed assets used for the storage process are the following:

↳ 24 wells, out of which 21 are injection/withdrawal wells and 3 monitoring wells.

The wells used for storing gas have been brought in between 1971-2008, 18 have filter-packer assemblies, one well has a parameter monitoring system and 11 have TRSV valves.

Six wells were drilled in 2008 having the following specifications:

- 7 inch production casing;
- open hole enlarged to 13 inch near the storage layer;
- filter-packer assembly;
- double sealed 4 inch tubing;
- ↳ the surface infrastructure consists of:
 - 9.993 km gathering pipelines;
 - 0.470 km gathering pipeline DN250, PN40;
 - 0.600 km gathering pipeline DN250, PN40;
 - 4 vertical separators with coalescer and demister, out of which:
 - 2 vertical separators for the entire cluster;
 - 2 vertical separators for calibration;
 - 4 gas measuring facilities out of which:
 - 2 measuring facilities for the entire cluster;
 - 2 well calibration facilities;
 - TEG dehydration station;
 - 15 heaters;
 - fiber optic data acquisition system;
 - bi-directional fiscal metering system equipped with ultrasonic meters, line chromatograph and on-line devices for determining water dew point in the delivered gas ;

- Balaceanca compressor station consists of 4 electro compressors C144MSMB ($P_{suc} = 13-28$ bar, $P_{dis} = 43-61$ bar).

Workover and Special Operations

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

Special Well Operations are performed with the following equipment: cementing unit, slickline, wireline, coiled tubing unit, liquid nitrogen converter, liquid nitrogen tank truck, cement container, filter unit, equipment for discharge and measurement with two-phase separation, equipment for discharge and measurement with three-phase separation, equipment for tubing investigation, echometer, rental of tools and utilities, tubing cutting, packer assembling device, hydraulic packer recovery tools, technical assistance for special well operations, well fire-fighting equipment.

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

Transportation and Maintenance

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

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

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

Electric Power

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

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

For reducing the specific fuel consumption, the main cost component, it is necessary to invest in order to increase the efficiency of the power plant, by changing the production technology, namely by using the combined gas-steam cycle (gas turbine + classical turbines).

Operating restrictions imposed by applicable environmental regulations

100 MW power units no. 1 and no. 4

By commissioning a flue gas recirculation system for boiler no. 1, NO_x emissions have been reduced in 2013 from 800 mg/Ncm flue gas to 300 mg/Ncm, complying therefore with environmental regulations. The same work is in progress for boiler no.4 with the deadline in June 30, 2014.

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

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

The repair works at boiler no.1 were self-performed by spending RON 350,000 instead of Euro 2,500,000 if the burners would have been replaced with low NO_x ones.

The proposals substantiated by CTE Iernut on the transition program include the above-mentioned power units and immediately after the replacement of the burners, these may operate until year 2020. It is compulsory to reduce the maximum NO_x emissions from 300 to 100mg/cm flue gas in this period.

If this last measure is not taken, the units will not be allowed to operate after January 01, 2020.

100MW power units no.2 and no.3

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

As of this date unit no.2 may operate 17,717 hours and unit no. 3 may operate 10,300 hours.

These power units will be decommissioned after year 2015 and some of their components will be used as spare parts for units no.1 and 4.

200MW power units no.5 and no.6

Low NO_x emission burners have been installed in years 2010 and 2011, before the expiration of the final term, December 31, 2012, fulfilling thereby an environmental requirement included in the integrated environmental authorisation.

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

4.2. Investments

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

For 2013, Romgaz scheduled investments worth *RON 900 million* and invested RON 848 million, approximately 63% more, i.e. RON 329 million more, than the investments made in 2012. The company financed all investments from own sources.

The value of fixed assets commissioned during 2013 was approx. RON 384 million. 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

The Board of Directors approved the investment program for 2013 by Resolution no.1 January 29, 2013 and the related budget as Annex 5 to the income and expenditures budget, by Resolution of the General Meeting of Shareholders no.10 of June 15, 2013 (Government Decision no.924/27.11.2013).

Major investments aimed projects such as:

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

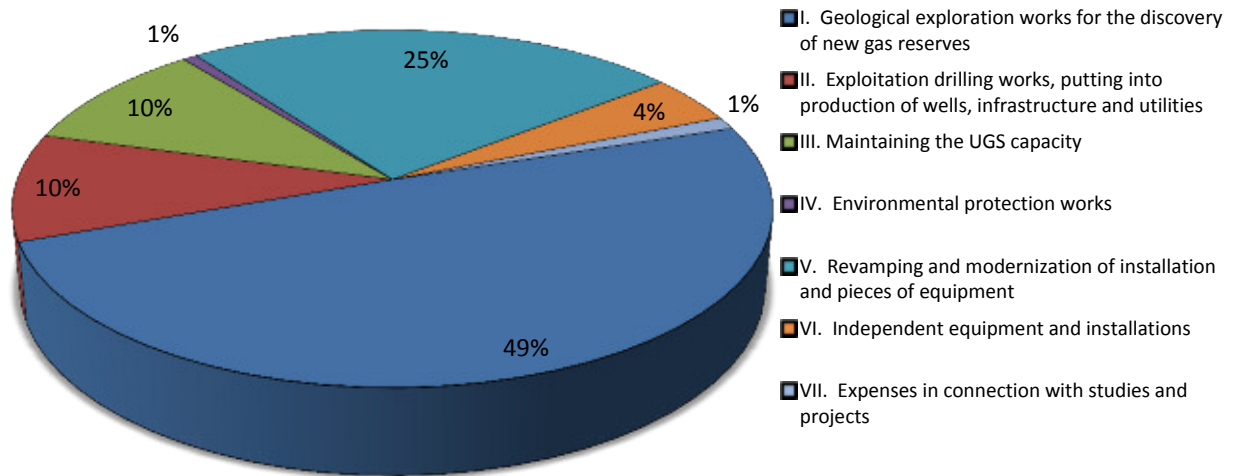
The table below shows the achieved investments in relation to the scheduled ones:

thousand RON

Investment chapter	Scheduled 2013	Achieved 2013	%
1	2	3	4=3/2x100
I. Geological exploration works for the discovery of new gas reserves	413,180	419,829	101.61
II. Exploitation drilling works, bringing into production of wells, infrastructure and utilities	137,112	82,484	60.16
III. Maintaining the UGS capacity	82,910	84,639	102.09
IV. Environmental protection works	7,862	6,054	77.00

V. Revamping and modernization of installation and pieces of equipment	159,569	208,223	130.49
VI. Independent equipment and installations	63,777	37,509	58.81
VII. Expenses in connection with studies and projects	35,590	9,509	26.72
TOTAL	900,000	848,247	94.25

The investments structured on main chapters:



Service/delivery contracts ensured from the beginning of the year 56.3% of the budget including the value of the projects performed by the company itself.

The firm contracts concluded in 2012 lead to the best results of the last 4 years.

The high values materialized in the achievement of several projects.

A summary of the achieved projects:

Item no.	Main Projects	Planned	Achieved
1.	Drilling exploration	29 wells	25 wells
2.	Surveys		
	2D seismic	862 km	224 km
	3D seismic	3,200 km ²	1,830 km ²
	geochemical	2,000 modules	2,000 modules
	magneto	900 units	430 units
3.	Production drilling	4 wells	all
4.	Surface facilities – gas wells	26 wells	16 wells
5.	Compressor stations in gas fields	5 booster compressors	4 booster compressors
6.	Maintaining storage capacity	drilling 7 wells, 8 new compressors	in progress
7.	Well modernization	86 wells	128 wells
8.	Electric power production	Compliance with	fully

		environmental standards	
9.	Partnerships	Rehabilitation of mature fields Exploration in Poland, Slovakia and the Black Sea	aprox. 50%
10.	Studies	Feasibility study related to Iernut and reservoir studies	fully

Procurement contracts have been concluded amounting RON 1,130,000 thousand, including works rendered by the company, creating therefore premises for planning investments.

Main investments commissioned by the end of the year, worth RON 384,000 thousand:

- booster compressors Sangiorgiu de Padure;
- booster compressors Bogata;
- booster compressors Bordosiu;
- booster compressors Ludus;
- Ghercesti storage;
- well modernization Bilciuresti;
- drilling well 205 Alunu;
- drilling well 654 Jugureanu;
- well 301 Nades;
- well 303 Nades;
- well 181 Cusmed;
- well 34 Porumbeni;
- gas compressor units;
- endowments, equipment;
- facility modernization T50-Pn-08ULF;
- modernization motor driven pumps 3 PN 300;
- cement container;
- industrial milling machine;
- metering tools.

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



The company did not incur expenses related to research – development.

There were no issues related to ownership of fixed assets.

V. SECURITIES MARKET

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



BVB
&
LSE



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

The starting point of this process was the execution by the Ministry of Economy, Trade and Business Environment (the current Ministry of Economy), through OPSPI as seller of shares, of the Underwriting Agreement with the Syndicate composed of Erste Group Bank AG, Banca Comerciala Romana SA, Goldman Sachs International and Raiffeisen Capital & Investment SA.

Government Decision no. 811 of October 18, 2013 amended and supplemented Government Decision no. 831/2010, setting therewith the main characteristics of the offering and trading process:

- 👉 trading of shares is made by offering as shares and/or depositary receipts (GDR) based on underlying shares on the regulated national or international capital market.
- 👉 splitting the offer in two tranches:
 - for institutional investors: 85% from the total number of shares;
 - for retail investors: 15% from the total number of shares, having the option to supplement with another 5%;
- 👉 setting the price range of the subscription: RON 24 - 32 /share;
- 👉 discounts for retail investors: 5% for the first 10,000 shares subscribed in the first 5 days of the offering period and 3% for the first 10,000 shares subscribed in the next days of the offering period;
- 👉 taking all necessary steps for the admission of shares to trading on Bucharest Stock Exchange and of depositary receipts based on underlying shares on London Stock Exchange;
- 👉 approving stabilisation measures in case of a descending evolution of the trading price after admission to trading.

Autoritatea de Supraveghere Financiara (Financial Supervisory Authority - ASF) approved on October 18, 2013 by Decision no. 915 the Prospect for the Secondary Initial Public Offering of shares (as shares and GDR's) issued by S.N.G.N. Romgaz S.A.

The process was a complex one and further to the joint endeavours of the Underwriter, the Beneficiary (OPSPI), the Issuer (Romgaz), of shareholders and institutions involved, the offering was successful.

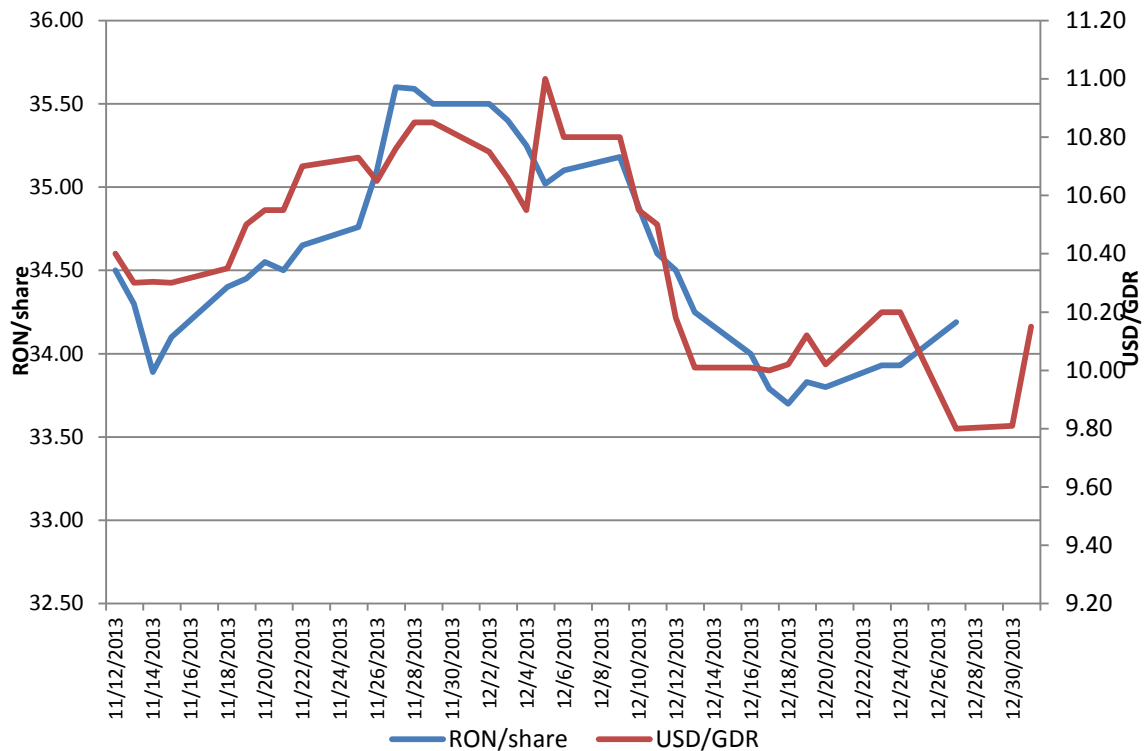
Some of the IPO's features are:

- ✘ the largest initial public offering made and the first privatization of a company in Romania to have GDRs traded on London Stock Exchange;
- ✘ 57,813,360 is the number of existing company shares held by the Ministry of Economy, and offered for sale as shares and GDRs;
- ✘ 30 RON/share – share sale price set during the subscription process; the price is at the upper limit of the subscription price range of 25-32 RON/share;
- ✘ 9.25 USD/GDR – GDR sale price, one GDR represents an interest in one share;
- ✘ total size of the offer was 1.7 billion RON (534 million dollars);
- ✘ the offer price means a market capitalization of the company of RON 11.6 billion (USD 3.6 billion);
- ✘ 40% of the shares and the GDRs have been sold to the Romanian institutions and public and 60% to institutional investors outside Romania;
- ✘ following the high subscription degree of the retail investors – their demand exceeded twice the entire package offered for sale by the state and more than 15 times the segment initially allocated to them, the tranche for retail investors has been increased from 15% to 20% of the total offer.

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

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

The table below shows the evolution of Romgaz share and GDR quotations from listing until December 31, 2013:



Note: BVB was closed on December 30 and 31, 2013.

Dividend Policy

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

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

- (a) legal reserves;
- (b) other reserves representing tax facilities provided by law;
- (c) covering accounting losses for the previous years, except for the accounting losses retained as a result of adjustments required under the application of IAS 29 "*Financial Reporting in Hyperinflationary Economies*", according to the Accounting Regulations compliant with the International Financial Reporting Standards and the Accounting Regulations in line with the Council Directive 86/635/EEC and the International Accounting Standards applicable to credit institutions;
- (c^1) setting own financing sources for projects co-financed out of external loans, as well as for the amounts necessary for reimbursing capital instalments, paying interests, commissions and other costs related to these external loans;
- (d) other distributions provided by law;

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

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

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

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

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

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

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

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

shareholders within 60 days of the legal deadline for the submission of the annual financial statements to the competent fiscal authorities.

The table below shows the dividend amounts for years 2011-2013:

	2011	2012	Proposal 2013
Dividends (RON thousand)	938,038	1,060,115	990,637
Gross dividend per share (RON/share)	24.49	27.68	2.57
Dividend distribution rate (%)	79.0	94,7	99.5
Number of shares	38,303,838	38,303,838	385,422,400

Explanations:

- ✓ the company did not buy its own shares;
- ✓ the company does not have subsidiaries;
- ✓ the company did not issue bonds or other debt instruments.

VI. MANAGEMENT

6.1. Board of Directors

According to Government *Emergency Ordinance no.109/November 30, 2011 on corporative governance in state-owned enterprises* implemented within the company in 2013, the selection and appointment of members in the board of directors is made further to a cumulative voting procedure, and the number of members of the board increased from 5 to 7; as a consequence during the financial year ended December 31, 2013 there were three Board of Directors as follows:

Between January 1st - April 28, 2013

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

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

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

Between April 29 - December 29, 2013

Item no.	Name	Institution of employment	Position in the Board
1	Negrut Aurora	Office of State Ownership and Privatization in Industry	Chairman
2	Musat Eufemia	Office of State Ownership and Privatization in Industry	Member
3	Doros Eugen Dragos	Nestor&Nestor Diclescu 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.

Starting from December 30, 2013

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	Independent consultant	Member
7	Davis Harris Klingensmith	Independent consultant	Member

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

The CV's of the directors are attached hereto.

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

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

Status of Romgaz interest shares in the share capital of other companies:

Company	Share capital	Shares/ interest shares	Nominal value	ROMGAZ ownership		
				Share capital	Shares/ interest shares	Share of the share capital (%)
1	2	3	4	5	6	7
SC "Amgaz" SA	23,300,000	2,330,000	10	8,155,000	815,500	35
SC "GHCL Upsom Romania" SA	40,664,607.75	162,658,431	0.25	1,710,000	6,840,000	4.205131
SC "Depomures" SA	300,000	30,000	10	120,000	12,000	40
SC "MI Petrogas Services Romania" SRL	607,000	1,000	607	60,700	100	10
MKB Nextebank SA	192,398,844.33	249,868,629	0.77	230,916.84	299,892	0.12002
SC "AGRI LNG Project Company" SRL	2,979,600	297,960	10	744,900	74,490	25

6.2. Executive Management

Virgil Marius Metea - Director General (CEO)

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

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

Name	Position
ROMGAZ - headquarters	
Cindrea Corin Emil	Deputy Director General
Rotar Dumitru Gheorghe	Deputy Director General
Dobrescu Dumitru	Deputy Director General
Ionascu Lucia	Economic Director
Ciolpan Vasile	Energy Trade Director
Birsan Mircea Lucian	Procurement 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
Radu Gheorghe	Business Development Director
Balasz Bela Atila	Energy Management Director
Morariu Dan Nicolae	Information Technology and Telecommunication 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
Banu Sergiu Victor	Technical Director
Sucursala Ploiesti	
Carstea Vasile	Director
Stanciu Elena	Economic Director
Scarlatescu Virgil	Commercial Director
Zamfirescu Marin	Technical Director
Vecerdea Dan Adrian	Storage Director
Sucursala Iernut	

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

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

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

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

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

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

Item no.	Name	Number of shares	Share in the share capital (%)
1	Rotar Dumitru Gheorghe	4,611	0.00119635
2	Stefan Ioan	1,340	0.00034767
3	Carstea Vasile	412	0.00010690
4	Prisca Maria Magdalena	165	0.00004281
5	Morariu Dan Nicolae	52	0.00001349
6	Dinca Ispasian Ioan	48	0.00001245
7	Vecerdea Dan Adrian	45	0.00001168
8	Balasz Bela Atila	38	0.00000986

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

VII. FINANCIAL- ACCOUNTING INFORMATION

7.1. Statement of Financial Position

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

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

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

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

Consequently, the Company has prepared financial statements in accordance with IFRS as adopted by the EU for the periods ending December 31, 2013, together with comparative data as at and for the year ended December 31, 2013.

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

The table below presents a summary of the statement of individual financial position related to years 2011-2013:

	thousand RON			
Indicator	31.12.2011	31.12.2012	31.12.2013	Variation (2013/2012)
ASSETS				
<i>Non-current assets</i>				
Property plant and equipment	6,364,469	5,880,770	5,767,267	↘ 1.93%
Other intangible assets	117,504	230,704	383,956	↗ 66.43%
Associates	7,084	7,614	947	↘ 87.56%
Trade and other receivables	145,350	52,646	-	↘ 100.00%
Other financial assets	900	1,646	76,900	↗ 4571.93%
Other non-current assets	8,572	16,926	17,093	↗ 0.99%
Total non-current assets	6,643,879	6,190,306	6,246,163	↗ 0.90%
<i>Current assets</i>				
Inventories	451,241	507,849	463,946	↘ 8.64%
Trade and other receivables	930,760	906,806	1,086,628	↗ 19.83%
Other financial assets	1,090,101	928,235	970,664	↗ 4.57%
Other assets	165,689	132,434	146,179	↗ 10.38%
Cash and cash equivalents	1,428,649	1,739,330	1,563,590	↘ 10.10%
Total current assets	4,066,440	4,214,654	4,231,007	↗ 0.39%
TOTAL ASSETS	10,710,319	10,404,960	10,477,170	↗ 0.69%
EQUITY AND LIABILITY				
<i>Capital and reserves</i>				
Share capital	1,890,297	1,890,297	1,892,681	↗ 0.13%
Reserves	1,680,547	1,773,651	1,949,600	↗ 9.92%
Retained earnings	5,592,775	5,680,812	5,450,493	↘ 4.05%
Total equity	9,163,619	9,344,760	9,292,774	↘ 0.56%
<i>Non-current liabilities</i>				
Retirement benefit obligation	53,627	63,785	79,241	↗ 24.23%
Deferred tax liabilities	266,159	257,835	146,440	↘ 43.20%
Provisions	253,387	164,515	196,950	↗ 19.72%
Total non-current liabilities	573,173	486,135	422,631	↘ 13.06%
<i>Current liabilities</i>				
Trade and other payables	638,688	292,685	202,796	↘ 30.71%
Borrowings	6,803	-	-	→ 0.00%
Current tax liabilities	79,133	68,044	200,982	↗ 195.37%
Provisions	20,130	28,735	47,316	↗ 64.66%
Other liabilities	228,773	184,601	310,671	↗ 68.29%
Total current liabilities	973,527	574,065	761,765	↗ 32.70%
Total liabilities	1,546,700	1,060,200	1,184,396	↗ 11.71%
TOTAL EQUITY AND LIABILITY	10,710,319	10,404,960	10,477,170	↗ 0.69%

Non-current assets

Non-current assets have increased by 0.90%, from RON 6,190.3 million to RON 6,246.2 million.

Other intangible assets

Other intangible assets recorded an increase for the period ended on December 31, 2013 of RON 153.3 million, compared with prior year due to additional, due to the increasing value of exploration workings for natural gas discovery.

Trade and other receivables

The closing balance of the long term trade and other receivables has been written off due to cession of validity of the rescheduling agreements on overdue payments of the beneficiaries of natural gases delivered by Romgaz in prior period.

Other financial assets

The increase in Other financial assets for the period ended December 31, 2013 is due to the fact that SNGN ROMGAZ S.A. was granted shares in Electrocentrale Bucuresti S.A. that amount to RON 66,287 thousand.

Current assets

Current assets have increased by 0.39% (RON 16.3 million) compared with prior period.

Trade and other receivables

Trade and other receivables increased by 19.83% due to higher incomes recorded in December 2013.

Cash and cash equivalents

Cash, cash equivalents and other financial assets amounted to RON 2,534.3 million at the end of the year compared with RON 2,667.6 million from 2012. The drop by 5% is due to payments in cash for the activity of geological exploration and modernization of existing capacities.

Capital and reserves

The increase of 9.92% (RON 175.9 million) in reserves represent the allocation to development fund of the Company from prior year's profit (2012).

Retained earnings have decreased with the value of net profit from prior year distributed (dividens and development fund) and increased with the value of the net profit from 2013.

Non-current liabilities

The increase of 19.72% in provisions is due to the increase of the decommissioning provision.

Deferred tax liabilities recorded a decrease of 43.20% due to an adjustment made to incorporate the computed impact of revaluation reserves from before 2004, that become taxable and that were considered in the computation made for current tax.

Current liabilities

Current tax liabilities have increased with the income tax related to the fourth quarter of 2013 and was also influenced by the transition to IFRS of the financial statements that were prepared in accordance with local GAAP, MOFP 3055/2009 .

Other liabilities have increased due to the increase in the liabilities towards state budget, especially of the VAT and the tax on additional income.

7.2. Statement of Comprehensive Income

Statement of comprehensive income for the period 2011-2013 is set below:

thousand RON

Indicator	31.12.2011	31.12.2012	31.12.2013	Variation (2013/2012)
Revenue	4,195,477	3,837,941	3,894,267	↗ 1.47%
Cost of commodities sold	(1,168,545)	(904,580)	(439,178)	↘ 51.45%
Investment income	106,797	148,326	123,279	↘ 16.89%
Other gains and losses	76,596	(49,806)	(204,396)	↗ 310.38%
Changes in inventory of finished goods and work in progress	80,545	110,852	55,673	↘ 49.78%
Raw materials and consumables used	(131,475)	(118,364)	(79,311)	↘ 32.99%
Depreciation, amortization and impairment expenses	(703,384)	(606,114)	(782,433)	↗ 29.09%
Employee benefit expense	(478,322)	(503,044)	(480,685)	↘ 4.44%
Finance cost	(24,705)	(24,233)	(13,229)	↘ 45.41%
Exploration expense	(186,868)	(193,304)	(59,221)	↘ 69.36%
Other expenses	(505,728)	(435,705)	(767,756)	↗ 76.21%
Other income	82,074	133,672	53,632	↘ 59.88%
Profit before tax	1,342,462	1,395,641	1,300,642	↘ 6.81%
Income tax expense	(154,767)	(276,462)	(305,088)	↗ 10.35%
Profit for the year	1,187,695	1,119,179	995,554	↘ 11.05%

Revenue

For the year 2013 S.N.G.N. Romgaz S.A. recorded revenue in amount of RON 3.9 billion compared with RON 3.8 billion recorded in 2012. In spite of the increase of 15% for the price of gas from internal production compared with prior period, the revenue has increased only by 1.5% due to a lower quantity of delivered gas from internal production and import. The reduced quantity of gas supplied from imports is due to both declining consumer demand in the market for natural gas and the Order no.24/2013 issued by ANRE, approving the methodology for the allocation of quantities of natural gas resulted from production, needed to cover the consumption on the regulated market according to which natural gas producers have no longer the obligation to deliver mixed gas from domestic production and import.

Revenue from sales of services and electricity have increased in 2013 by RON 330.6 million, compared with 2012. This increase is due to the revenue from storage (mainly as a result of higher tariffs for this activity according to ANRE Order no. 26/2013) and also to revenue from production of energy and services provided in the sector, that the Company recorded after the takeover of CTE Iernut (February 1st 2013).

Cost of commodities sold

During 2013, the cost of commodities sold recorded a decrease by 51.45%, from RON 904.6 million recorded in 2012 to RON 439.2 million in 2013 as a result of the drop in the sales of import gas,

Investment income

Investment income have decreased by 16.89% in 2013 to RON 123.3 million compared with RON 148.3 million recorded in 2013, as a result of the decrease in both the rates of interest received for the cash placed in bank deposits, and the decreased interest received for the government securities owned by the Company.

Other gains and losses

During the reporting period compared with 2012, the expenses with the adjustments for receivables increased by RON 92.6 million. In 2012 there was a gain resulted from the reactivation of the receivable from Termoelectrica, in amount of RON 115.8 million and in 2013 there was a gain from the inflation-indexed receivables of only RON 28.9 million resulting in a decrease in these gains of RON 86.9 million.

Changes in inventory of finished goods and work in progress

The difference between the amount of gas extracted from storage and those injected in 2013 was lower than the previous year.

Raw materials and consumables used

In 2013 the consumption of materials, fuel, small parts and spare parts were higher due to CTE Iernut takeover, and the volume of work and current interventions to wells and compressor stations, but due to a higher allocation of the raw materials and consumables for the production of self-constructed assets, it resulted, compared with 2012, a decrease of these costs.

Depreciation, amortization and impairment expenses

During 2013 depreciation and amortization expenses have increased by RON 176 million as a result of higher depreciation expenses for the property plant and equipments resulted from CTE Iernut takeover and also of the impairment for the abandoned projects related to exploration and production activity of natural gas.

Employee benefit expense

For the reporting period, 2013, the salary expenses and social contributions have decreased by 4.44%, drop that is due to a higher allocation of employees in the production of self-constructed asset. If this influence is put aside, the salary expenses have increased in fact, increase that is due to the increase of the number of employees after CTE Iernut takeover from February 1st, 2013.

Finance cost

In 2013 the finance cost have dropped to RON 13.2 million compared with RON 24.2 million from 2012, due to a decrease in the effect of passage of time in the discount rate of provisions for decommissioning, which is recognized every year in the statement of comprehensive income as financial expense; another factor of the decrease is the full repayment of the loan from the International Bank for Reconstruction and Development (IBRD), the last installment being paid in October 2012, that had the effect of reducing interest costs for the year.

Exploration expense

During 2013 these expenses have decreased to RON 59.2 million compared with RON 193.3 million from 2012 as a result of smaller values of the exploration projects abandoned.

Other expenses

Comparative situation of other expenses, divided by type of expenditure is shown in the table below:

Indicator	31.12.2012	31.12.2013	Variation (2013/2012)	Variation % (2013/2012)
Electricity	107,082	96,936	(10,146)	↘ 9.47%
Protocol and advertising	486	321	(165)	↘ 33.95%
Logistic expenses	15,776	3,136	(12,640)	↘ 80.12%
Taxes and duties	260,074	430,320	170,246	↗ 65.46%
Bank commissions and similar charges	711	2,626	1,915	↗ 269.34%
Insurance expenses	3,406	3,032	(374)	↘ 10.98%
Compensations, fines and penalties	61	687	626	↗ 1026.23%
Provision expenses	(7,037)	12,541	19,578	↗ 278.22%
Other operating expenses	55,146	218,157	163,011	↗ 295.60%
Total	435,705	767,756	332,051	↗ 76.21%

Other expenses have increased by 76.21% (RON 332 million) compared with 2012. This boost is due to the increase in other operating expenses and taxes and duties. The increase of 65% of taxes and duties is due to increased costs with royalties for natural gases (gas extraction from fields with higher production compared to last year) and due to the introduction starting with February 1st, 2013 of the additional tax on the additional income obtained as a result of deregulation of natural gas prices.

The increase of "Other operating expenses" of RON 163 million is due to the fact that in the previous year in this category were included a significant part of expenses incurred with the self-constructed assets.

Other income

In 2013 other income decreased by RON 80 million as in 2012 the Company recorded incomes from penalties and from the index for inflation of the reactivated receivable from Termoelectrica.

Income tax expense

The increase with 10.35% of the income tax expense in 2013 compared with 2012 is due to the fiscal regulations applied in the context of transition to IFRS standards from RAS MOPF 3055/2009.

Profit for the year

In 2013 the Company's net profit fell by RON 123.6 million recording a profit of RON 995.6 million, compared with RON 1,119.2 million recorded in 2012, due to the cumulative effect of those described above.

7.3. Statement of Cash Flows

Statement of cash flows for the period 2011-2013 is set in the table below:

thousand RON

Indicator	31 December		
	2011	2012	2013
Cash flows from operating activities			
Net profit for the year	1,187,695	1,119,179	995,554
<i>Adjustments for:</i>			
Income tax expense	154,767	276,462	305,088
Interest expense	1,097	562	32
Unwinding of decommissioning provision	23,608	23,671	13,197
Interest revenue	(106,797)	(148,326)	(123,279)
(Gain)/Loss on disposal of non-current assets	4,886	15,741	32,534
Change in decommissioning provision recognized in profit or loss, other than unwinding	(16,296)	(27,414)	(9,502)
Change in other provisions	4,960	20,377	27,827
Impairment of exploration assets	22,189	(81,696)	72,656
Exploration projects written-off	186,868	193,304	59,221
Impairment of property, plant and equipment	6,001	45,470	79,987
Depreciation and amortization	675,194	642,340	629,790
Impairment of investment in associates	3,391	-	7,064
Impairment of other financial assets	-	-	741
Losses from trade receivables and other assets	(81,390)	134,707	186,801
Receivables reactivated	(100)	(115,824)	(28,853)
Movement in write-down allowances for inventory	(8,434)	-	-
	2,057,639	2,098,553	2,248,858
Movements in working capital:			
(Increase)/Decrease in inventory	641,654	(56,608)	43,903
(Increase)/Decrease in trade and other receivables	(318,195)	89,070	(573,199)
Increase/(Decrease) in trade and other liabilities	659,057	(382,836)	251,587
Cash generated from operations	3,040,155	1,748,179	1,971,149
Interest paid	(1,178)	(651)	-
Income taxes paid	(264,821)	(295,874)	(284,623)
Net cash generated by/(used in) operating activities	2,774,156	1,451,654	1,686,526
Cash flows from investing activities			
Acquisition of investments in associates	(3,138)	(530)	(393)
Decrease/(Increase) in other financial assets	(873,040)	178,593	(37,297)
Interest received	93,204	130,618	108,227
Proceeds from sale of non-current assets	1,008	793	3,576
Loans granted to associates	(8,347)	(8,119)	-
Acquisition of non-current assets	(357,898)	(283,137)	(538,239)
Acquisition of exploration assets	(292,549)	(214,439)	(338,025)
Net cash (used in)/generated by investing activities	(1,440,760)	(196,221)	(802,151)
Cash flows from financing activities			
Repayment of borrowings	(6,346)	(6,714)	-
Dividends paid	(706,736)	(938,038)	(1,060,115)
Net cash (used in)/generated by financing activities	(713,082)	(944,752)	(1,060,115)
Net increase/(decrease) in cash and cash equivalents	620,314	310,681	(175,740)
Cash and cash equivalents at the beginning of the year	808,335	1,428,649	1,739,330
Cash and cash equivalents at the end of the year	1,428,649	1,739,330	1,563,590

Statement of cash flows presented above presents the cash flows for 3 periods (2011, 2012, 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 1,253,304 thousand for 2013 compared to RON 979,374 thousand in 2012 and RON 869,944 thousand for 2011.

The most important movements in cash flows were made for payments for acquisition of non-current assets and exploration assets in amount of RON 876,264 thousand as per the investment plans approved by the Company, and in connection with dividends paid to shareholders during the year 2013, amounting to RON 1,060,115 thousand.

VIII CORPORATE GOVERNANCE

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

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

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

Principles included in the Ordinance are as follows:

👉 *Clear separation of authorities deriving from 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 will be improved according to rules and recommendations applicable to Companies listed on Bucharest Stock Exchange and on London Stock Exchange, by the following:

- ✎ 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;
- ✎ 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;
- ✎ Updating the responsibilities of the Board of Directors for conformity with BVB Corporate Governance Code;
- ✎ Concluding contracts for directors' and executive directors' professional liability insurance and appointing a person to monitor such contracts (for instance: contract renewal, concluding contracts for new employees etc.);
- ✎ 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.

Corporate Governance Code will include a chapter referring to remuneration policy of the directors and executive directors;

- ✎ According to London Stock Exchange Corporate Governance Code, the Audit Committee should comprise nonexecutive an independent members. The Audit Committee should assist the Board of Directors in monitoring the quality of financial information provided by the Company.

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

The action plan will comprise at least the following:

- ✎ Appointment of two additional independent directors in the Board of Directors. According to the Articles of Incorporation:
 - *"The Company is governed by a Board of Directors formed by 7 (seven) directors,..."* –Article 17, par. (1). This measure has been taken by applying GMS resolution no.21 of December 30, 2013;
 - *"The majority of Board of Directors members has to be non-executive and independent directors,..."* –Article 17, par. (2);

- 👉 Annual Report of the Board of Directors will clearly provide the names of independent directors and will mention the reasons why they are held as independent;
- 👉 Independent directors will chair the audit committee of the company and the nomination and remuneration committee; the majority of such committees will comprise independent directors;
- 👉 Modification of the Company's Articles of Incorporation to ensure that at least one member of the Board of Directors is nominated and appointed by the minority shareholders;
- 👉 Internal audit within the company will comply with the best international practices as they are presented in "*International Standards for the Professional Practice of Internal Auditing*", as they are set by the Institute of Internal Auditors or by similar professional standards.

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 of the 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 shareholder's request, which, individually or together, represent at least 10% of the subscribed and paid-up share capital, the board of directors mandatorily calls the general meeting of shareholders including on the agenda the election of board members by the cumulative voting procedure.

The board members for the financial year January 1st – December 31, 2013 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.

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

Between January 1- February 28, 2013:

I) Nomination and remuneration committee:

- ✎ Diaconu Gelu-Stefan
- ✎ Cosmeanu Stefan

II) Audit committee:

- ✎ Musat Eufemia
- ✎ Cighi Adrian

Between March 1 – May 17, 2013:

I) Nomination and remuneration committee::

- ✎ Diaconu Gelu-Stefan
- ✎ Cosmeanu Stefan
- ✎ Musat Eufemia

II) Audit committee:

- ✎ Diaconu Gelu-Stefan
- ✎ Cosmeanu Stefan
- ✎ Cighi Adrian

Between May 18 – September 11, 2013:

I) Nomination and remuneration committee:

- ✎ Volintiru Constantin Adrian
- ✎ Negrut Aurora
- ✎ Musat Eufemia

II) Audit committee:

- ✎ Doros Eugen Dragos
- ✎ Metea Virgil Marius
- ✎ Musat Eufemia

Between September 12 – December 31, 2013:

I) Nomination and remuneration committee:

- ✎ Volintiru Constantin Adrian
- ✎ Negrut Aurora
- ✎ Musat Eufemia

II) Audit committee:

- ✎ Doros Eugen Dragos
- ✎ Volintiru Constantin Adrian
- ✎ Musat Eufemia

Director General

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

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

A. Responsibilities and duties related to internal management:

- ↳ approves the organization chart;
- ↳ approves the Organization and Functioning Regulations as well as other internal documents regulating the activity of the company related to its employees;
- ↳ approves the employment, promotion and dismissal of employees;
- ↳ approve 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 necessary and useful for achieving the above mentioned duties ;

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

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

The director general has the obligation to inform periodically the Board of Directors on the manner of achieving the assigned duties, as well as the right to request and to obtain instructions on the manner of exercising the assigned duties.

Internal Control

“*Internal control means the ensemble of the control forms exercised at the level of public entities, set by the management in compliance with its scope and legal regulations, in order to ensure the administration of funds in an economic, efficient and effective way; it includes, also, the organizational structures, the methods and procedures*” (art.2, letter d from Government Ordinance no.119/1999 on the internal control and the preventive financial control, republished).

In a larger sense, internal control is the answer to the question: “*what can be done to have a better control of the activities?*”

Order 946/2005 issued by the Ministry of Public Finance on approving the internal control code, sets the provisions for developing management control systems applicable to all public entities.

Therefore, in year 2010 Romgaz management started to develop the internal/management control system and to implement the internal control standards, which are grouped in five main categories:

- control environment;
- risk assessment;
- information and communication
- control activities;
- audit and evaluation

The commission for monitoring and developing 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 members of the commission have been changed during 2013 under Decision no.128/18.03.2013. 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 2013-2014, as well as an action plan. The commission reviews quarterly the degree of fulfilling this program, approves the drafted measures, acts or documents according to the minutes taken further to each meeting.

Related to the above mentioned program, the documents supporting the fulfilment of standards 1-6 (control environment) have been reviewed in order to identify aspects that need improvement. The analysis was performed on standard groups recommended by the Order of the Ministry of Finance, in order to ensure traceability, bearing in mind the interdependency of the 25 standards:

- Standard 1 - Ethics, integrity – the Code of Conduct was reviewed related to following issues: training, compliance with the Code, providing advice, notifications, disciplinary measures;
- Standard 2 – responsibilities and duties, positions, assignments – the job descriptions have been updated/reviewed, fulfilling the internal control requirements (incompatibilities, conflict of interests, delegation, etc.)
- Standard 3 – capacity , performance – the IT application “requisite training” has been reviewed, identifying thereby the aspects that needed improvement, development and improvement proposals have been drafted (completion term June 2014);
- Standard 4 – sensitive functions – the existing procedure has been reviewed, a new version has been drafted and approved. Sensitive functions have been identified within the entire company;
- Standard 5 – delegation – the initial methodology related to delegation/sub-delegation; the procedure has been updated and approved further to this analysis;
- Standard 7 – objectives – the general and specific objectives of the company have been reviewed, materialized in the document registered under no.19900/15.07.2013;
- Standard 11 – risk management – the risk management system has been redesigned and the work methodology updated and approved. All initial risks were reviewed related to the updated objectives and together with the updated

methodology. This action materialized in the Final Risk Register of SNGN Romgaz SA.

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

The internal/management control system is currently partially implemented, out of the compulsory 25 standards, 22 are fully implemented and only 3 partially. For these 3 standards, namely: Standard 4 - sensitive functions, Standard 20 - deviation management and Standard 21 - business continuity, improvement actions will be proposed for 2014. These three standards were partially implemented due to changes of the organisational structure during 2013.

Further to the control performed by the Court of Accounts - Chamber of Accounts Sibiu during 2013, "*Evaluation performed by external public auditors of the internal control system and internal audit*", the Control Report no.17693/20.06.2013 draw the following conclusion:

"Based on the above mentioned evaluation, we consider that the internal control system of the entity has been designed properly and operates well.

We appreciate that the control environment of the entity is the proper one, this may be considered a positive factor for the evaluation of significant misstatements. One might say that the fraud risk is low, but not necessarily a perfect obstacle for fraud.

*Taking into account the above mentioned, the external public auditors appreciated the internal control system before taking control tests, as "**very good**".*

Internal Audit

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

The draft of the Annual Plan for 2013 together with the supporting documents was submitted to the Director General approval until November 30, 2012.

The 8 missions included in the updated plan for 2013 are:

- Environmental protection;
- Risk analysis and management;
- Repair works at the objective „*Access road Corunca Work Formation*”;
- Opinion on whether there is a conflict of interests related to well drilling supervision;
- Need and opportunity analysis of 24 procurement contracts concluded and in progress at the time of the mission at SNGN Romgaz SA headquarters;
- Opinion on the evaluation of the internal control system for the transportation activity related to production tests and recompletion operations;
- Opinion on the evaluation of procurement procedures and contract performance at Tirgu Mures Transportation Branch;

- The manner of preparing the bidding documents for the procurement of oils at Tirgu Mures Transportation Branch.

The time available for the annual internal audit plan – according to the form coded by the internal procedure 21F-05, reveals that:

- total calendar days available - 218 days;
- days available for internal audit missions - 175 days.

The 43 days difference is used for other internal audit activities in compliance with the law: annual reports, annual and strategic planning of the internal audit quality improvement program, professional training and other requirements made by the management etc.

The audit missions for 2013 were the following:

I. Assurance mission related to specific functions of the entity

Two assurance missions were performed, namely;

I.1. "Environmental protection"

I.2. "Risk analysis and management".

I.1. "Environmental protection"

The main objectives were:

- internal/management control system of the audited entity;
- activity planning;
- activity performance;
- activity report.

I.2. "Risk analysis and management"

The main objectives are:

- internal/management control system of the audited entity;
- activity planning;
- activity performance;
- activity report.

This mission has been performed only on site and will be completed in 2014, currently there is a draft Report.

II. Consulting missions

Six informal ad-hoc consulting missions were performed:

II.1. The informal ad hoc consulting mission at the request of the Director General with respect to "*Repair works at access road Corunca work formation*" in order to verify the compliance with legal, economic and efficiency conditions of the following activity "Set up of access road to the well in Corunca locality".

The objectives were:

- The existence of the fixed asset "Access road to Corunca work site";
- Property right on the land where the road is located and the substantiation of the work;

- Verify the estimates related to the performed works;
- The actual consumption related to the internal order no.633-3846/15.09.2011 "Current repair access road Corunca work location"

II.2. The informal ad hoc consulting mission at the request of the Director General with respect to *"Opinion on whether there is a conflict of interests related to well drilling supervision"* at wells Caragele 9, Caragele 10 and Porumbenii Mici 34.

The objectives were:

- the files related to the procurement
- contract performance

II.3. The informal consulting mission at the request of the Director General with respect to *"Need and opportunity analysis of 24 procurement contracts concluded and in progress at the time of the mission at SNGN Romgaz SA headquarters"*.

The objectives were:

- substantiation report on the procurement (supporting documents etc.);
- bidding documents (technical requirements, specification conditions, etc.);
- substantiation report on the estimated value;
- qualification/selection criteria (supporting documents);
- award criteria/evaluation factors (supporting documents).

II.4. Ad-hoc consulting mission at the request of the Director General with respect to *"Opinion on the evaluation of the internal control system for the transportation activity related to production tests and recompletion operations"* performed at SIRCOSS

The main objectives were:

- issuing orders in MAIS (Management Accounting Information System) – need and opportunity analysis;
- supervise the transportation/works – actual performance of transportation/works.

II.5. Ad-hoc consulting mission at the request of the Director General with respect to *"Opinion on the evaluation of procurement procedures and contract performance at Tirgu Mures Transportation Branch"*.

The objectives were:

- substantiation manner of the adjusted estimated value;
- supporting documents for choosing the procurement procedure – negotiation without prior publication of an announcement;
- the performance of such procedure in compliance with the law and the operational procedure 02PO-04- negotiation without prior publication of an announcement;
- contract performance and the expenses;
- lawfulness of addenda, if any;

- long decision making time;
- procurement contracts for certain scopes concluded with the same operators each year.

II.6. Ad-hoc consulting mission “Manner of preparing the bidding documents for the procurement of oils at Tirgu Mures Transportation Branch”.

The objectives were:

- compliance with the principle “*efficient use of funds*”;
- manner of drafting the “*Bidding documents*”, in matters related to “*physical-chemical characteristics*”;
- compliance with the principle “*equal treatment*”;
- compliance with article 177(2), art. 178(2) and 179 of the EGO no. 34/2006, updated;
- activity analysis of “*Administrative Research Commission*” (appointed by Decision no.68/31.05.2012) related to the issues mentioned in Report no.6936/29.05.2012;
- use of “*final stage of electronic bidding*” for the procurements of STTM Tirgu Mures.

The internal audit plan for 2013 was completed 100%.

Corporate Social Responsibility

Romgaz supports the sustainable development of the company and community, based on a deep knowledge of cause and effect relationship between three main aspects: environment, social and economic.

A commission has been appointed in April 2013 responsible for conceiving and implementing the Social responsibility strategy for the next two years. The strategy was submitted to the management approval.

Beyond the legal liabilities, Romgaz social responsibility strategy aims to maintain the environmental balance in the company's operating areas, to encourage programs with positive social impact, to make coherent decisions and to apply them in compliance with social, national and international standards.

The areas of interest for CSR activities were determined further to documentary analysis, social dialogue and opinion polls.

Most important CSR actions during 2013

- Romgaz encourages education – books donated by employees were sent to a school library from the countryside;
- “Health week” was dedicated to secondary school and high school pupils from Medias, in partnership with the Voluntary Centre – Town Hall Department for Culture, Sport, Tourism and Youth, the Red Cross-Medias Subsidiary and Andreea Foundation. The Gas Centre hosted for four days 300 pupils, taking part at

presentations and practical demonstrations held by voluntary lecturers, representatives of non-profit organizations or of public departments;

- Romgaz continued the tradition of supporting the local sports teams, namely the basketball and football teams which perform in the national championship, and the ninepins team Romgaz Electromures;
- For over 7 years, Romgaz has been supporting the only "Grand Slam" chess tournament organized in Romania. The "King's Tournament" joins the most appreciated international competitions, being accredited both by the Romanian and the International Chess Federations;
- Another successful event was the National Team Chess Championship for pupils under 14. This project was organized under a cooperation protocol signed with the Ministry of Education, the Romanian Chess Federation, the National Sports and Youth Authority and the Sports Club "Elisabeta Polihroniade";
- The funds raised on the "Client's Day" dedicated to all partners, were donated to the Romanian Association against leukaemia "ARIL" in order to equip the haematology laboratory of Bucharest University Hospital for a quick and accurate diagnosis of blood pathologies;
- „Let's do it!" – Romgaz joined this national campaign for a clean environment.

By a responsible corporate behaviour Romgaz raised the awareness of the parties related to the importance and benefits of a coherent CSR policy and to the involvement in social responsibility initiatives.

The "Comply or Explain Statement" is attached hereto as **Annex no.2**.

Chairman of the Board of Directors

AURORA NEGRUT

