

SNTGN TRANSGAZ SA MEDIAS

**ANNUAL REPORT ISSUED BY THE
BOARD OF DIRECTORS
YEAR 2013**

AUDITED FINANCIAL STATEMENTS



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1. ISSUER IDENTIFICATION DATA

1.1 Report and issuer identification data

Annual report according to the provisions of Art. 227, Law no. 297/June 28, 2004, regarding the capital market, as amended and supplemented

For the financial year concluded as at: December 31, 2013

Report date: March 17, 2014

Company name: The National Gas Transmission Company "TRANSGAZ" SA

Registered office: Mediaș, P-ța Constantin I. Motaș, nr.1, cod: 551130

Telephone/Fax number: 0269-803333/0269-839029

VAT Number: RO13068733

Registration number with the Trade Register: J32/301/2000

Subscribed and paid up capital: RON 117,738,440

Regulated market for the trading of issued securities: Bucharest Stock Exchange

Main characteristics of the securities issued by Transgaz: 11,773,844 ordinary, registered, indivisible, freely tradable shares as at January 24, 2008, with a face value of RON 10/share.

The financial and economic indicators presented in this report comply with the International Financial Reporting Standards adopted by the European Union (IFRS-EU), according to the Order of the Minister of Public Finance no. 881/June 25, 2012 and the accounting regulations approved by Order of the Minister of Public Finance no. 1286/October 1, 2012 – updated.

1.2 Main activities

Transgaz is a joint stock company, operating according to the provisions of the Romanian legislation and its updated Articles of Incorporation. Transgaz is a company listed on the Bucharest Stock Exchange, stock exchange symbol – TGN.

Mission

SNTGN TRANSGAZ SA Mediaș is the technical operator of the National Transmission System (NTS) of natural gas and ensures the fulfilment in conditions of efficiency, transparency, safety, non-discriminatory access and competitiveness of the national strategy established for domestic and international transmission of natural gas, natural gas dispatching, research and design in the field of natural gas transmission, in compliance with the laws and national and European standards of quality, performance, environment and sustainable development.

1.3 Structure

Transgaz was set up in 2000, based on the GD 334/ April 28, 2000 *on the reorganisation of the former National Natural Gas Company (SNGN) "Romgaz" SA, published in the Official Gazette of Romania, Part I, no. 194/04.05.2000.*

Based on GD no. 334/2000, SNGN "Romgaz" SA was restructured and reorganized, by division, SNGN "Romgaz" S.A. being disestablished, and the main activities in the natural gas sector were separated and organized in separate activities.

Following the aforementioned reorganisation, Transgaz became the technical operator of the NTS and is responsible for its functioning in conditions of quality, safety, economic efficiency and environmental protection.

By ANRE Order no. 3 / January 22, 2014 regarding the approval of the certification of the National Gas Transmission Company "Transgaz" - SA Mediaş as transmission and system operator of the National gas transport system was established that the National Gas Transmission Company "Transgaz" - SA Mediaş must be organized and must operate as an "independent system operator".

In addition, as operator of the NTS, Transgaz has the obligation, according to the provisions of Law no. 346/2007 regarding the measures for ensuring the natural gas supply safety and to the regulations of the European Union, to ensure the interconnection with similar natural gas transmission systems from neighbouring countries, creating the technical and technological conditions necessary for ensuring the natural gas supply safety.

SNTGN "TRANSGAZ" SA (Transgaz) conducts its activity in the following locations:

- Transgaz registered office: Mediaş, str. Piața C. I. Motaş nr. 1, Sibiu County, postal code 551130;
- Exploitation and Maintenance Department: Mediaş, str. George Enescu nr. 11, Sibiu County, postal code 551018;
- Design and Research Department: Mediaş, str. Unirii nr. 6, Sibiu County, postal code 550173;
- Bucharest Gas Market Operation Division: Bucharest, Calea Dorobanți nr. 30, District 1, postal code 010573;
- Bucharest Agency: Bucharest, Calea Victoriei, nr.155, District 1, postal code 010073.

Transgaz owns 9 regional operating centres and a branch, without legal personality:

- Arad Regional Operating Centre, str. Poetului nr. 56, Arad, Arad County, postal code 310369;
- Bacău Regional Operating Centre, str. George Bacovia nr. 63, Bacău, Bacău County, postal code 600238;
- Brăila Regional Operating Centre, str. Ion Ghica nr. 5, Brăila, Brăila County, postal code 810089;
- Braşov Regional Operating Centre, str. Grigore Ureche nr. 12A, Braşov, Braşov County, postal code 500449;

- Bucharest Regional Operating Centre, str. Lacul Ursului nr. 24, 6th District, Bucharest, postal code 060594;
- Cluj Regional Operating Centre, str. Crişului nr. 12, Cluj-Napoca, Cluj County, postal code 400597;
- Craiova Regional Operating Centre, str. Arhitect Ioan Mincu nr. 33, Craiova, Dolj County, postal code 200011;
- Mediaş Regional Operating Centre, str. George Coşbuc nr. 29, Mediaş, Sibiu County, postal code 551027;
- Constanţa Regional Operating Centre, str. Caraiman nr. 2 bis, Constanţa, Constanţa County, postal code 900117;
- Mediaş Branch, Sos. Sibiului nr. 59, Mediaş, Sibiu County.

1.4 Shareholders

The share capital structure and the ownership structure of Transgaz as at December 31, 2013 are presented below, as follows:

Shareholders	Number of shares	Percentage
Romanian State by the Ministry of Public Finance	6,888,840	58.5097%
Other shareholders - natural and legal persons (free-float)	4,885,004	41.4903%
Total	11,773,844	100%

Table 1 - Ownership Structure of Transgaz as at 31.12.2013

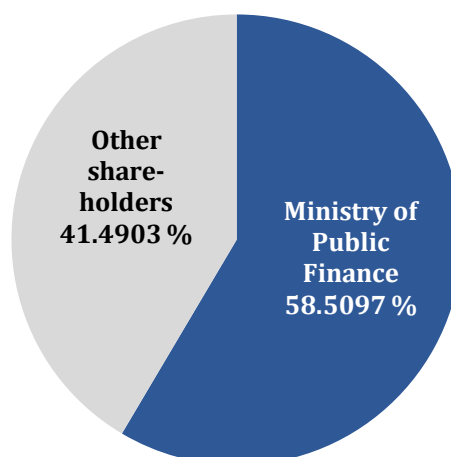


Chart 1- Ownership Structure as at 31.12.2013

The number of shareholders of Transgaz registered with SC Depozitarul Central S.A. at the end of 2013 was 8,496, 1,418 shareholders more than those registered at the beginning of 2013, i.e. 7,078 shareholders.

The share capital of Transgaz as at December 31, 2013 was RON 117,738,440 and was divided into 11,773,844 registered shares, each share having a face value of RON 10.

Transgaz did not carry out transactions with own shares and consequently at the end of the year 2013 the company did not hold own shares.

2. EXECUTIVE SUMMARY

2.1 Indicators of the operational activity

The evolution of the natural gas quantities circulated and transmitted through the National Natural Gas Transmission System (NTS), as well as at the technological consumption during 2011-2013 is as follows:

Indicator	MU	2011	2012	2013
Circulated natural gas	mcm	15,476.30	14,942.34	13,696.26
Transmitted natural gas	mcm	12,820.53	12,273.57	11,258.94
Technological consumption	mcm	278.58	239.20	160.14
Ratio technological consumption / circulated gas	%	1.80	1.60	1.17

Table 2 - Evolution of the quantities of circulated and transmitted natural gas and of the technological consumption for the period 2011-2013

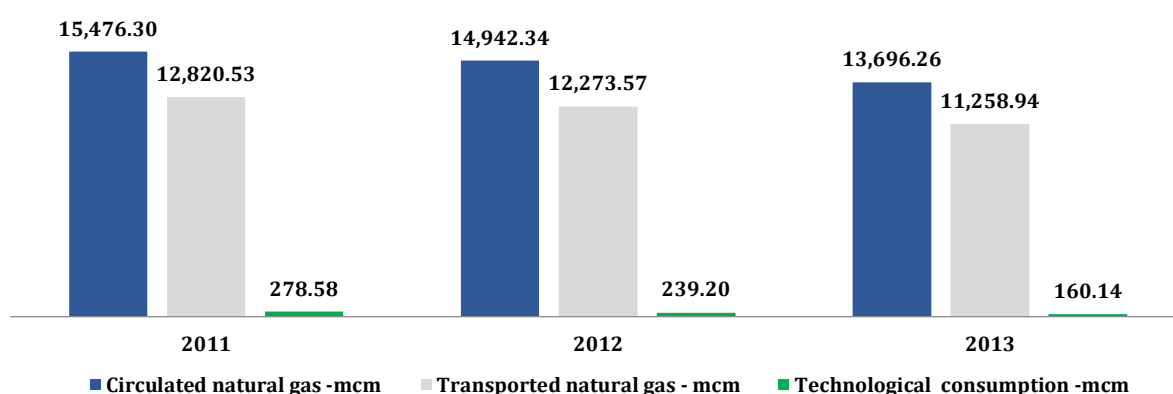


Chart 2 - Evolution of the quantities of circulated and transmitted natural gas and of the technological consumption for the period 2011-2013

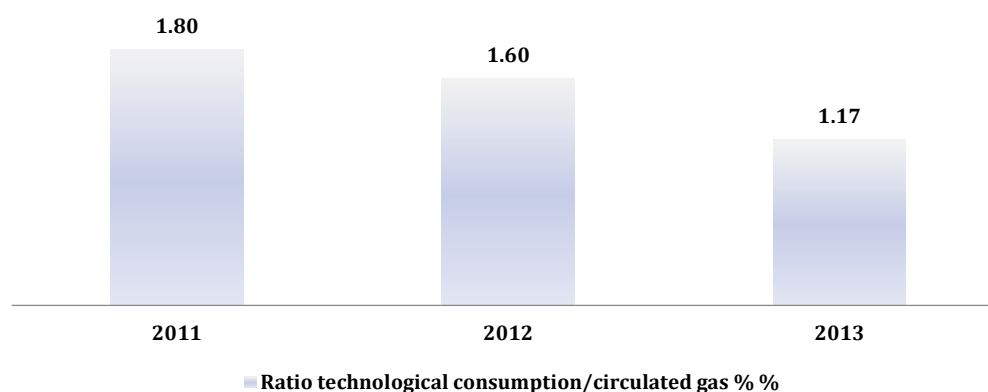


Chart 3 - The evolution of the ratio of technological consumption in the total of circulated gas for the period 2011-2013

The reduction in the technological consumption and the technological loss was due to the involvement of the management in the controlled sizing of natural gas purchases for the technological consumption and to implementing a programme of concrete technical measures in this respect.

The comparative evolution of the operating incomes obtained by the company is presented in the following table:

No.	Specifications	Results			Dynamics (%)		
		2011	2012	2013			
0	1	2	3	4	5=3/2*100	6=4/3*100	7=4/2*100
1.	Income from transmission						
	- thousand RON	1,092,023	1,052,112	1,210,480	96,35	115,05	110,85
	- MWh	136,133,151	130,466,645	119,741,363	95,84	91,78	87,96
	- RON/MWh	8,02	8,06	10,11	100,50	125,42	126,05
	- thousand cm	12,820,532	12,273,576	11,258,941	95,73	91,73	87,82
	- RON/1000 cm	85,18	85,72	107,51	100,63	125,42	126,22
2.	Income from international transmission						
	- thousand RON	244,956	275,875	268,537	112,62	97,34	109,63
3.	Other operating income						
	- thousand RON	61,524	37,382	37,623	60,76	100,64	61,15
	TOTAL OPERATING INCOME Thousand RON	1,398,503	1,365,369	1,516,640	97,63	111,08	108,45

Table 3 - Comparative evolution of operating income for the period 2011-2013

No.	Indicator	MU	2011	2012	2013	Variation % 2012/ 2011	Variation % 2013/ 2012
0	1	2	3	4	5	$6=4/3*100$	$7=5/4*100$
1	Turnover	mill. RON	1,336.98	1,327.99	1,484.71	99,33	111,80
2	Operating income	mill. RON	1,398.50	1,365.37	1,516.64	97,63	111,08
3	Operating expenses	mill. RON	954,72	998,82	980,84	104,62	98,20
4	Operating profit	mill. RON	443,78	366,55	535,80	82,60	146,17
5	Financial profit	mill. RON	19,7	27,99	-105,86	142,08	x
6	Profit tax	mill. RON	82,69	113,40	100,05	137,14	88,23
7	Income from deferred profit tax	mill. RON	8,16	49,79	4,60	610,17	9,24
8	Net profit	mill. RON	388,95	330,94	334,49	85,09	101,07
9	Actuarial gain/loss for the period	mill. RON	-1,75	-1,63	1,23	x	x
10	Total comprehensive income for the period	mill. RON	387,20	329,31	335,72	85,05	101,95
11	Gross dividend/share	RON	29,76**	21,29	17,58*	71,54	82,57

* Proposal submitted for the approval of the General Meeting of Shareholders

** dividends calculated based on the financial statements prepared according to OMFP 3055/2009

Table 4 - Evolution of the operational performance indicators for the period 2011-2013

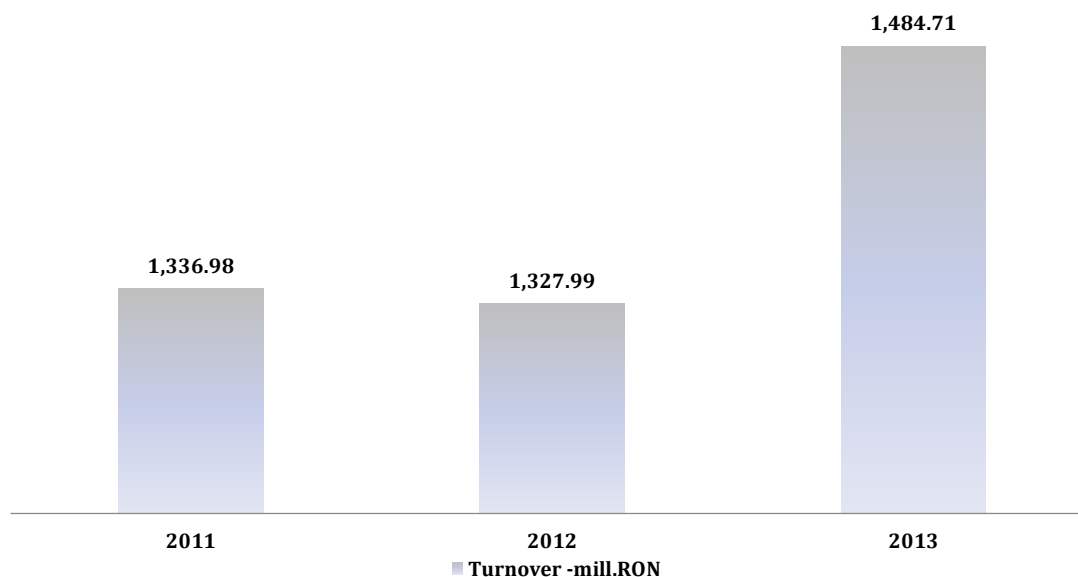


Chart 4 - Evolution of turnover for the period 2011-2013

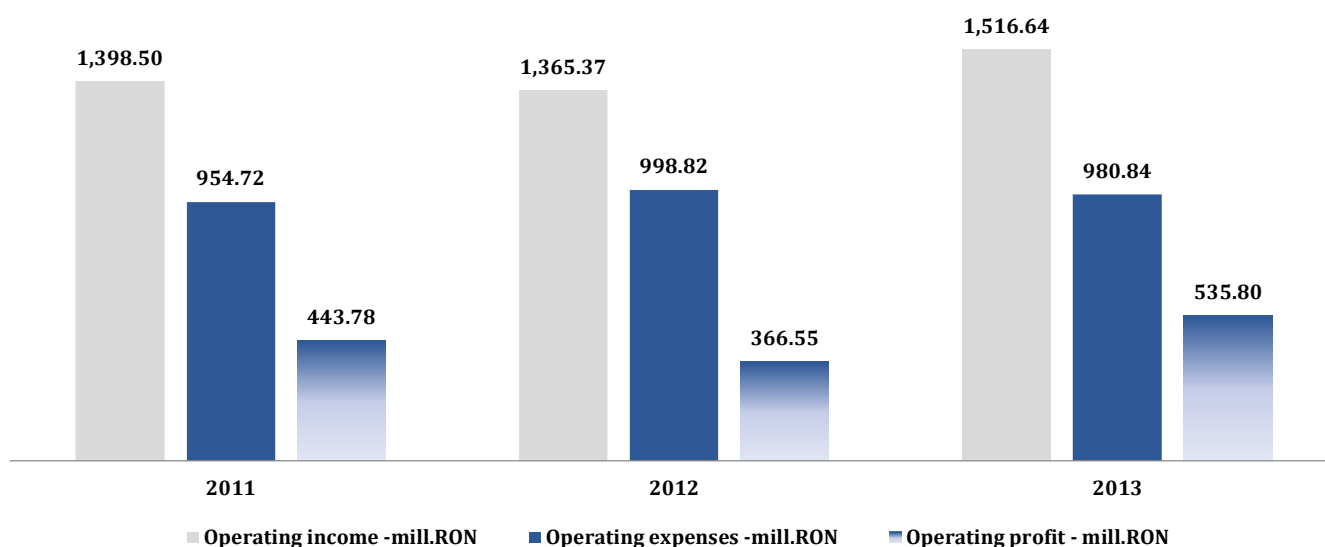


Chart 5- Evolution of operating income, expenses and profit for the period 2011-2013

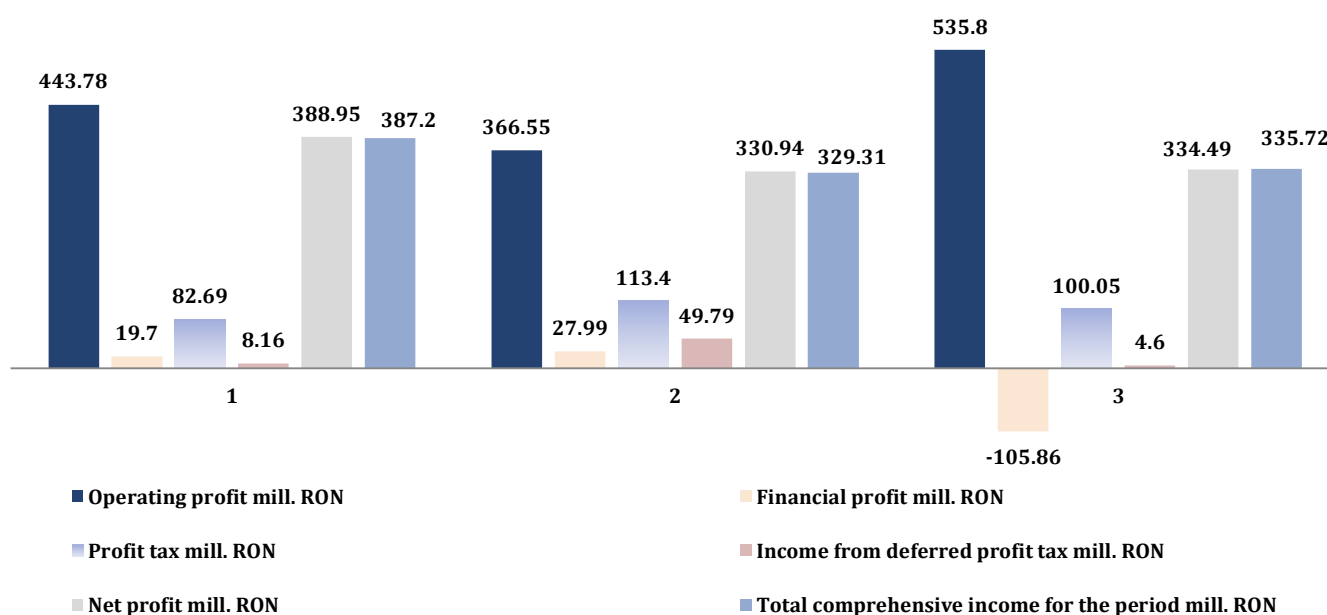


Chart 6- Evolution of net profit for the period 2011-2013

2.2 Indicators of financial results

The economic-financial activity of Transgaz for the period 2011-2013 was conducted based on indicators included in the annual income and expenses budgets approved by the General Meeting of Shareholders.

The main economic-financial indicators achieved during 2011-2013 are presented in the table below:

No.	Indicator	MU	2011	2012	2013
1	Turnover	thou. RON	1,336,979	1,327,987	1,484,714
2	Total income	thou. RON	1,457,621	1,420,159	1,557,361
3	Total expenses	thou. RON	994,137	1,025,612	1,127,429
4	Gross profit	thou. RON	463,484	394,546	429,932
5	Profit tax	thou. RON	82,689	113,403	100,045
6	Income from deferred profit tax	thou. RON	8,161	49,793	4,604
7	Net profit	thou. RON	388,956	330,936	334,491
8	Actuarial gain/loss for the period	thou. RON	-1,753	-1,631	1,231
9	Total comprehensive income for the period	thou. RON	387,203	329,306	335,722
10	Transmitted gas	thou. cm	12,820,532	12,273,575	11,258,941
11	Investment expenses	thou. RON	128,136	212,102	203,763
12	Rehabilitation expenses	thou. RON	111,458	104,259	61,176
13	Technological consumption	thou. RON	133,898	118,925	95,500
14	Technological consumption	thou. cm	278,577	239,199	160,140

Table 5 - Evolution of the main economic-financial indicators for the period 2011-2013

Transgaz holds the monopoly status in Romania in terms of natural gas transmission and circulates around 90% of the total consumed natural gas.

Out of total income achieved in 2013, around 17% is in foreign currency, from international natural gas transmission.

As at December 31, 2013, the balance of cash in the company's bank accounts was 267,151,451 RON, out of which 8.03% liquid assets denominated in foreign currency, most of it in USD.

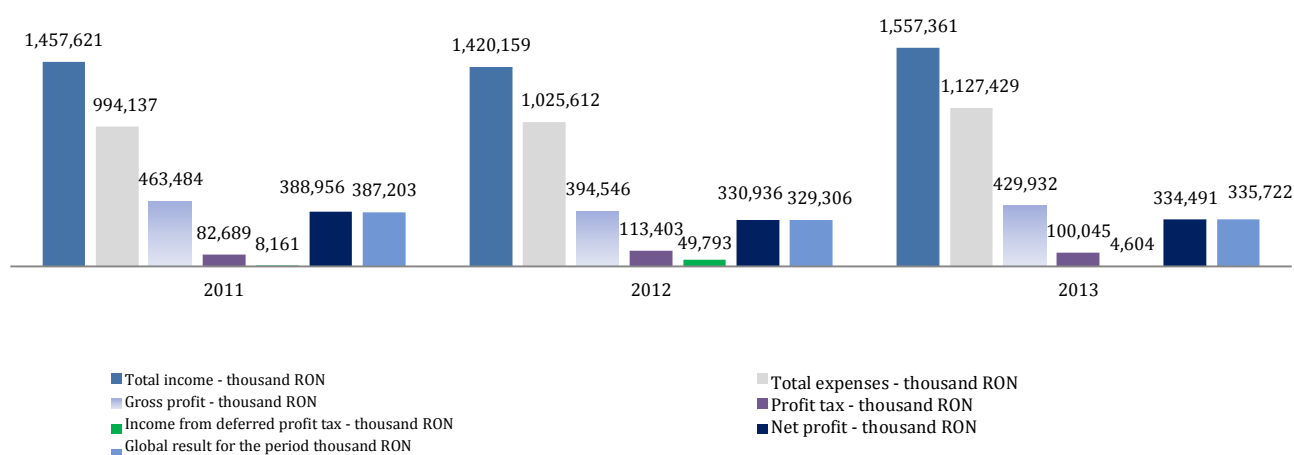


Chart 7-Evolution of main economic - financial indicators for the period 2011-2013

The Transgaz performance in the analysed period is also reflected by the evolution of the following indicators:

No.	Indicators	Calculation formula	2011	2012	2013
1.	Profitability indicators				
	EBITDA in total sales	<u>EBITDA</u>	47.00%	42.27%	48.27%
		Turnover			
	EBITDA in equity	<u>EBITDA</u>	20.89%	18.79%	23.32%
		Equity			
	Gross profit rate	<u>Gross profit</u>	34.54%	29.59%	28.96%
		Turnover			
	Return on equity	<u>Net profit</u>	12.87%	11.02%	10.89%
		Equity			
2.	Liquidity indicators				
	Current liquidity indicator	<u>Current assets</u>	1.85	1.58	2.17
		Short-term debts			
	Quick liquidity indicator	<u>Current assets - Inventories</u>	1.73	1.48	2.06
		Short-term debts			
3.	Risk indicators				
	Degree of indebtedness indicator	<u>Borrowed capital</u>	2.39	1.61	0.78
		Equity			
	Interest coverage ratio	<u>EBIT</u>	66.18	101.00	188.01
		Interest expenses			
4.	Management indicators				
	Debit turnover ratio - customers	<u>Average customer balance</u> x 365 days	103.04	104.58	97.57
		Turnover			
		<u>Average supplier balance</u> x 365 days			
		Turnover			

Table 6 - Evolution of profitability, liquidity, risk and management indicators for the period 2011-2013

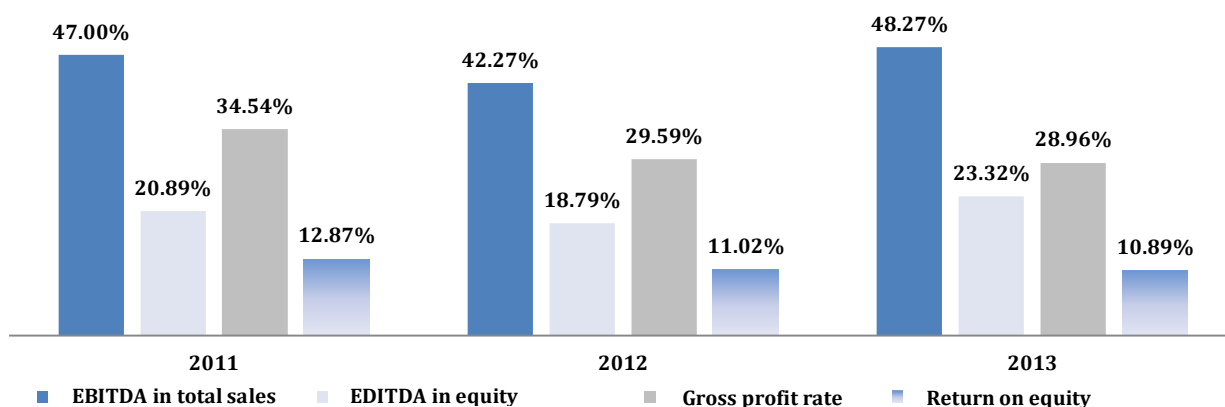


Chart 8-Evolution of profitability indicators for the period 2011-2013

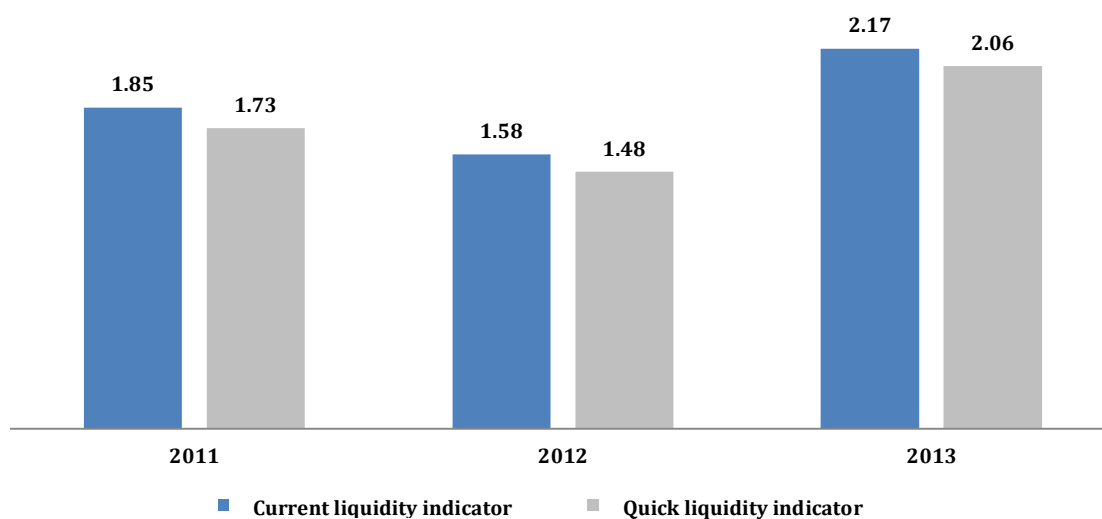


Chart 9-Evolution of liquidity indicators for the period 2011-2013

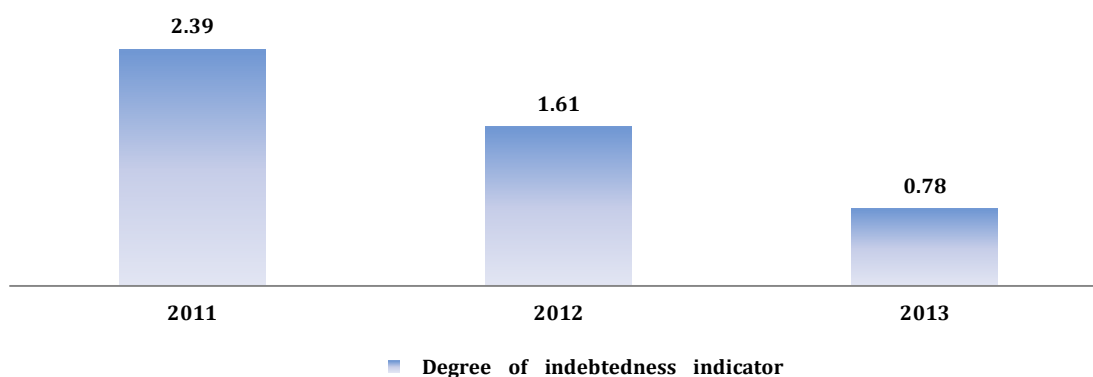


Chart 10-Evolution of risk factors for the period 2011-2013

2.3 Indicators of the investment activity

The investment activity is mainly focused on the development and modernisation of NTS in order to improve its efficiency, to increase its capacity and to develop new consumption areas.

Implementation of the Repairs, Rehabilitation and Maintenance Programme for NTS

No.	Chapter	IEB 2013	Results 2013	%
0	1	2	3	$4=3/2*100$
Chap. A. REPAIR AND REHABILITATION WORKS FOR NTS (RON)				
1	Scheduled repairs of main pipelines	108,740,000	52,845,160	48,60
2	Rehabilitation of Regulating and Metering Stations (S.R.M.)	0	129,841	0.00
3	Rehabilitation of Technological Nodes	0	0	0.00
4	Rehabilitation of Compressor Stations	500,000	0	0.00
5	Repairs of special facilities corresponding to SRMs and SCVs	500,000	0	0.00
6	Rehabilitation of Cathodic protection systems (SPC)	500,000	0	0.00
7	Repairs and TC equipment	130,000	0	0.00
8	Repairs of buildings	1,500,000	0	0.00
	TOTAL WORKS	111,870,000	52,975,001	47,35
Chap. B. MAINTENANCE SERVICES FOR NTS (RON)				
1	Maintenance services	31,347,000	8,200,945	26,16
	TOTAL SERVICES	31,347,000	8,200,945	26,16
	TOTAL WORKS + SERVICES (third parties)	143,217,000	61,175,946	42,72

Table 7 Implementation of the Repairs, Rehabilitation and Maintenance Programme for NTS in 2013



Chart 11- Level of fulfilment of the Repairs, Rehabilitation and Maintenance Programme for NTS in 2013

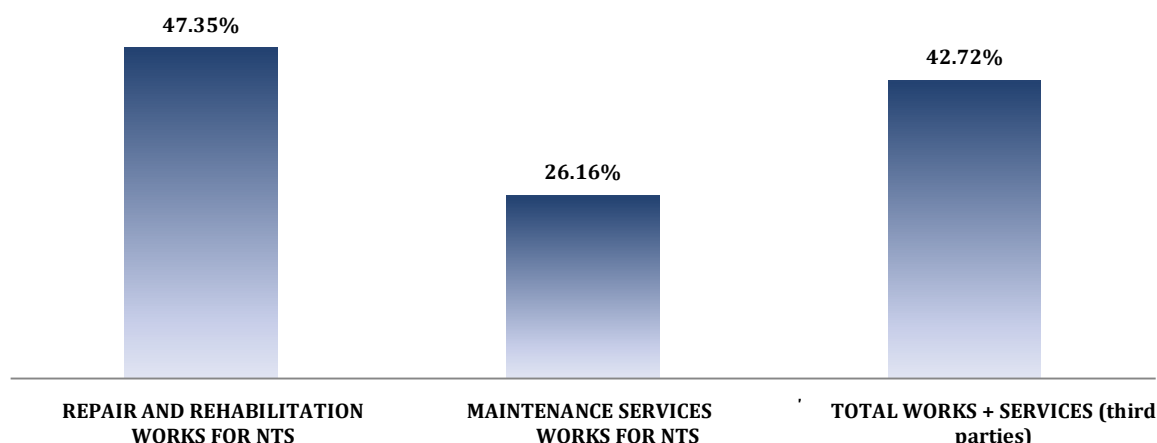


Chart 12- Degree of fulfilment of the Repairs, Rehabilitation and Maintenance Programme for NTS in 2013

The value of the Repairs, Rehabilitation and Maintenance Programme for NTS in 2013 amounted to RON 143,217,000 and, at the end of the year, there were recorded achievements amounting to RON 61,175,946 corresponding to a 42.72% fulfilment of the programme.

The above mentioned achievements mainly include the repair works of 21.7 km of pipelines, the rehabilitation of 22.61 km of pipelines and various repair services for compressor units, repairs of special facilities, diagnostics of pipelines, etc.

The causes that led to accomplishing only 42.72% of the Repairs, Rehabilitation and Maintenance Programme in 2013 are presented in **Chap. 3.2.3 - Achieved rehabilitation, repairs and maintenance works for NTS vs. the planned ones.**

Investment Programme

Chapter	Works category	IEB 2013		Results 2013		(%)
		Physical (km)	Value (thousand RON)	Physical (km)	Value (thousand RON)	
0	1	2	3	4	5	$6=5/3*100$
Chap. A	NTS modernisation and development works	148.50	340.891	67.56	128.336	37.65
1	NTS modernisation and retrofitting		205.726		48.143	23.40
1.1.	<i>Modernisation of NTS technological installations (SRM, SCV, PM, NT)</i>		15.500		3.971	25.62
1.2.	<i>Data Acquisition Control System</i>		190.226		44.172	23.22
2	Development of NTS and related installations	148.50	135.165	67.56	80.193	59.33
2.1.	<i>Natural gas transmission pipelines</i>	143.50	83.900	65.76	54.532	65.00
2.2.	<i>Interconnection pipelines</i>	5.00	17.225	1.80	12.880	74.78
2.3.	<i>Regulating and metering stations</i>		25.000		5.391	21.56
2.4.	<i>Cathodic protection stations</i>		1,640		1,925	117.38
2.5.	<i>Electrical installations and grids</i>		500		448	89.60
2.6.	<i>Works related to information technology and telecommunications</i>		1,500		1,078	71.87
2.7.	<i>Odourisation installations</i>		3,000		3,548	118.27
2.8.	<i>Filtering installations</i>		2,400		11	0.46
2.9	<i>Hydrotechnical works</i>				380	x
Chap. B	Own assets modernisation and development works	0,00	58,900	0,00	20,924	35.52
1	Modernisation works		2,000		349	17.45
2	Other works		31,900		2,513	7.88
3	Independent machinery		20,000		17,739	88.70
4	Expenses incurred with studies and projects		5,000		323	6.46
Chap. C	The NABUCCO project	0,00	41,209	0,00	33,188	80.54
Chap. D	Works performed acc. GD 1043 - NTS Access Regulation	0,00	0	6,91	21,291	X
TOTAL PROGRAMMED INVESTMENTS		148,50	441,000	74,47	199,369	45,21
Lands		0,00	0	0,00	24	X
OVERALL TOTAL		148,50	441,000	74,47	203,763	46,20

Table 8- Fulfilment of the Investment Programme in 2013

The value of the investment expenses incurred in 2013, approved in the income and expenses budget of 2013 was at RON 441,000, the value of the achievements was of 203,763 thousand RON, which includes the amount of 21,291.41 thousand RON representing the installations for connecting to NTS, performed in compliance with the NTS Access Regulation approved by GD 1043/2004. The degree of fulfilment of the modernisation and development programme in 2012 was of 46.20%.

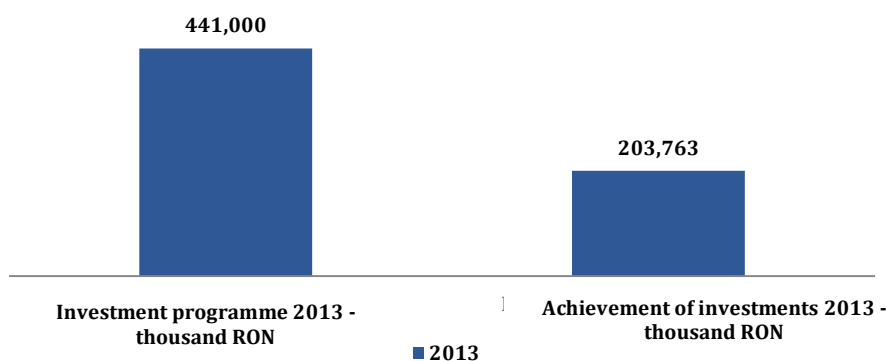


Chart 13- Achievement of investments vs. Investment programme in 2013

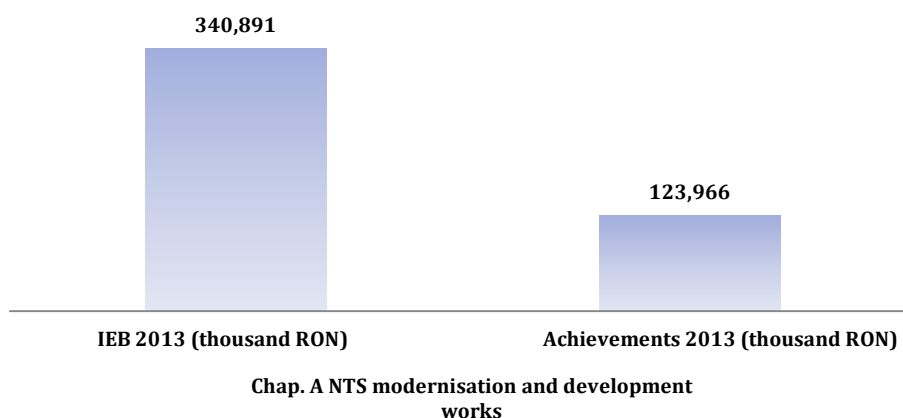


Chart 14- Achievements vs. programme for Chap. A - NTS modernisation and development works in 2013

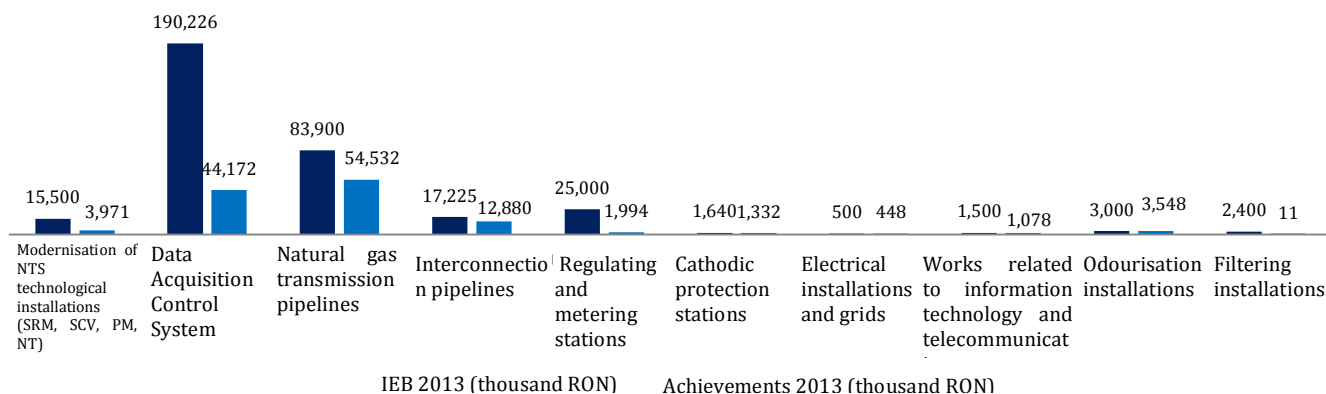


Chart 15- Implementation in the structure of the programme Chap. A - NTS modernisation and development works in 2013

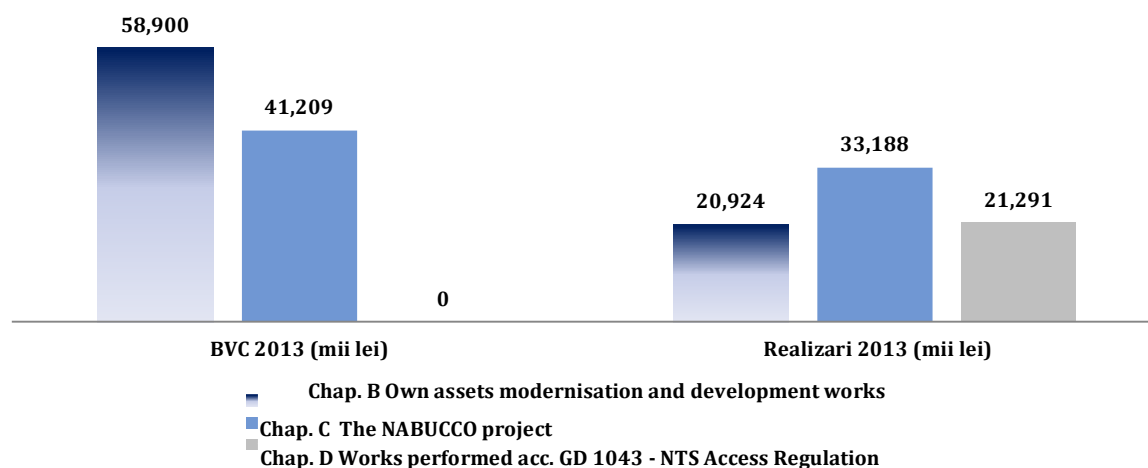


Chart 16– Achievements vs. programme for chap. B, C, D of the 2013 investment programme

Compared to the scheduled value of 441,000 thousand RON, the total value of the achievements is of 206,763 thousand RON, which represents a fulfilment of the programme (IEB) of 46.20%. The causes which led to the fulfilment of only 46.20% the investment programme mainly consist of legal matters related to access in the field, authorizations which were not obtained in due time, changes implemented by NARMPP in the tender validation procedures, not selecting Nabucco West as natural gas transmission gas, etc.

One of the main objectives of Transgaz is the implementation of the Data Acquisition Control System (SCADA); its third stage is currently in progress and so far the following were achieved:

- interconnection of 601 small SRMs;
- onsite acceptance tests for 601 small SRMs;
- connection to SCADA of the import station (Isaccea), including acceptance tests;
- connection to SCADA of 6 transit stations (Isaccea and Negru Vodă), including acceptance tests;
- execution of the works for NT: Band, Lețcani, Stâlp 89 and Paltin and conclusion of contracts for execution for the nodes Sărmașel, Corbu, Gherăieștim Racova and Ceanu mare and for 12 technological nodes the works for adapting the system are executed by the Mediaș Branch (SIROS);
- execution of works for fencing the valves on lands with regulated legal status.

In 2013 were Commissioned investment facilities amounting to 212,367 thousand RON, of which the most important are as follows:

- Modernisation of the Negru Vodă SMG (reverse flow);
- SCADA works - in compliance with the contract concluded with RMG;
- Automations in technological nodes;
- Natural gas transmission pipeline Ø 16" Aghireșu - Huedin;
- Natural gas transmission pipeline Ø 24" Mașloc - Recaș;
- Natural gas transmission pipeline Ø 16" Vaslui – Iași (partial acceptance);
- Interconnection pipeline Giurgiu – Ruse (acceptance stage I – above ground pipeline and SRM Giurgiu);
- Administrative office for the Bacău Sector.

The situation of total expenses incurred with investments is as follows (thousand RON):

	Programme	Achieved
▪ Investments, of which:	441,000	203,763
-NTS connection installations	-	21,291
▪ Repayment of loans for investments	26,942	24,000
TOTAL EXPENSES INCURRED WITH INVESTMENTS	467,942	227,763

Table 9-Situation of total expenses incurred with investments (thousand RON):

The investments were financed from the following sources (thousand RON):

	Programme	Achieved
▪ Net profit allocated for own financing	130,942	127,507
▪ Amortisation and depreciation	210,463	164,763
▪ NTS connection tariff		21,291
▪ Bank loans	88,287	
▪ Other sources (European funds, Shah Deniz)	38,250	138,170
▪ Deficit from the previous year		- 29,482
TOTAL FINANCING SOURCES	467,942	422,249

Table 10-Investment financing sources (thousand RON)

Accessing European funds

In 2013 were collected grants amounting to **RON 39,147,126.5**, representing interim payments for the project **"Implementing a Data Acquisition Control System at the Level of the Entire National Natural Gas Transmission System - SCADA"**.

In 2013, at the request of the European Commission, Transgaz refunded EUR 7,500,022 representing the Community financial assistance for the project for interconnecting the natural gas transmission systems between Romania and Hungary, on the Arad-Szeged route.

2.4 Indicators of management performance

In compliance with Chapter 6 of the Management Plan of SNTGN Transgaz SA Medias for 2013-2017, named "*Performance Criteria and Objectives*", the performance criteria and objectives are defined and set as follows:

- Standard performance criteria and objectives;
- Performance criteria and objectives for determining the variable component of the remuneration;
- Measurement indicators for the performance of the natural gas transmission service;
- Other performance indicators.

Standard performance criteria and objectives

Performance criteria	Performance objective	Management plan 2013	Achieved 2013	Fulfilment degree
Implemented investments – thousand RON	Achieving the programmed level	219,028	212,367	96,96%
EBITDA –thousand RON	Increasing EBITDA	589,084	716,678	121,66%
Work productivity –RON/pers	Increasing work productivity in value units (turnover / average personnel no.);	303,621	300,610	99,01%
Overdue payments-thousand RON	Making payments according to contract terms (in current prices)	0	0	100%
Overdue receivables –thousand RON	Decreasing the volume of overdue receivables (in current prices)	76,000	79,424	95,69%
Technological consumption- %	Meeting the quantities of natural gas representing technological consumption	100,00%	62%	161,29%
Operating expenses for 1000 RON operating income RON	Decreasing operating expenses for 1000 RON operating income	737,27	647	113,95%

Table 11 – Degree of fulfilment of standard performance indicators in 2013

No.	Performance criteria	Performance objective	Weighting coefficient %	Fulfilment degree 2013 %	Fulfilment level in 2013 according to the weighting coefficient
1.	Commissioned investments – thousand RON	Achieving the programmed level	15	96,96	14,54
2.	EBITDA – thousand RON	Increasing EBITDA	15	121,66	18,25
3.	Work productivity –RON/pers	Increasing work productivity in value units (turnover / average personnel no.);	15	99,01	14,85
4.	Overdue payments - thousand RON	Making payments according to contract terms (in current prices)	15	100	15,00
5.	Overdue receivables – thousand RON	Decreasing the volume of overdue receivables (in current prices)	10	95,69	9,57
6.	Technological consumption %	Meeting the quantities of natural gas representing technological consumption	15	161,29	24,19
7.	Operating expenses la 1000 RON operating income RON	Decreasing operating expenses for 1000 RON operating income	15	113,95	17,09
	TOTAL		100%		113,49%

Table 12 – Level of fulfilment of standard performance indicators in 2013

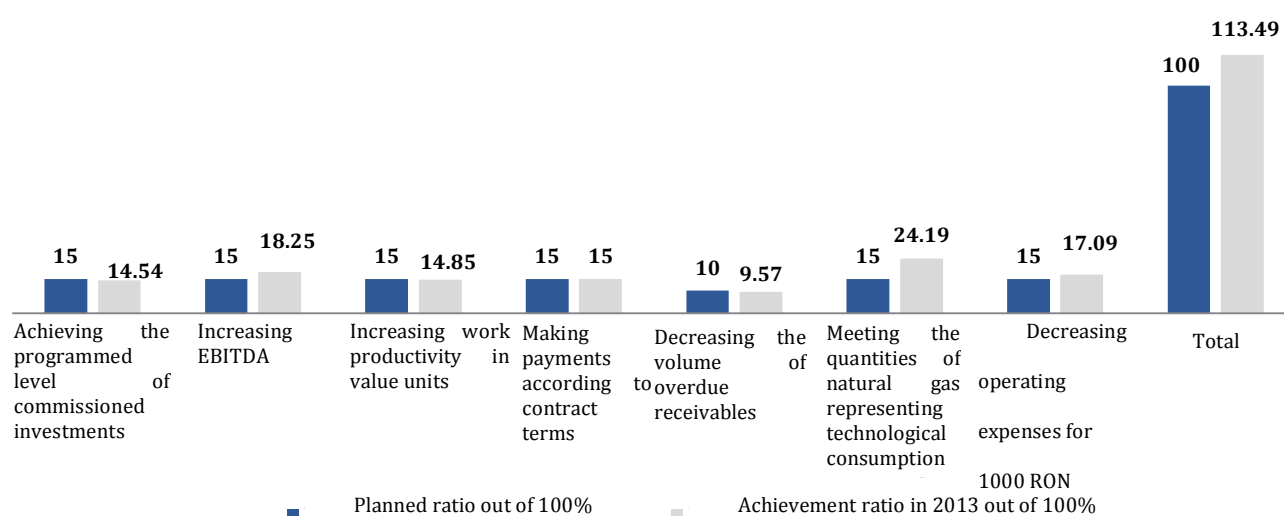


Chart 17- Aggregate level of fulfilment of standard performance indicators in 2013

Performance criteria and objectives for determining the variable component of the remuneration

PERFORMANCE CRITERION	PERFORMANCE OBJECTIVE	Management Plan 2013	Achieved 2013	Fulfilment degree %
EBITDA – thousand RON	Fulfilment of the EBITDA target undertaken in the Management Plan	589,084	716,678	121,66%
Operating expenses without amortisation thousand RON	Reducing the level of operating expenses (without amortisation expenses) actually incurred in relation to the level undertaken in the Management Plan	958,976	799,963	119,88%
Investment – thousand RON	Increasing the level of investments actually made in relation to the level undertaken in the Management Plan	279,462	203,763	73,12%

Table 13- Degree of fulfilment of performance indicators for determining the variable component of the remuneration in 2013

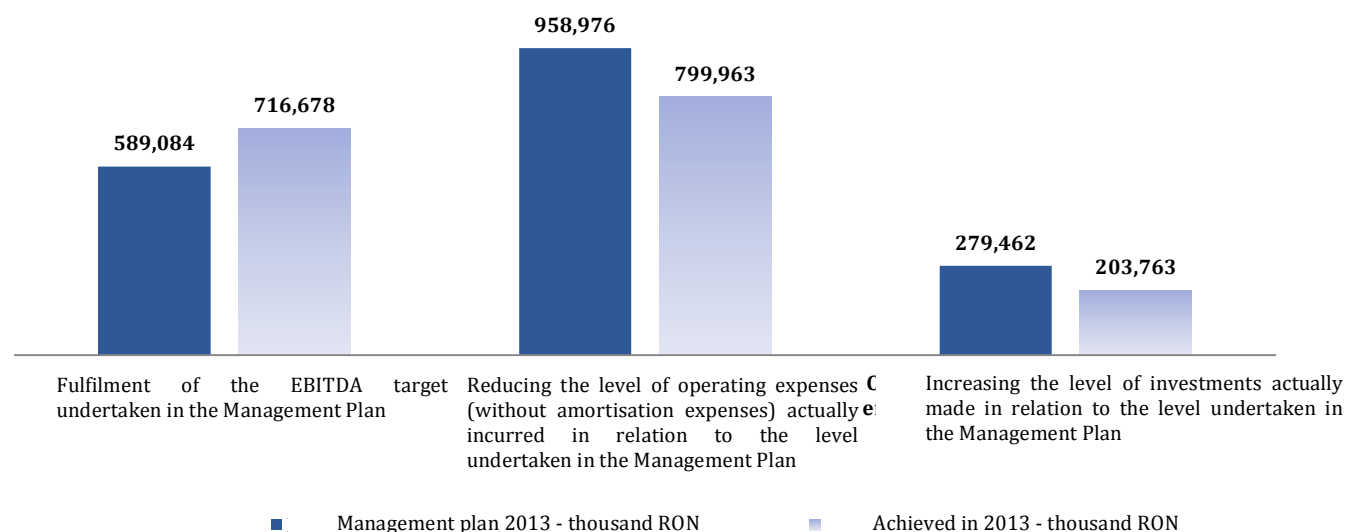


Chart 18 - Level of fulfilment of performance indicators for determining the variable component of the remuneration in 2013

Measurement indicators for the performance of the natural gas transmission service

The performance standard for the natural gas transmission system, approved by the Decision of the President of the National Regulatory Authority in Natural Gas Sector no. 1.361/13.12.2006 published in OG 27 bis of January 16, 2007, as amended and supplemented by the Order of the ANRE President no. 45/24.04.2008 regulates the commercial quality criteria defined by performance indicators for the provision of the natural gas transmission service and of the ancillary services performed by the transmission system operator (TSO).

Performance indicator (Article no.)	Objective	Results 2013
IP1- Solving the access requests for connection to the NTS (Article 5)	98%	100%
IP2- Making the connections to the NTS for the requests of access (Article 6, letter (a) and (b))	98%	100%
IP4- Information on service resumption (Article 8 (1) letter (a) and (b))	95%	100%
IP5- Notification of planned interruptions in service supply and service resumption (Article 9 (1))	100%	100%
IP6- Solving the complaints made by the NTS network users regarding the natural gas measurement (Article 10 (1) letter (a) and (b))	98%	100%
IP7- Solving the complaints regarding NTS integrity and operation under safety conditions (Article 11 paragraph (2))	95%	100%
IP8- TSO's obligation to decrease the expenses for the applicants / network users, resulting from the operating costs of the National Regulatory Authority in Natural Gas Sector.	95%	100%
IP11 - Safety indicators for expenses for 1000 RON (Article 15 (1) letter (b)) NAP (Article 15(1) letter (c)) NAP	Max. 8.3%	7.0%
	0.8	0.04
	0.1	0.00

Table 14 - Degree of fulfilment of performance indicators of the natural gas transmission service for 2013

IP10- Green Tel.: 0800872674 on the company website www.transgaz.ro

Total number of calls received in **2013** - 23 calls

Content of calls:

- request for information about dividends – 2 calls;
- request for information about technical permits – 2 calls;
- about the activity of SNTGN Transgaz SA Mediaş – 6 calls;
- event announcement – 1 call;
- TEL VERDE operational check – 1 call;
- wrong number - 11 calls.

Manner of handling the notified problems - All phone calls were expeditiously handled.

Other performance indicators

In 2013, the company's management has undertaken a number of organizational, technical and economic measures that allowed optimization of both image and reputation capital of the company in relation to stakeholders and development of a more efficient, more accountable and more transparent organizational climate in terms of activity and management of employed resources, consistent with the requirements of European and national regulations on natural gas transmission.

3. ANALYSIS OF THE COMPANY'S ACTIVITY

3.1 Analysis of the operational activity

3.1.1 Regulatory framework

The main object of activity of Transgaz - **NACE Code 4950 -Transport via pipelines** – is defined by law as the activity organized for the circulation of natural gas through the National Natural Gas Transmission System (NTS) or through other transmission systems.

In addition, Transgaz also carries out related/secondary activities supporting its main object of activity, according to the legislation in force and the company's updated Articles of Incorporation.

According to the regulatory framework applicable to the natural gas sector, Transgaz conducts the natural gas transmission activity based on the specific field legislation and the Concession Agreement concluded with the National Agency for Mineral Resources approved by GD no. 668/2002, as amended and supplemented, and on the Licence to Operate the Natural Gas Transmission System no. 1933 granted by Decision no. 3911/20.11.2013 issued by the National Energy Regulatory Authority (ANRE).

The natural gas transmission activity is a public service of national interest and it is included in the regulated segment of the domestic natural gas market. The transmission service has a natural monopoly status and is carried out based on a tariff regulated by ANRE.

The contracts for the provision of natural gas transmission services are usually concluded for a period of 1 gas year, based on the Framework Contract appendix to the Network Code for the National Natural Gas Transmission System, approved by Order of the President of ANRE no. 16/March 27, 2013, as amended and supplemented.

Another regulatory document with significant impact on the activity of Transgaz is the ANRE Order no. 34/2013 on the approval of the Regulation for granting the establishment permits and licenses in the natural gas sector.

3.1.2 Domestic natural gas transmission

The activity of natural gas transmission is regulated by ANRE by Order no. 22/May 25, 2012 on the approval of the *Methodology for the approval of prices and setting the regulated tariffs in the natural gas sector*.

During 2013, the regulated tariffs for the provision of natural gas transmission services via NTS were set based on the following normative acts:

- ANRE Order no. 76/August 27, 2009 applied for the period January 1, 2013 – March 31, 2013;
- ANRE Order no. 13/March 13, 2013 applied for the period April 1, 2013 – June 30, 2013;
- ANRE Order no. 39/June 19, 2013 applied for the period July 1, 2013 – December 31, 2013;

The natural gas transmission service ensures the fulfilment of the obligations of Transgaz under its own programme, namely to provide the network users access services to NTS based on equivalent, non-discriminatory and transparent conditions and contractual terms.

The transmission agreements concluded with the beneficiaries of the services are consistent with the regulated framework agreement and provide the legal framework for the provision of firm and interruptible transmission services.

The provision of the transmission service designates all the activities and operations carried out for and in relation to the reservation of transmission capacity and transmission through the NTS of determined natural gas quantities.

The transmission of natural gas quantities is made from the commercial delivery/receipt points from entering the NTS to the commercial delivery/receipt points from exiting the NTS, *natural gas volumes required to cover losses in the NTS being the responsibility of Transgaz*.

Through the transmission services contracted for 2013, a total amount of **119,741,363.083 MWh** was transported, the booked capacity in this regard being of **35,419.829 MWh/h firm capacity and 314.955 MWh/h interruptible capacity**.

For covering the losses from the NTS and the own technological consumption in 2013, Transgaz purchased natural gas amounting to **1,662,340.332 MWh (160,139.982 thousand cm)**.

In compliance with the *ANRE Order no. 76/23.10.2013 on the approval of the level of the natural gas stock corresponding to SNTGN Transgaz SA, Article 3, para. 1*, there were contracted services for capacity reservation in the underground storage facilities for maintaining on stock **212,000 MWh** of natural gas destined to ensure a balance in the system and its safe operation.

The share of the main beneficiaries of the domestic natural gas transmission service in 2013 is presented in the following chart:

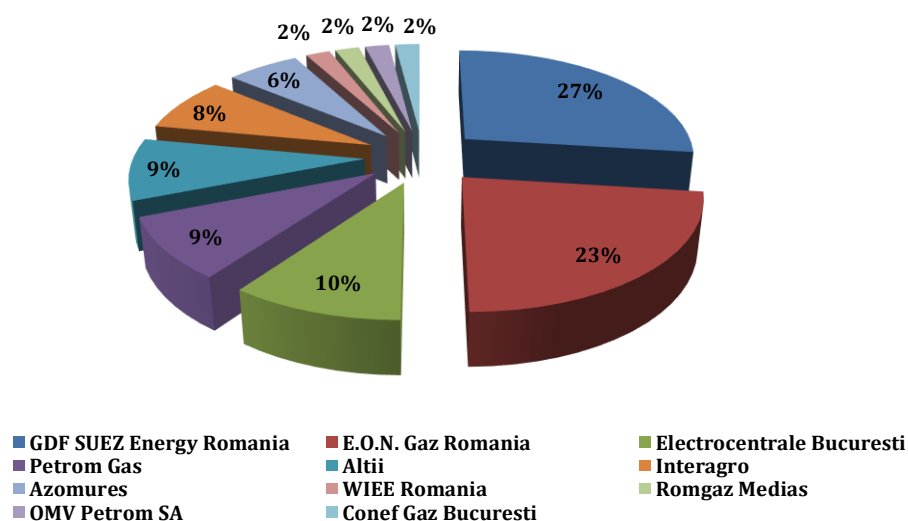


Chart 19 – Share of the main NTS users in 2013

3.1.3 International natural gas transmission

The international natural gas transmission is performed using dedicated pipelines which are not interconnected to the national transmission system (NTS) and, therefore, is not considered a regulated activity and the tariffs were commercially set by negotiations between the parties.

The international natural gas transmission ensures the transit of natural gas from the Russian Federation to Bulgaria, Turkey, Greece and other countries, through three gas pipelines, between Isaccea and Negru-Vodă. This activity is conducted on the basis of three contracts concluded between Transgaz and Bulgargaz EAD (Bulgaria), respectively Gazprom Export (Russian Federation). The legal framework for the conclusion of the contracts is represented by the following intergovernmental agreements.

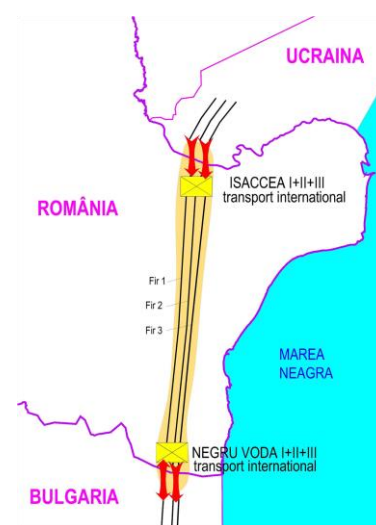


Fig.1- International natural gas transmission pipelines

- The Convention regarding the construction of a pipeline on the territory of the Socialist Republic of Romania (SRS) to ensure the gas transit from U.S.S.R. to the People's Republic of Bulgaria, signed on November 29, 1970;
- The Convention between the governments of S.R.R. and U.S.S.R. regarding the transit on the territory of S.R.R. of natural gas from U.S.S.R. to Turkey, Greece and other countries, signed on December 29, 1986;
- The Convention between the governments of Romania and the Russian Federation regarding the extension of the capacity of the natural gas transit pipelines on the territory of Romania, for increasing the supplies of natural gas from the Russian Federation to third party countries and to Romania, signed on October 25, 1996;

- The cooperation agreement in the energy sector concluded on October 29, 2002 between the Ministry of Energy and Energy Resources of Bulgaria and the Ministry of Industry and Resources of Romania.

The conventions concluded with the Russian side were denounced by the GD no. 1278/ December 27, 2011, based on the provisions of article 351, paragraph 2 of the Treaty regarding the functioning of the European Union. The validity period of the three contracts is as follows:

- Contract no. 10.726 of October 19, 2005, concluded with Bulgargaz EAD Bulgaria, valid until December 31, 2016;
- Contract no. 2102-06 of June 3, 1987 valid until December 31, 2011, extended by two addendums until December 31, 2015;
- Contract no. 643/00157629/210247 of September 24, 1999, valid until December 31, 2023.

According to the provisions of the abovementioned contracts, the payment of services is made in foreign currency, entirely depending upon the ordered capacity ("*ship or pay*" contracts).

3.1.4 Other activities

Other activities with a marginal contribution to the turnover of the company are the sales of assets, rents and royalties. The share of the main activities in the operating income is presented in the chart below:

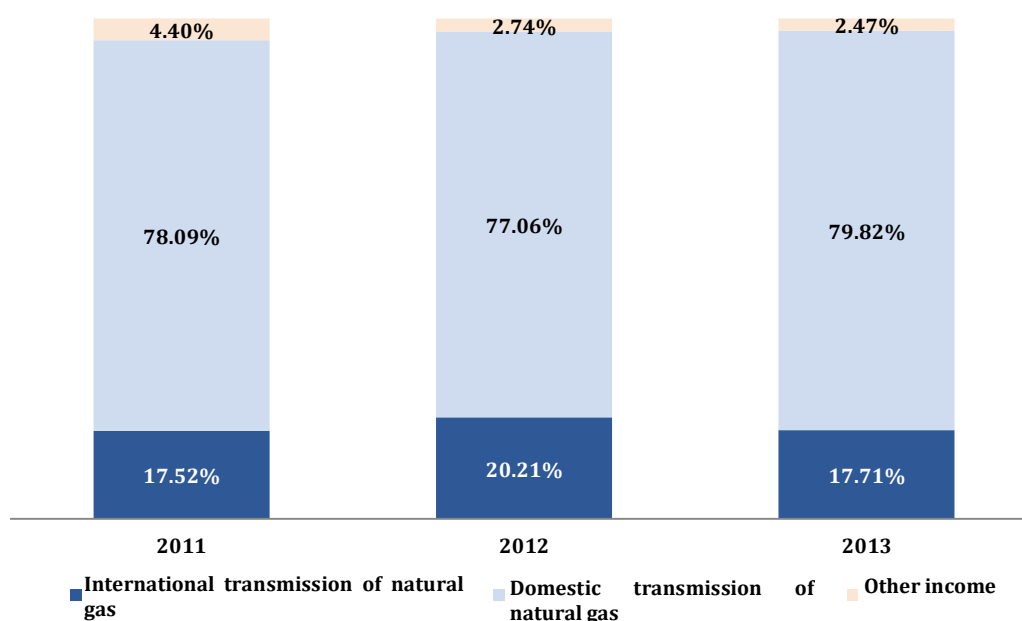


Chart 20- Evolution of the share of main activities to the operating income for the period 2011-2013

3.1.5 Evaluation of the provision of natural gas transmission service

Transgaz is the only transmission system operator in Romania. In the table below is presented the evolution of the provision of domestic and international natural gas transmission services for the period 2011-2013.

Specifications	Results (thousand RON)			Dynamics (%)		
	2011	2012	2013			
1	2	3	4	5=3/2*100	6=4/3*100	7=4/2*100
Income from domestic transmission	1,092,023	1,052,112	1,210,480	96,35	115,05	110,85
Income from international transmission	244,956	275,875	268,537	112,62	97,34	109,63

Table 15 - Evolution of income from domestic and international natural gas transmission for the period 2011-2013

The transmission of natural gas via NTS covers over 90% of the natural gas consumed in Romania and, therefore, it may be deemed that the company does not deal with competition situations in the field and it is not significantly dependent on a client or group of clients in its portfolio.

Results 2013 versus Results 2012

The situation of financial results as at December 31, 2013 in relation to results achieved in the similar period of 2012 is presented in the table below:

Name	thousand RON		
	Achieved 2012	Achieved 2013	increase
1	2	3	4=3/2x100-100
Operating income	1,365,369	1,516,640	11%
Financial income	54,789	40,721	-26%
TOTAL INCOME	1,420,158	1,557,361	10%
Operating expenses	998,817	980,843	-2%
Financial expenses	26,795	146,586	447%
TOTAL EXPENSES	1,025,612	1,127,429	10%
GROSS PROFIT (row 3-row 6)-total, out of which:	394,546	429,932	9%
from operation	366,552	535,798	46%
from the financial activity	27,994	-105,865	X
Profit tax	113,404	100,045	-12%
Income from deferred profit tax	49,793	4,604	-91%
NET PROFIT	330,936	334,491	1%

Table 16- Financial results 2013 vs. financial results 2012

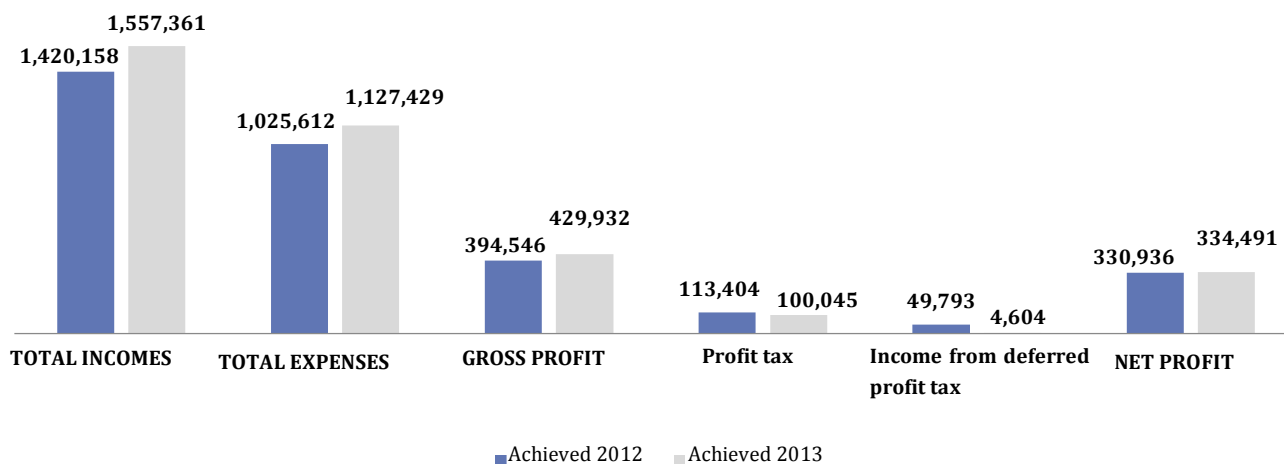


Chart 21 - Financial results 2013 vs. financial results 2012 (thousand RON)

The total income increased by 10% in relation to the results obtained in 2012 and there was recorded an increase of **137,202 thousand RON**.

The income was influenced mainly by the following factors:

- *the tariff for reserving capacity* increased in relation to 2012 by 0.812 RON/MWh, with a positive influence of **253,026 thousand RON**;
- *the quantity of transmitted gas* decreased by 10,725,281 MWh/1,014,634 thousand cm (8%), with a negative influence of **80,440 thousand RON**;
- *the volumetric component of the transmission tariff* was smaller 0.076 RON/MWh, with a negative influence of **9,159 thousand RON**;
- *the income from international natural gas transmission service* decreased in relation to 2012 by **7,338 thousand RON**, due to an average RON/EURO, respectively RON/USD, exchange rate lower than the one achieved in 2012;
- *the financial income* with a negative influence of **14,068 thousand RON** decrease in the company's bank deposits.

Total expenses increased by 10% in relation to 2012, their level increased by **101,817 thousand RON**.

Operating expenses decreased by 2% in relation to 2012, namely by **17,975 thousand RON**.

There were recorded savings amounting to 101,416 thousand RON, mainly in what concerns the following items of expenditure:

- ☞ consumption and technological loss of natural gas in the transmission system - **23,425 thousand RON due to two factors:**
 - the quantity of natural gas destined for technological consumption was smaller as compared to 879,325 MWh/79,082 thousand cm (35%), with a favourable influence of 41,144 thousand RON;
 - the main purchase price estimated for 2013 was higher in relation to 2012 by 10,659 RON/MWh, with a negative influence of 17,719 thousand RON;
- ☞ works and services performed by third parties: 38,223 thousand RON;

☞ other operating expenses: 38,063 thousand RON due to expenses incurred with higher provisions in 2012.

There were recorded exceedances of 83,441 thousand RON, out of which we mention the following expenditure items:

- ☞ monopoly tax: 40,121 thousand RON;
- ☞ amortisation of fixed assets: 16,340 thousand RON;
- ☞ personnel expenses: 11,244 thousand RON;
- ☞ royalty for NTS concession: 15,103 thousand RON.

The financial expenses recorded an exceedance of **119,791 thousand RON** due to the provision amounting to 132,591 thousand RON constituted for the depreciation of the Transgaz participation to the equity of Nabucco Gas Pipeline International GmbH, as a consequence of not selecting the Nabucco West as gas transmission route, as follows:

- the amount of 110,671 thousand RON representing the contribution from Transgaz own sources;
- the amount of 21,920 thousand RON representing financing granted by the Shah Deniz consortium.

As compared to the results obtained as at December 31, 2012, the gross profit for 2013 is higher by 9%, respectively by 35,386 thousand RON.

Results 2013 versus Budget 2013

The substantiation of indicators in the Income and Expenditure Budget (IEB) approved for 2013 was conducted in compliance with the legal provisions in force at the time of the preparation, without taking into account the rules on the application of IFRS-EU.

The main economic-financial indicators estimated for 2013, as compared to the provisions of IEB, are presented in the table below:

thousand RON

Name	IEB 2013	Achieved 2013 IFRS	Increase
1	2	3	4=3/2x100-100
Operating income	1,561,638	1,516,640	-3%
Financial income	45,883	40,721	-11%
TOTAL INCOME	1,607,521	1,557,361	-3%
Operating expenses	1,232,866	980,843	-20%
Financial expenses	32,184	146,586	355%
TOTAL EXPENSES	1,265,050	1,127,429	-11%
GROSS RESULT (row 3 - row 6), out of which	342,471	429,932	26%
☞ from operation	328,772	535,798	63%
☞ from the financial activity	13,699	-105,865	x
Profit tax	70,547	100,045	42%
Income from deferred profit tax		4,604	X
NET PROFIT	271,924	334,491	23%

Table 17 - Financial results 2013 vs. Budget 2013

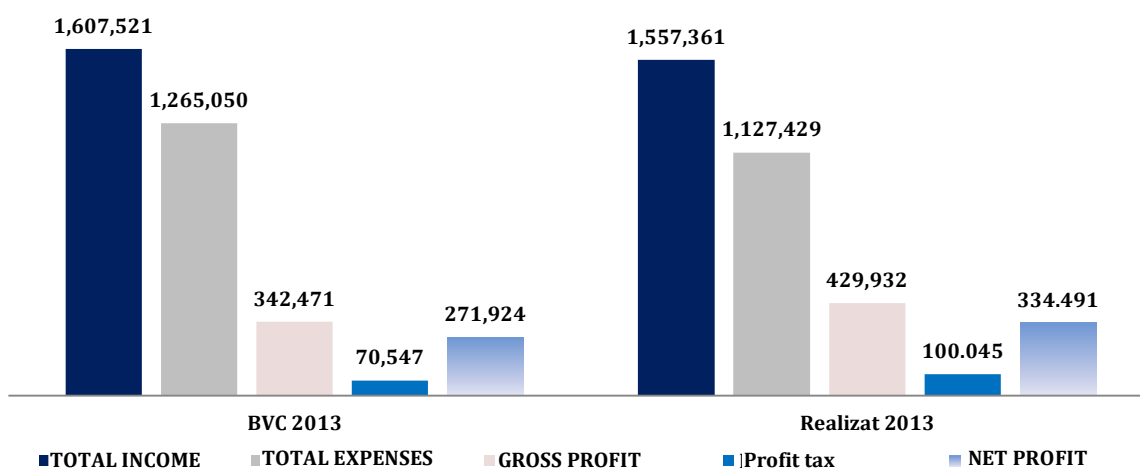


Chart 22- Financial results 2013 vs. Budget 2013 (thousand RON)

The total income is **3%** smaller than the provisions of IEB, the recorded decrease amounted to **50,160 thousand RON**.

The income was influenced by the following factors:

- Gas transmission services recorded a decrease of **37,566 thousand RON**, due to:
 - *the tariff for reserving capacity* exceeded the planned one by 0.813 RON/MWh/hour, with a positive influence of **253,026 thousand RON**;
 - *the quantity of transmitted gas* was smaller than the planned one by 24,444,035 MWh/2,334,477 thousand cm (17%) with a negative influence of **199,252 thousand RON**;
 - *the volumetric transmission tariff* was smaller than the planned one by 0.728 RON/MWh, with a negative influence of **87,152 thousand RON**.

Please note that upon approval by the ANRE of new transmission tariffs starting with April 1, 2013, the share of fixed expenses in the total income increased from 6% to 35% and, consequently, the component of capacity reservation of the transmission service increased while the volumetric component decreased.

- The income from international gas transmission services recorded a decrease of **10,525 thousand RON** due to a lower average RON/EUR, respectively RON/USD, exchange rate than the projected one;
- The other operating income recorded a favourable difference of **3,094 thousand RON**;
- The financial income recorded a decrease as compared to the level provided in the IEB amounting to **5,162 thousand RON** (income from interest and exchange rate differences) due to the level of the company's bank deposits which was lower than the estimated one.

The total expenses recorded a decrease by **11%** in relation to the approved programme, their level being by **137,621 thousand RON** lower than the provisions of IEB.

The operating expenses are 20% lower as compared to the approved IEB, namely by **252,023 thousand RON**.

There were recorded savings amounting to **257,483 thousand RON**, mainly under **the following expenditure items:**

- ☞ consumption and technological loss of natural gas in the transmission system **88,316 thousand RON**, due to two factors:
 - the quantity of natural gas destined to technological consumption was lower than the one provided in the programme by 1,480,373 MWh/136,146 thousand cm (47%), with a favourable influence of 86,586 thousand RON;
 - the achieved average purchase price was lower than the one provided in the IEB by 1.040 RON/MWh with a positive influence of 1,729 thousand RON;
- ☞ amortisation: 40,181 thousand RON. The reduction of the amortisation was due to the evaluation of fixed assets at an inflated historical cost and to the implementation of the IFRIC 12 provisions "Service Concession Commitments", as a consequence of implementing by Transgaz of International Financial Reporting Standards starting with 2012, in compliance with the MFP Order no. 881/2012 *on the implementation of the International Financial reporting Standards by companies whose securities are approved for trading in a regulated market*;
- ☞ works and services performed by third parties: 84,373 thousand RON;
- ☞ personnel expenses: 20,363 thousand RON;
- ☞ materials expenses: 16,644 thousand RON;
- ☞ other taxes and duties: 1,522 thousand RON;
- ☞ monopoly tax: 5,699 thousand RON.

There were recorded exceedances amounting to **5,460 thousand RON**, mainly due to operating expenses.

The financial expenses exceeded the level provided in IEB by **114,402 thousand RON** due to establishing the provision for the depreciation of financial assets as a consequence of not selecting Nabucco West as gas transmission route.

The gross profit is 26% higher than the one provided in the programme, its level is by 87,462 thousand RON higher as compared to the provisions of IEB, and the net profit is 23% higher, namely by 62,567 thousand RON in relation to the programmed one.

Results 2013 versus management plan 2013

The main economic-financial indicators achieved for 2013 as compared to the management plan of SNTGN Transgaz SA for 2013 approved by the Resolution of the Ordinary General Meeting of Shareholders no. 9/September 23, 2013 are presented in the table below:

thousand RON

No.	Name	Management plan	Achieved 2013	Increase
0	1	2	3	$4=3/2 \times 100 - 100$
1.	Operating income	1,548,060	1,516,640	-2%
2.	Financial income	22,264	40,721	83%
3.	TOTAL INCOME	1,570,324	1,557,361	-1%
4.	Operating expenses	1,141,342	980,843	-14%
5.	Financial expenses	132,415	146,586	11%
6.	TOTAL EXPENSES	1,273,757	1,127,429	-11%
7.	GROSS RESULT (row 3 - row 6.), out of which	296,567	429,932	45%
	↳ from operation	406,718	535,797	32%
	↳ from the financial activity	-110,151	-105,865	X
8.	Profit tax	71,703	100,045	40%
9.	Income from deferred profit tax	5,281	4,604	-13%
9.	NET PROFIT	230,146	334,491	45%

Table 18 - Results 2013 vs. Management plan

The total income is 1% lower as compared to the management programme; there was recorded a non-fulfilment of **12,962 thousand RON**.

Income was influenced by the following factors:

- The natural gas transmission services recorded a decrease of **19,410 thousand RON** mainly due to the quantity of transmitted natural gas which is 2,681,932 MWh lower in relation to the plan;
- The income from international natural gas transmission services recorded a decrease of **4,496 thousand RON** due to a lower average RON/EUR, respectively RON/USD, exchange rate than the projected one;
- The other operating income recorded an unfavourable difference amounting to **7,514 thousand RON**;
- The financial income recorded an increase in relation to the level provided in the management plan, amounting to **18,457 thousand RON** mainly due to the financing granted by Shah Deniz for increasing the Nabucco equity.

The total expenses are **11%** lower as compared to the level provided in the management plan, their level being lower by **146,328 thousand RON**.

The operating expenses are 14% lower as compared to the level provided in the management plan.

There were recorded savings amounting to **164,440 thousand RON**, mainly under the following expenditure items:

- ☞ consumption and technological loss of natural gas in the transmission system 68,898 thousand RON, due to two factors:
 - the quantity of natural gas destined to the technological consumption is lower than the one provided in the programme by 1,035,200 MWh, with a favourable influence of 63,089 thousand RON;
 - the average purchase price is lower by 3.49 RON/MWh with a positive influence of 5,809 thousand RON;
- ☞ works and services performed by third parties: 63,990 thousand RON;
- ☞ materials expenses: 4,016 thousand RON;
- ☞ expenses incurred with other taxes and duties: 686 thousand RON;
- ☞ royalty for NTS concession: 2,391 thousand RON;
- ☞ monopoly tax: 2,342 thousand RON.

There were recorded exceedances amounting to **3,941 thousand RON** to the tax for granting the NTS operation licence (263 thousand RON) and other operating costs (3,639 thousand RON).

The financial expenses are 14,171 thousand RON higher as compared to the level provided in the management plan, mainly due to the provision for the financing granted by Shah Deniz for increasing the Nabucco equity.

The gross profit is **45%** higher than the one provided in the management plan, its level being higher by **133,366 thousand RON**, and the **net profit** by **45%**, namely by **104,345 thousand RON**.

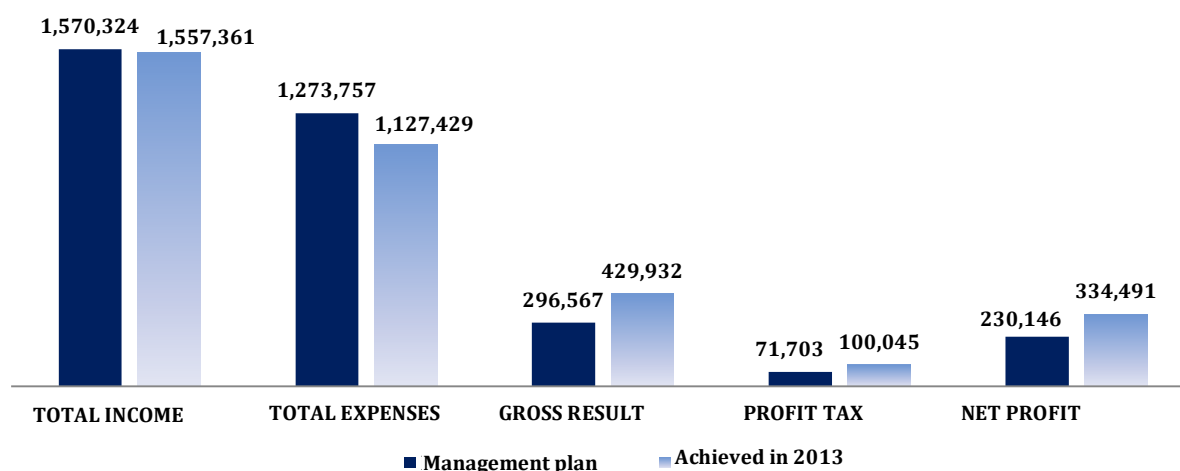


Chart 23 -Results 2013 vs. Management plan (thousand RON)

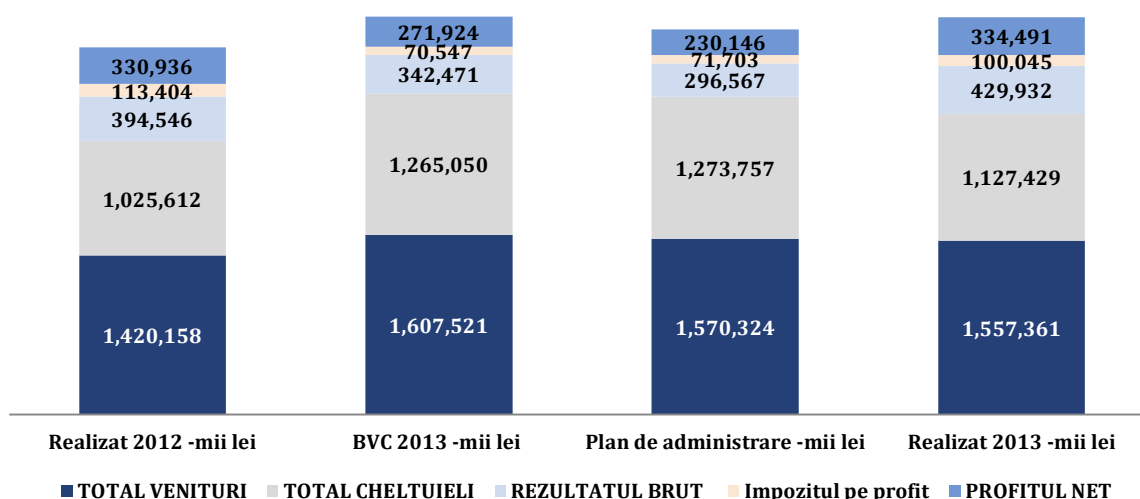


Chart 24 – Results 2013 vs. Results 2012, IEB 2013, Management plan

	Achieved 2013/ Achieved 2012	Achieved 2013 / IEB 2013	Achieved 2013 / Management plan
TOTAL INCOME	110%	97%	99%
TOTAL EXPENSES	110%	89%	89%
GROSS RESULT	109%	126%	145%
Profit tax	88%	142%	140%
NET PROFIT	101%	123%	145%

Table 19 – Results in 2013 vs. level of fulfilment in 2012, IEB 2013, Management plan (%)

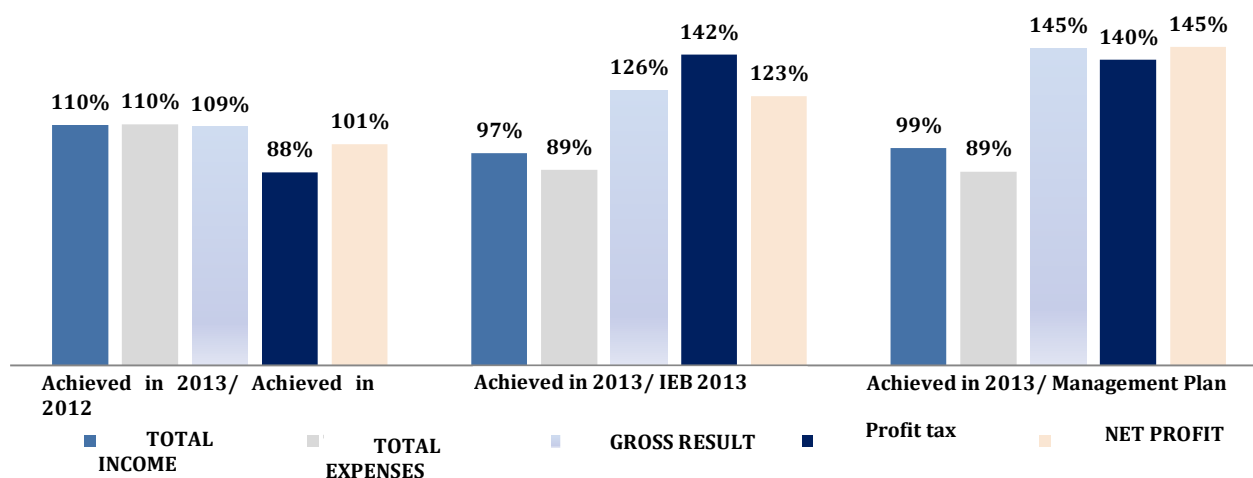


Chart 25 - Results in 2013 vs. level of fulfilment in 2012, IEB 2013, Management plan (%)

3.1.6 Evaluation of the research and development activity

The activity of the research and engineering department was carried out in 2013 on two directions: design and scientific research.

Design activity

In 2013, within the department were handled 193 design works out of which the **Technical and Economic Council (CTE) of Transgaz approved 80 works with a total value of the investment amounting to 205,568,562 RON**, as follows:

- 3 Solution Studies;
- 71 investment works;
- 4 maintenance works;
- 2 works for access to the NTS;

the rest of the works are in different development stages.

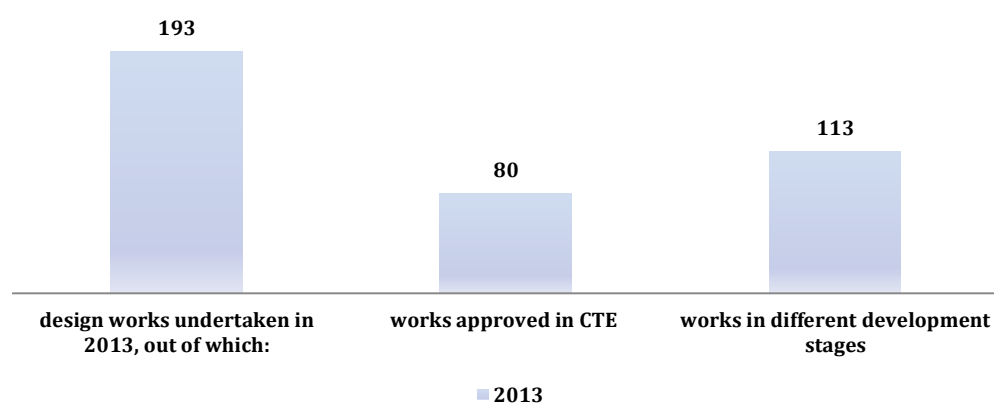


Chart 26- The number of design works undertaken and approved by the CTE Transgaz in 2013

Important undertaken works:

- Within the **SCADA project** were developed technical projects for 34 nodes corresponding to the third stage;
- **The interconnection pipeline Ungheni-Iași** providing the interconnection of natural gas transmission systems of Romania and the Republic of Moldova;
- **The development on the territory of Romania of the Natural Gas Transmission System on the corridor Bulgaria - Romania - Hungary - Austria** - the pre-feasibility study was completed and there were commenced works to prepare the feasibility study. At the same time was undertaken the **technical project related to the Natural gas transmission pipeline Ø 32" Băcia - Hațeg - Recaș**;
- **The modernisation of the Șinca turbo compressors station and related facilities** - there was commenced the preparation of the feasibility study.

In addition, in 2013, there was provided technical assistance to the works under execution.

In what concerns the ***Design of the Nabucco pipeline on the territory of Romania***, the activities performed during 2013 by the Design and Research Department were as follows:

- Completion of the pipeline route;
- Obtaining permits and agreements from the competent authorities

On 17.10.2013 was signed the Termination Agreement between Nabucco Gas Pipeline International GMBH and the Consortium which includes SNTGN Transgaz SA Mediaş, SC Petrostar SA Ploieşti and SC Gazproiect SA Braşov (the TPG Association).

Project management activities were conducted as a result (conclusion of addenda and termination agreements with the Company Nabucco and the specialty subcontractors, conclusion of protocols with the members of the Design Association, negotiations, etc.).

SNTGN Transgaz SA through the Design and Research department collected during 2013:

- 365,194.99 EUR - from design and project management activities;
- 302,106.24 EUR - as a result of concluding with the members of the TPG Association of the Protocol on the allocation and percentage distribution of the reserve fund corresponding to the Extended Scope of Works (including undercrossing the Danube) from the contract for local design of the pipeline Nabucco on the territory of Romania.

Research activity

It was carried out according to the ***Scientific Research, Technological Innovation and Standardization Program for 2013*** and included 14 research themes, out of which 2 were carried out in the period 2010-2011 and the other 12 were new themes for 2013.

A theme, amounting to 300,000 RON, related to the use of alternative sources of energy for the supply of electrical energy to NTS equipment and facilities was completed during the year.

A theme, amounting to 450,000 RON, related to the development of technical requirements for the design of technological facilities corresponding to NTS was initiated within the department.

In addition, there were conducted activities related to determining new solutions for reducing the noise of compressor stations and research on the uptake of electric micro generators driven by pneumatic gas engines.

Contracts, in a total amount of 490,500 RON, were concluded with universities and specialized research institutes for implementing 5 of the new themes.

3.1.7 Evaluation of the purchasing activity

The purchases for ensuring the technical and material basis are made under firm contracts or orders, concluded by observing the applicable laws, both from the domestic market and imports.

3.1.8 Acquisitions and disposals of assets

Except for the acquisition of assets necessary to carry out and develop the activity, as well as for the assets taken out of service under the law, the company recorded no other similar operations in 2013.

3.1.9 Internal and external audit of the company's activity

The internal public Audit Activity was set up at the level of Transgaz at the end of 2007, by the creation of the Internal Audit Office.

The first Internal Audit Plan was implemented in 2008. Since then, annual audit plans have been developed for each financial year. Besides the annual plans, the internal audit structure prepares strategic plans for periods of 3 calendar years, plans which are in a continuous dynamics, based on the risk analysis of the entity's activities, carried out at the end of each calendar year by the Board of Directors.

The audit of the 2013 financial statements was performed by the "PricewaterhouseCoopers Audit SRL" (PwC) auditors.

3.1.10 Evaluation of human resources and social dialogue

As at December 31, 2013, SNTGN transgaz SA had 4,901 employees under individual employment contracts, out of which 4,883 for an indefinite period and 18 for a fixed-term period.

During 2011-2013, the number of company employees evolved as presented in the following table:

Specification	2011	2012	2013
Number of employees at the beginning of the period	4,970	4,962	4,978
Number of new employees	114	117	65
Number of persons who terminated their labour contract	122	101	142
Number of employees at the end of the period	4,962	4,978	4,901

Table 20- Evolution of the number of employees for the period 2011-2013

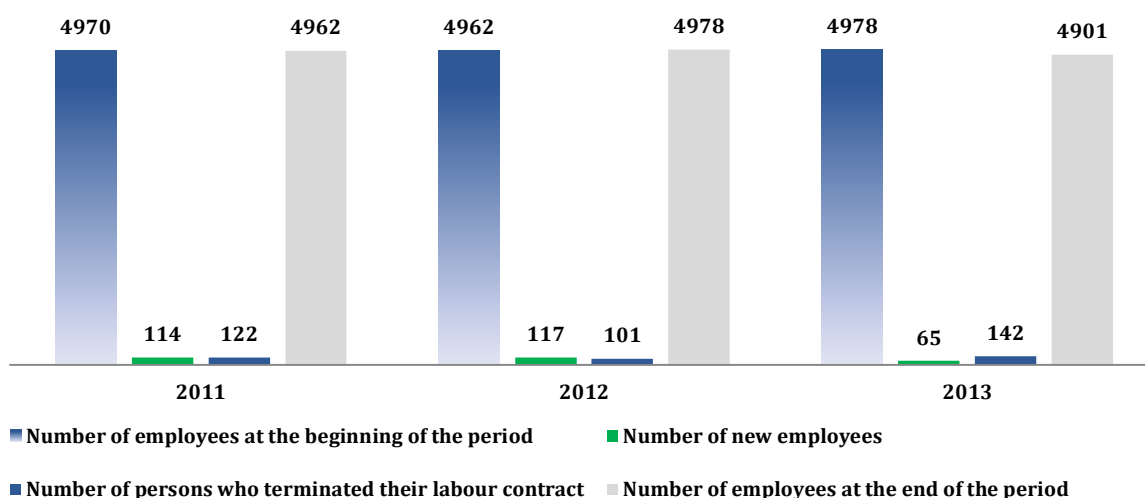


Chart 27- Evolution of the number of employees for the period 2011-2013

The evolution of personnel according to education reflects the company's interest in covering personnel needs by hiring highly-qualified specialists, as well as in the continuous training of the existing personnel:

Category	31.12.2011	31.12.2012	31.12.2013
University graduates	1,001	1,069	1,096
High-school graduates	1,605	1,597	1,565
Vocational school graduates	922	917	896
Secondary school + qualification course graduates	1,434	1,400	1,344
TOTAL employees	4,962	4,978	4,901

Table 21- Evolution of personnel according to education for the period 2011-2013

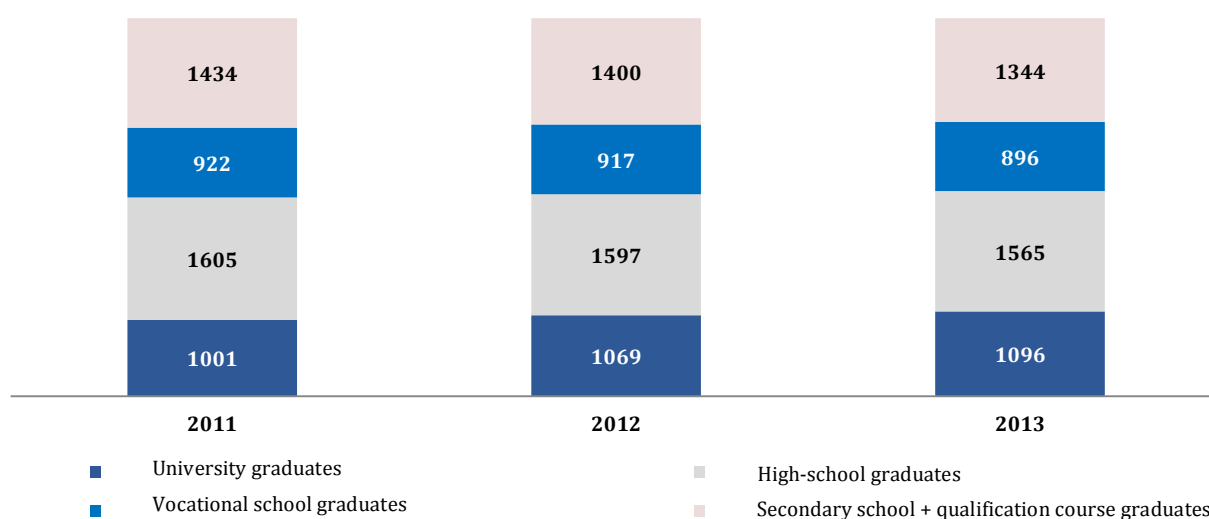


Chart 28- Evolution of personnel according to education for the period 2011-2013

As regards the employees' continuous training and retraining in 2013, the company organised training and retraining courses delivered by in-house trainers for 1,183 employees, for jobs specific to the business activity of the company.

During the same period, 785 employees took part in training courses delivered by external trainers.

At December 31, 2013, 98.76% of the labour force was part of a trade union (4,901 employees out of 4,840 were trade union members).

Transgaz employees are members of 4 trade unions, as follows:

- The Trade Union "Transport Gaz" Mediaş
- The Free Trade Union SNTGN TRANSGAZ SA Mediaş
- The "CERTEH" Research Technology TradeUnion Mediaş
- The Professional Trade Union "Metan" Mediaş.

The "TRANSPORT GAZ MEDIAŞ" Trade Union is the representative union of the unit, according to the provisions of Law no. 62/2011 – on Social Dialogue, Art. 51, letter c), and, therefore, it represented the company's employees at the conclusion of the Collective Labour Contract for 2012-2014.

The relations between the employer and the employees are regulated by the Collective Labour Contract concluded at company level, registered with the Sibiu Territorial Labour Inspectorate under no. 158/25.06.2012 and by the individual labour contracts concluded with the employees.

The relations between the employer and the employees observe the legal provisions in force and in 2013 there were no conflicts related to such relations.

3.1.10 Evaluation of HSSEQ activities

HSSEQ activities are presented in **Annex 2** and include aspects related to:

- The responsibility of the issuer regarding the environment;
- The relevant legal framework and the status of the authorizations;
- Inspections and sanctions;
- Mitigation of the environmental impact;
- Pursuits related to Occupational Health and Safety (OHS) in 2013;
- Organizational, technical, sanitary and other measures;
- OHS related expenses;
- Expenses according to OHS codes.

3.1.11 Litigation

According to the Register of litigation files kept by the Legal and Litigation Department, the **situation of disputes SNTGN Transgaz SA Mediaș was involved in in 2013** is as follows:

- **68 litigation files** where Transgaz acted as plaintiff and defendant, out of which
 - **41 files** - as plaintiff;
 - **25 files** - as defendant;
 - **2 files** - as garnishee;

Resolutions:

- 👍 9 files were settled favourably for Transgaz;
- 👎 4 files were lost;
- 1 file was suspended;
- 54 files are pending.

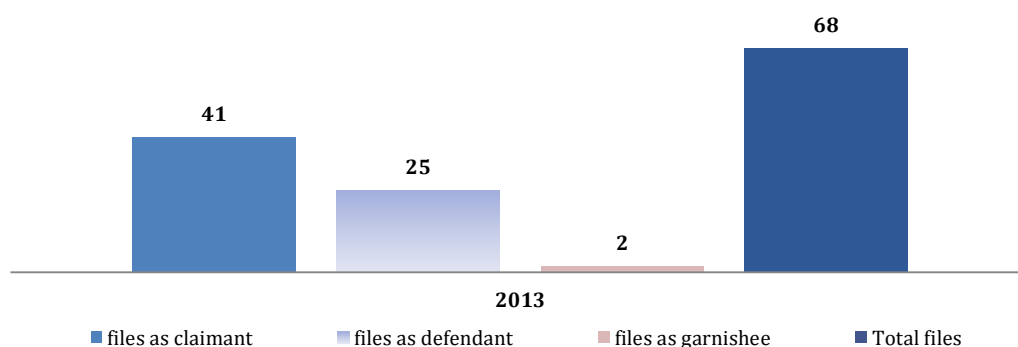


Chart 29- Structure and number of litigation files the company was involved in in 2013

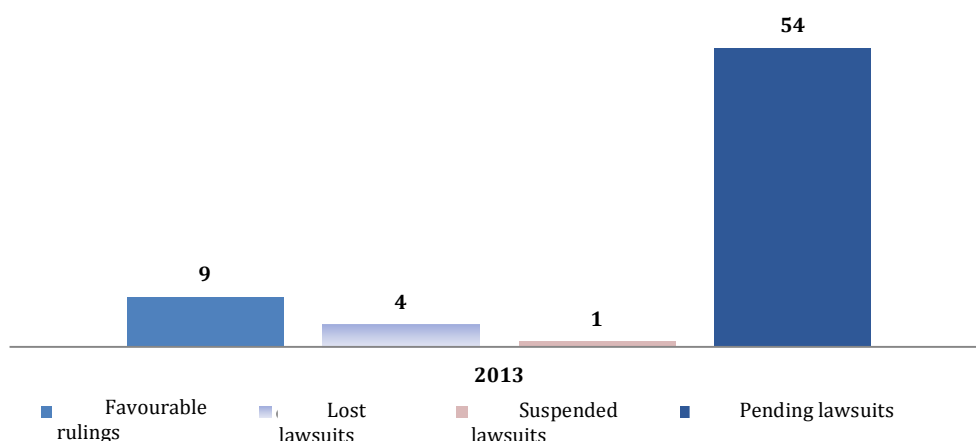


Chart 30 - Settlement of litigation files the company was involved in in 2013

- Value of the files where Transgaz is the plaintiff : **85,871,712 RON plus 3,656 euro**;
- Value of the files where Transgaz is the defendant: **6,008,407.69 RON plus 241,660 euro**.

3.1.12 Miscellaneous

The Nabucco Project

On 18.01.2013 was signed, subject to obtaining internal approvals, the Cooperation Agreement (CoA) and the Equity Finance Agreement of Nabucco Gas Pipeline International GmbH (EFA) between the associates of Nabucco, Nabucco Gas Pipeline International GmbH Austria (NIC) and the potential investors from the Shah Deniz Consortium. The General Meeting of Shareholders Transgaz approved these agreements during the meeting held on 04.03.2013 (the Resolution no. 4/2013).

Please note that on 01.03.2013 was completed the sale to OMV Gas & Power GmbH Austria of the full package of shares owned by RWE Supply & Trading GmbH Germany in NIC (17.38%).

According to the CoA and the EFA, the potential investors of the Shah Deniz Consortium contributed to financing the costs related to the development of the project in the agreed percentage: 50% for the first financing period (01.07.2012-31.12.2012), 70% for the second financing period (01.01.2013-31.03.2013) and 80% for the third financing period (01.04.2013-30.06.2013).

Part of the said amounts was used to increase the equity of NIC (EUR 25,000,000) in the name of the Nabucco Associates and the rest (EUR 13,500,000) remained in an escrow account available to all parties to be distributed at the time of settlement, which would have been occasioned by the positive decision to select or by the termination of EFA.

On June 25, 2013, in Vienna, in the presence of the NIC associates, the consortium Shah Deniz communicated its decision on the selection of the gas transmission route to Europe, between Trans-Atlantic Pipeline (TAP) and Nabucco West. The decision was unfavourable for Nabucco West due to reasons mainly related to the commercial aspects of the competing projects.

The lack of perspective of the Nabucco project in the context of not being selected by the Shah Deniz Consortium and the lack of certitude related to the exploitation of new gas fields in the foreseeable future in the area of the Caspian Sea and the Middle East determined the Nabucco associates to decide to liquidate the project company and the Nabucco National Companies (NNCs), voluntary liquidation controlled by the NIC associates made by a liquidator.

In order to achieve this goal and to ensure the cash required to liquidate the Nabucco Companies, NIC requested from the associates cash in the amount of EUR 6,694,174.67, and the share due by Transgaz was EUR 1,338,834.93.

FGSZ Hungary did not participate in the financing. This request was honoured in cash by the end of August 2013 and was followed by an equivalent increase in the equity.

During the fourth quarter, NIC filed the application for liquidation with the Commercial Court in Vienna. The liquidation of the NIC must be mandatorily preceded by the liquidation of the NNCs.

Since the NNCs are governed by different laws, which provide different liquidation periods, this process will be a lengthy and difficult one, estimated to last up to 18 months.

The amounts remaining in the company's patrimony at the end of the liquidation process will be distributed between its rightful associates.

The participation of the six associates in the Company Nabucco Gas Pipeline International GmbH as at 31.12.2013 is as follows:

Associate	Participation to the NIC equity (%)
OMV GAS & POWER GMBH Austria	35.8635%
FGSZ FÖLDGÁZSZÁLLÍTÓ ZÁRTKÖRŪEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG Hungary	10.3411%
S.N.T.G.N. TRANSGAZ S.A. Romania	17.9318%
BULGARIAN ENERGY HOLDING EAD Bulgaria	17.9318%
BORU HATLARI İLE PETROL TAŞIMA AŞ Turkey	17.9318%
Total:	100.0000%

Table 22- Participation of associates to Nabucco Gas Pipeline International GmbH as at 31.12.2013

Event occurred after 31.12.2013

The settlement of the amounts from the escrow account is being negotiated. There is foreseen an amicable settlement of this process in order to avoid arbitration which entails additional costs, an indefinite period and uncertain results.

In this respect it is intended to conclude a Settlement Agreement.

The distribution of assets is being completed. The NIC associates prepared **"The list of NIC documents with/without commercial value"**.

Once the liquidator shall determine the legality of the distribution of documents without commercial value, these will be immediately distributed to the associates on magnetic tapes (each associate will receive a full set).

The assets deemed as having commercial value will be distributed to the associates only at the end of the blockage periods.

The secondary public offering (SPO) to sell the package of shares representing 15% on the company's equity

According to GD no. 827/2010, **ME-OPSPI offered for sale**, through a second public offering to sell shares, **a number of 1,766,077 ordinary**, nominative, dematerialized **shares** with a nominal value of RON 10 issued by Transgaz, **representing 15% of the equity**.

The offering took place during the period April 4 to 16 and was oversubscribed, the total value of the offering being of RON 315 million.

The retail tranche, with subscriptions of up to 1,000 shares, was oversubscribed at a rate of 347% and the one with subscriptions of over 1,000 shares at a rate of 257%.

The tranche of institutional investors was significantly oversubscribed, at prices over the minimum limit of the price range within which subscriptions could be made, namely RON 171-230 per share.

By applying the algorithm described in the offering prospectus, the price per share was of RON 179 for the tranche of institutional investors and for the tranche of large subscriptions and of RON 170.05 for the tranche of small subscriptions - for the investors that subscribed in the first three working days of the offering period, and RON 173.63 for the investors that subscribed starting with the fourth working day of the offering period.

The allocation of shares to the investors that validly subscribed was conducted based on the allocation indexes of 0.389715 for the tranche of large subscriptions and of 0.288253 for the tranche of small subscriptions.

The members of the underwriting syndicate were as follows:

- S.S.I.F. Raiffeisen Capital & Investment S.A. - Lead Manager,
- Wood & Company Financial Services a.s. – Manager and Joint Bookrunner and
- S.S.I.F. BT Securities S.A. - Manager.

Following the SPO, the structure of the Transgaz shareholding and its participation to the share capital became as follows:

- ***The Ministry of Economy – 58.5097 %;***
- ***Fondul Proprietatea S.A. – 14.9876 %;***
- ***Legal Entities and Individuals (free-float) – 26.5027%.***

Certification of TRANSGAZ as independent system operator (ISO)

In accordance with Directive (EC) no. 73/2009 on common rules for the internal market in the sector of natural gas, the transmission and system operators are required to implement and observe the unbundling requirements, to which purpose the regulating authorities certify the compliance of operators with these conditions.

Thus, pursuant to Art. 126 para. (1) of the Electricity and Natural Gas Law no. 123/2012, TRANSGAZ requested from ANRE to be certified as *independent system operator* (ISO). After filling in the documentation as required, ANRE submitted for approval to the European Commission the application filed by TRANSGAZ.

On 25.11.2013 the European Commission issued the **final CE Approval (2013) 8458** expressing, basically, its agreement in what regards the choice of the ISO model by TRANSGAZ, but the implementation of the chosen model was conditioned by the establishment of **a real and effective separation of public bodies within the state**.

Given the Approval issued by the Commission, ANRE issued the Order no. 3/2014 on the approval of the certification of the National Transmission Company Transgaz SA Mediaș as transmission and system operator of the National Natural Gas Transmission System, published in the Official Gazette of Romania, Part I, no. 60 of January 23, 2014. Pursuant to the law, **TRANSGAZ obtained a conditional and provisional certification according to the independent system operator model**.

From the date of issuance of the ANRE Order no. 3/2014, the current legal framework was amended and thus the certification procedure was impacted, namely the Government Emergency Ordinance no. 18/2013 was repealed and replaced by the Government Emergency Ordinance no. 6/2014. This change in the legislative framework does not involve changing the certification conditions required by ANRE.

Given the new legislative context which impacts the completion of the TRANSGAZ certification process from the perspective of the Order of the ANRE president no.3/2014, the public authorities and institutions should endeavour to:

I. Modify the Articles of Incorporation of TRANSGAZ such as:

- To ensure the compliance of the company's shareholders and of its management structure with the requirements of Art. 128 para (1), let. a), b), c) and para. (2) and (3) of the Electricity and Natural Gas Law no. 123/2012, regarding the incompatibilities;
- To provide express interdiction for the shareholders owning more than 5% of the shares in what concerns the exercise of rights provided by Art. 128 para. 2), let (i), (ii) regarding the right to vote and the right to appoint members of the supervisory board and the board of directors;
- To ban the interference in making decisions regarding the company's current activity and operation of any public or private person or legal entity that is not part of the management structure

II. Amend and supplement the following normative acts:

- The repeal of Art. 4 para. (2) of the Government Emergency Ordinance no. 6/2014;
- To supplement GEO 6/2014 with a provision banning any interference in making decisions regarding the company's current activity and operation of any public or private person or public entity that is not part of the management structure;
- To supplement GEO no. 6/2014 with a provision empowering the National Energy Regulatory Authority to ascertain the fulfilment of the requirements laid down in Art. 128 of Law no. 123/2012 by the shareholders of the National Gas transmission company "Transgaz" - S.A. Mediaş that own more than 5% of the shares, as well as by the candidates proposed by the Supervisory Board and the Board of Directors for the management structure of the company from the legal perspective, before appointing such candidates.
- To repeal Art. 3 para. (1) sections 4 and 31 of the Government Decision no. 429/2013 on the organization and functioning of the Department of Energy.

III. As a recommendation, ANRE proposed that the Ministry of Public Finance should become the contracting authority in the concession agreement of the National Natural Gas Transmission System, as representative of the transmission network owner; such authority should take over from the National Agency for Mineral Resources the position of concedant of the system by concluding an addendum signed by all parties involved.

The infringement procedure initiated by the European Commission for failure to observe the Regulation (EU) no. 994/2010 on the measures to safeguard the security of gas supply (Case 2244/2013)

The adoption of the Regulation (EU) no. 994/2010 was felt as an urgent necessity in the Union as a result of the negative impact on the gas market caused by the tensions between Moscow and Kiev in January 2009.

The legal nature of this document, i.e. regulation and not directive, is a clear proof of the tendency to prescribe to all Member States a uniform policy and to adopt urgent and clear measures to ensure energy safety in the gas market.

At present, Romania has not yet implemented all the measures provided for in the Regulation, which generated the issuance by the European Commission of a **Letter of Formal Notice** on **20.11.2013 (Case 2244/2013)**.

Unfulfilled obligations:

- ☞ The adoption by the Competent Authority of a preventive action plan and of an emergency plan until December 3, 2013 and the submission of such plans to the Commission;
- ☞ The submission by the transmission system operator to the Competent Authority of a proposal or a request for derogation concerning the bidirectional capacity in the cross-border interconnection points between Romania and other Member States by March 3, 2012;

- ☞ The Competent Authority must take a decision on establishing the continuous bidirectional capacity in all cross-border points between the Member States and to notify such decision to the Commission no later than September 3, 2012.

In accordance with the Regulation 994/2010, the transmission system operators are required to ensure the continuous bidirectional flow as of December 3, 2012, without set volumes or aspects related to technical parameters which must be provided.

Status of actions implemented to eliminate non-conformities:

1. The adoption by the Competent Authority of a preventive actions plan and of an emergency plan until December 3, 2012 and submission of such plans to the Commission;

Although these requirements were not timely met due to organizational and administrative reasons, the following documents relevant for the fulfilment of the obligations under this regulation are currently being developed:

- preventive action plan
- regulation on interruptibility for safety reasons
- action plan for emergency situations

It is estimated that these documents will be completed and submitted to the European Commission no later than March 3, 2014.

2. The submission by the transmission system operator to the Competent Authority of a proposal or a request for derogation concerning the bidirectional capacity in the cross-border interconnection points between Romania and other Member States by March 3, 2012

The status of ensuring the bidirectionality requirements in the cross-border interconnection points between the Romanian system and the systems of the neighbouring EU Member States was brought to the attention of the Competent Authority and is as follows:

2.1 The interconnection point Horia – Csanadpalota (RO-HU)

As of February 1, 2014, TRANSGAZ and FGSZ will provide the market with a transmission capacity of 10,000 cm/hour under firm conditions and 40,000 cm/hour under interruptibility conditions on the direction of flow Romania – Hungary.

For increasing the transmission capacity on this direction, there is envisaged a number of developments, both in the Romanian system and in the Hungarian one, developments expected to be completed in December 2016.

From that moment, the capacity which could be ensured from Romania to Hungary will be of 1.75 bcm/year and there are plans to further extend up to the maximum capacity of the interconnector, i.e. 4.4 bcm/year.

2.2 The interconnection point Ruse – Giurgiu (RO – BG)

Upon the commissioning of the interconnection pipeline, there will be ensured a transmission capacity of the direction *RO-BG* of 0.5 bcm/year at the minimum pressure laid down in the decision to finance the project (21 bars).

Following the completion of rehabilitation works in the southern part of the Romanian transmission system, until the end of September 2014, TRANSGAZ will be able to ensure a transmission capacity of 0.5 bcm/year at a pressure of 30 bars on the direction *RO – BG*.

There is also planned a number of additional developments in the Romanian transmission system and, after the implementation thereof on the direction of flow *RO-BG*, the market will be provided the maximum capacity of the interconnector, i.e. 1.5 bcm/year.

2.3 The interconnection point Negru Vodă I (RO – BG)

At present, the natural gas transmission through the pipeline Isaccea - Negru Vodă, line I, is conducted based on a bilateral contract concluded between Transgaz and Bulgargaz, according to which:

- the transmission tariff is negotiated between the parties;
- the capacity reservation is exclusively granted to Bulgargaz;
- the access of third parties to the pipeline can be granted only if consented by Bulgargaz;

In addition, this pipeline is not physically connected to NTS, its destination being exclusively for the transit of natural gas for Bulgaria from the Russian Federation through Romania

In order to fulfil the obligation to ensure bidirectional flows, under the current European regulations, the following actions should be implemented:

- the connection of such pipeline to NTS;
- the execution of works required to ensure technical conditions for a physical flow of natural gas through this pipeline, from Romania to Bulgaria, coming from the NTS;
- the renegotiation of the current contract between Transgaz and Bulgargaz in order to set technical and commercial relations that comply with the European and national regulations in force

TRANSGAZ commenced a process to identify a balanced solution for ensuring the bidirectional flow on the pipeline Isaccea - Negru Vodă (line 1) such as to obtain a **beneficial** outcome both in terms of functionality, by increasing the safety of the supply of natural gas to Romania and Bulgaria, and of financial results of the company, obtained in a commercial context caused by a new regulatory framework on the operation of the pipeline.

Considering all the above, Transgaz requested from the Competent Authority a temporary derogation from the provisions of Regulation 994/2010.

2.4 The interconnection points Negru Vodă II and III:

The provision of continuous bidirectional flow in these two points depends on solving the contractual situation with Gazprom Export.

Romania withdrew from the intergovernmental conventions and the government of the Russian Federation refuses to renegotiate them.

The matter is outside the competence of Transgaz, and, as long as the commercial contracts are still valid, there cannot be met the requirement related to making available to third parties the entire capacity of the pipelines and to providing bidirectional flow.

3. The Competent Authority must take a decision on establishing the continuous bidirectional capacity in all cross-border points between the Member States and to notify such decision to the Commission no later than September 3, 2012.

Pursuant to the proposal submitted by Transgaz to the Competent Authority (the last update of the information was sent on January 23, 2014), the latter will consult the Competent Authorities of Member States and will inform the European Commission about what was proposed.

The infringement procedure initiated by the European Commission for failure to observe the Regulation (EC) no. 1775/2005 on the conditions for access to the natural gas transmission networks (Case 2193/2009)

In 2009, the European Commission (the Commission) initiated the infringement procedure against Romania for non-compliance with some provisions of the Regulation (EC) no.1775/2005 on the conditions for access to the natural gas transmission networks (hereinafter referred to as the Regulation).

The procedure was initiated by the **Letter of Formal Notice SG-Greffe (2009)D/3833/26.06.2009** stating that Romania did not meet its obligations under Art. 4 para. (1), Art. 5 para. (1), Art. 5 para. (2), Art. 6 para. (3), Art. 6 para. (4), Art. 7 para. (3), Art. 10, Art. 13 para. (1) of the Regulation and under sections 1(1), 1(9), 1(10), 3.3(3) and 3.3(4) of the Guidelines.

Considering that only part of the notified non-compliances were solved within a year from the initiation of the procedure, the Commission sent the **Reasoned Opinion SG-Greffe no. (2010)D/24.06.2010** establishing that the nonfulfillment of some obligations continues to exist.

Unfulfilled obligations:

- ☞ Obligation to make available the entire capacity on the Pipelines Isaccea – Negru Vodă;
- ☞ Obligation to publish information on technical, contracted and available capacities;

- ☞ Obligation to implement imbalance tariffs;
- ☞ Obligation to provide daily updates regarding services available for a short period;

Status of the actions undertaken to eliminate nonconformities:

1. Making available the entire capacity on the pipelines Isaccea – Negru Vodă.

▪ Transit line I:

In order to assist in the settlement of the problems which led to the initiation of the infringement procedure, ANRE regulated the manner to **allocate the capacity by tender** at a starting price set by benchmarking. The application of the new methodology requires:

- The conclusion by Transgaz and Bulgartransgaz of the Agreement for Capacity Allocation and of the Operating Agreement for the interconnection point Negru Vodă I. The documents are in the final stage of approval and signing;
- The settlement of contractual matters with Bulgargaz:

Bulgargaz does not accept the amicable termination of the contract. Therefore, a possible solution to the problem would be to request from the European Commission the approval for a temporary solution where Bulgargaz continues to receive the transmission capacity needed for the Bulgarian consumption under the current contract, and the rest of the capacity will be offered to the market according to the European legislation in force on the access of third parties to gas transmission networks.

Transgaz expressed its willingness to submit to the European Commission the request on behalf of Bulgaria, but the reasoning for continuing a contractual relation which is outside the EU legislation must be very strong and based on a national interest (of Bulgaria in this case).

In this regard Bulgaria sent the competent ministry a letter requesting to maintain the contract until expiry (December 31, 2016) due to the fact that it provides Bulgaria the only source of natural gas supply and a letter conforming the willingness of Bulgargaz to assign the unused capacity (1.8 bcm/year) to the market in compliance with the Community regulations in force.

Transgaz forwarded these documents to the Ministry of Foreign Affairs - the Government Agent - asking them to consider the opportunity to request from the European Commission an opinion on the possibility that such a solution will be accepted until December 31, 2016.

▪ Transit lines II and III:

The transmission capacity on the two pipelines is fully booked, on a contractual basis, by Gazprom Export. Those contracts are based on two intergovernmental agreements concluded by the Romanian state and the Russian Federation.

Given the fact that the Russian side refused to renegotiate these agreements, Romania withdrew from these contracts, but the commercial contracts remain in force until they expire in December 2015 and December 2023.

2. Obligation to publish information on technical, contracted and available capacities

At present this obligation is met for the interconnection point Negru Vodă I, but in what concerns the points Negru Vodă II and III the obligation to publish the required information cannot be met due to confidentiality clauses contained in the contracts in force.

3. Obligation to implement imbalance tariffs and,

4. Obligation to provide daily updates regarding services available for a short period

Although, in order to meet these obligations, in the past two years was adopted the required statutory framework, in what regards the implementation, Transgaz still has to complete two important projects which are under execution:

- the SCADA projects (all efforts are made to complete the project components which meet the regulatory requirements);
- balancing platform (project under execution).

Elements concerning the activity conducted by Transgaz at international level

In order to implement its strategic objectives aimed at positioning the company at European level, Transgaz must strengthen the position offered both by its geographic position and by the monopoly held in the operation of the National Natural Gas Transmission System.

The company wishes to assert its importance on a regional level by active participation and involvement in specialized European forums, organisations and bodies, by participating in regional and European projects and by establishing active partnerships with other companies in the field.

In order to achieve the company's objectives, throughout 2013 Transgaz carried out the following activities:

- Continuing the good collaboration relations with companies involved in the implementation of the Russian natural gas transit activity on the Balkan corridor. In this context, the necessary approaches were continued to solve the aspects of the existing contracts that violate the community legislation and for which the Commission initiated the infringement procedure against Romania for breaching certain provisions of the (EC) Regulation 715/2009 on third party access to the network.
- In this regard, the representatives of our company had a number of meetings with

the officials of the European Commission, of the Russian Federation and of Bulgaria in order to discuss issues related to the infringement procedure;

- Participating to the initiative of the European Commission on issuing a new legislative package on energy infrastructure and to the development of the list of projects of common interest at the EU level.
- Following the adoption of the "*Regulation (EU) on guidelines for trans-European energy infrastructure*" in the list of projects of common interest was also included the proposal made by Transgaz on "*The Pipeline from Bulgaria to Austria via Romania and Hungary*";
- Within ENTSOG, the most important activities to which our company also took part aimed at completing the "CAM NETWORK CODE" (the Network code on the capacity allocation mechanisms - CAM) and the preparation of the 10-Year Network Development Plan: 2013-2022. The network code (CAM) materialized in the adoption of the Regulation 984/2013.
- Given the objective of the European Commission of market integration at EU level, it is necessary to achieve the interconnections between the transmission systems of the EU countries and those of the neighbouring countries.

In this regard, Transgaz continues its collaboration with:

FGSZ, the transmission system operator in Hungary

As of February 1, 2014, TRANSGAZ and FGSZ will make available to the market via the interconnection point *Horia – Csanodpalota*, a transmission capacity of 10,000 cm/hour under firm conditions and of 40,000 cm/hour under interruptibility conditions on the direction of flow Romania – Hungary.

In order to increase the transmission capacity on this direction, there is envisaged a number of developments, both in the Romanian system and in the Hungarian one, developments expected to be completed in December 2016. From that moment, the capacity which could be ensured from Romania to Hungary will be of 1.75 bcm/year and there are plans to further extend it up to the maximum capacity of the interconnector, i.e. 4.4 bcm/year.

Bulgartransgaz EAD

The conclusion by Transgaz and Bulgartransgaz of the *Agreement for Capacity Allocation* and of the *Operating Agreement* for the interconnection point Negru Vodă I. The documents are in the final stage of approval and signing.

Bulgargaz

Bulgargaz does not accept the amicable termination of the contract. Therefore, a possible solution to the problem would be to request from the European Commission the approval for a temporary solution where Bulgargaz continues to receive the transmission capacity needed for the Bulgarian consumption under the current contract and the rest of the capacity will be offered to the market according to the European legislation in force on the access of third parties to gas transmission networks.

Transgaz expressed its willingness to submit to the European Commission the request on behalf of Bulgaria, but the reasoning for continuing a contractual relation which is outside the EU legislation must be very strong and based on a national interest (of Bulgaria in this case).

Transgaz forwarded these documents to the Ministry of Foreign Affairs - the Government Agent - asking them to consider the opportunity to request from the European Commission an opinion on the possibility that such a solution will be accepted until December 31, 2016.

Much of the above mentioned actions will be continued in 2014, when Transgaz aims to continue its active involvement in the actions of the specialized bodies and organizations and to intensify the cooperation with all players in the European energy market.

Events occurred after the completion of the 2013 financial year

Regulations issued in 2014 which impact the activity of Transgaz:

- *Government Emergency Ordinance no. 102/14.11.2013 on amending and supplementing [Law no. 571/2003](#) on Fiscal Code and the regulation of financial-fiscal measures, applicable as of January 1, 2014* establishing the tax on buildings which are part of the Transgaz patrimony as at December 31 of the previous year amounting to 1.5% per year;
- *The ANRE Order no. 3/22.01.2014 on the approval of the certification of the National Gas Transmission Company "Transgaz" - S.A. Mediaș as transmission and system operator of the National Natural Gas Transmission System, which granted the National Gas Transmission Company "Transgaz" - S.A. Mediaș the approval to be organized and to operate according to the „independent system operator” model;*
- *Government Emergency Ordinance no. 6 / 12.02.2014 on exercising the rights and meeting the obligations arisen from the state's position as shareholder to the National Electricity Transmission Company "Transelectrica" - S.A. and to the National Gas Transmission Company "Transgaz" - S.A. Mediaș and for amending certain normative acts, which established that the exercise of the rights and the fulfilment of the obligations arisen from the Romanian's state position as shareholder to the National Gas Transmission Company "Transgaz" - S.A. Mediaș must be accomplished by the Government, through the General Secretariat of the Government in consultation with the Chancellery of the Prime Minister.*

3.2 Analysis of the development activity

3.2.1 Main components of the NTS infrastructure

The main components of the National Natural Gas Transmission System as at December 31, 2013 are:

NTS unit/component name	M.U.	Value
Gas mains and natural gas supply connections	km	13,127.8
of which transit pipelines		553
Gas pressure regulating and metering stations under operation (SRM)	pcs	1,122 (1,243 metering directions)
Valve control stations (SCV, NT)		48
Import gas metering stations (SMG)	pcs	5
Metering stations located on the gas transit pipelines (SMG)	pcs	6
Gas compressor stations (SCG)	pcs	5
Cathodic protection stations (SPC)	pcs	1,022
Gas odourisation stations (SOG)	pcs	815

Table 23- Main components of the NTS at 31.12.2013

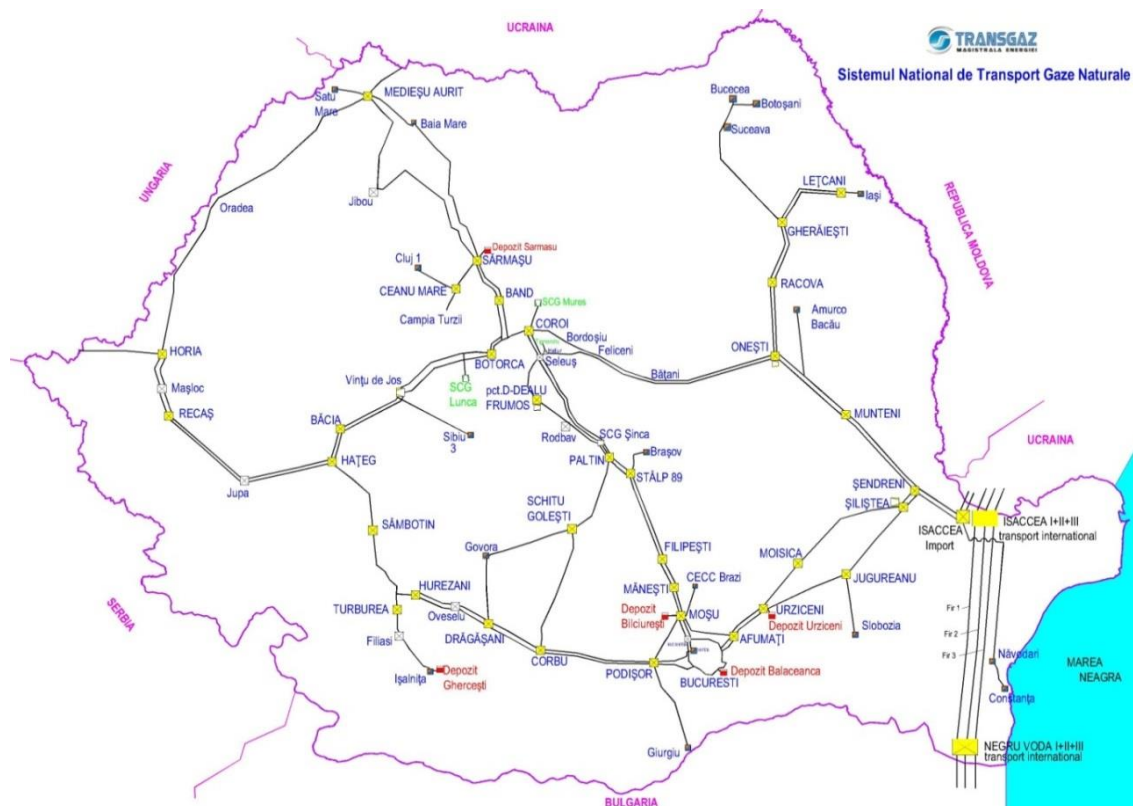


Fig. 2- Map of the National Natural Gas Transmission System

The National Transmission System (NTS) covers the entire national territory and has a radial-annular structure.

The national and international natural gas transmission capacity is ensured by a network of supply pipelines and connections, with diameters between 50 mm and 1200 mm, at pressures between 6 and 40 bars, with the exception of international transit (54 bars).

The operation of the NTS is performed through 9 territorial transmission operating centres divided into 50 Sectors. From a technological point of view, NTS is composed of 9 regional natural gas transmission subsystems.

Description and analysis of the wear degree of the NTS components

An analysis of the main NTS assets, from the point of view of their period of operation, is presented below:

Period of operation	Transmission pipeline (km)	Supply connections (km)	Number of Regulating and Metering Stations
> 40 years	5,182	219	127
Between 30 and 40 years	2,566	170	51
Between 20 and 30 years	1,064	191	69
Between 10 and 20 years	1,043	553	464
< 10 years	1,463	676	532
TOTAL	11,318	1,809	1,122 SRMs (1,243 metering directions)
	13,127		

Table 24 – Main components of the NTS at 31.12.2013, according to their period of operation

As it can be noticed, out of the 13,081 operating km of natural gas transmission pipelines approx. 71% have a very long actual period of operation, close to their normal period of operation.

The diagnosis performed, of which for about 2,942 km using an intelligent PIG, shows that there is a high degree of wear and tear of the tubes, caused mainly by the technical state of the active insulation, which for approximately 79.5% of the system pipelines is made of bitumen. Currently, the insulation is old and deteriorated, which leads to an increase in the electricity consumption recorded by the 1,022 cathodic protection stations.

Approximately 94.4% of the operating pipelines and connections have cathodic protection.

The gas delivery to the distributors and end-consumers is ensured through the 1,243 SRMs (metering stations) which need modernisation/rehabilitation in order to be integrated in a SCADA automated control and monitoring system.

Out of the 1,243 operating SRMs (consumption points), 948 are considered for the implementation of the SCADA system.

The compressing capacity is ensured by 5 gas compressor stations located on the main transmission directions. These are fitted with equipment and installations manufactured in the 70s and in most cases do not reach the performance requested by the transmission parameters.

In 2013, **rehabilitation/modernisation works were performed for the Șinca compressor station** (stage 3, pipe manifolds, gas generators, environmental protection works), **Siliștea** (modernisation of the heating system and rehabilitation of the building), **Vințu** (rehabilitation compressor hall), **Dealul Frumos** (replacement of the central heating system and rehabilitation of the station premises).

The dispatching of gas in the NTS is performed by various manoeuvres, also performed in the interconnection nodes of the main pipelines. Most nodes are mainly equipped with manual control cocks and parameter monitoring equipment, most of them being out-dated from the point of view of performance and operating safety.

From the existing technological nodes, about 20% are new or rehabilitated. Throughout the implementation of the SCADA system, the technological nodes will continue the modernisation process.

Gas odourisation is performed through a number of 815 odourisation installations, out of which 425 systems are of new type, by sampling and injection, ensuring an optimum odourisation of the transmitted gas. From the 425 modern systems, 25 are of centralized type, serving several supply points. The other 390 systems of "evaporation/dripping" type are systems that can no longer provide a continuous and controlled odourisation, being likely to lead to situations of under or over-odourisation and thus to increased consumptions of odouriser. Out of these, 14 installations are of the centralized type.

It must be noted that, even if the infrastructure is quite old, the real technical status of the NTS is at an adequate level, due to the fact that the operation is carried out on the basis of an appropriate preventive, planned and corrective maintenance schedule and according to modernisation programs.

These programs are based on the Technical Norms regarding the maintenance of the national transmission system, being carried out for a longer period of time due to their high value.

All these components of the NTS ensure takeover of natural gas from producers/suppliers and transmission thereof to consumers/distributors or storage facilities.

Points of cross-border interconnection

At present, the import of natural gas in Romania is achieved through 3 points of cross-border interconnection:

UCRAINE

Orlovka (UA) – Isaccea (RO)

ND = 1000 mm,

Capacity = 8.6 bcm/year

$P_{max} = 55$ bar

Tekovo (UA) – Medieșu Aurit (RO)

ND = 700 mm,

Capacity = 4.0 bcm/year

$P_{max} = 70$ bar

HUNGARY

Szeged (HU) – Arad (RO)- Csanadpalota

ND = 700 mm,

Capacity = 1.75 bcm/an

$P_{max} = 63$ bar

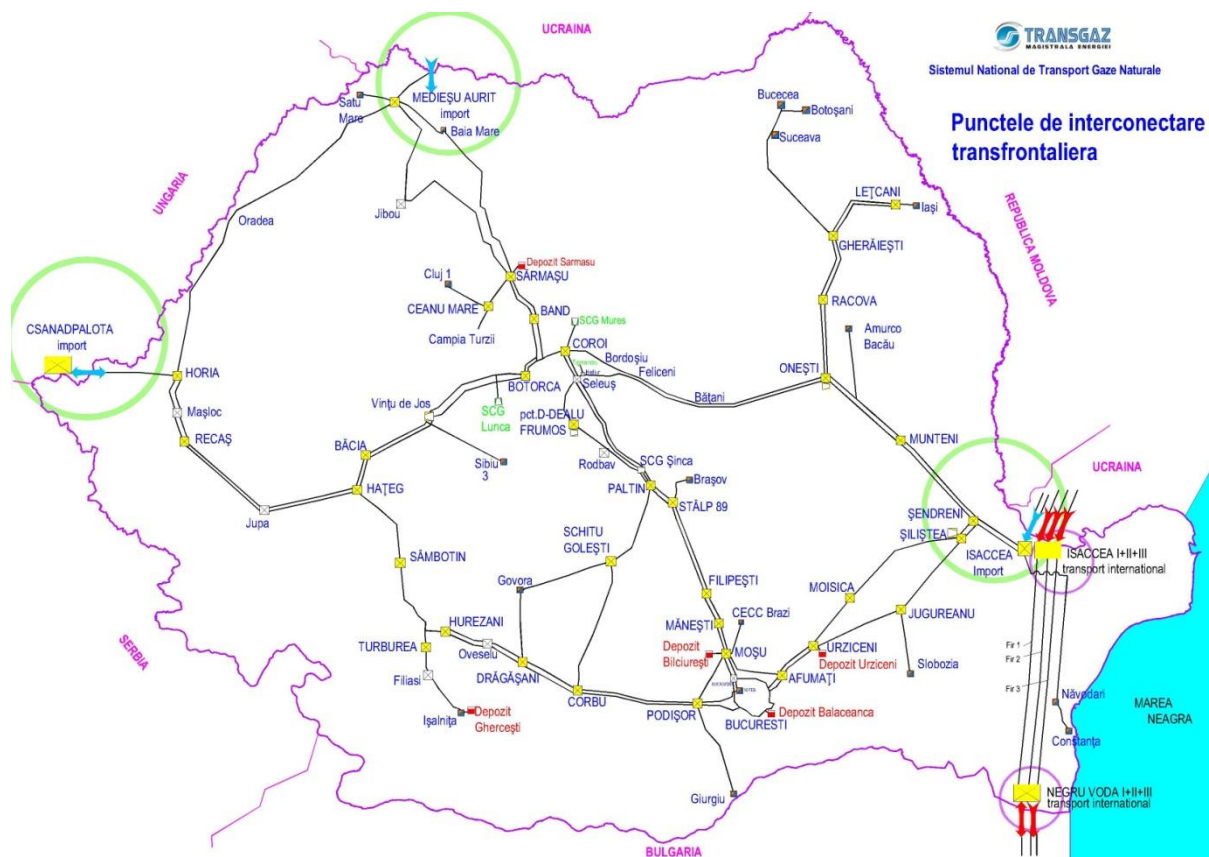


Fig. 3 - The points of cross-border interconnection of the NTS

Specification of the potential problems connected to the ownership of tangible assets of Transgaz

Illegal registrations with the Land Register were carried out on the land corresponding to the office of the Braşov Territorial Exploitation and SRM Braşov by the following: Stoia Gabriela, Acojocăritei Marcela, Turcu Ioan, Turcu Violeta, SC "Nesland" SA Braşov and SC "District" SRL Braşov. Transgaz owns the above mentioned land based on the legal titles of administration, namely Decision no. 1752/1963 issued by Braşov People's Council and Order no. 134/1990 issued by the Ministry of Agriculture and Food. Transgaz requested before the administrative court the change of the Land Register no. 12933 Braşov, the acknowledgement of the invalidity and the cancellation from the Land Registry of the subsequent documents regarding the land plot corresponding to the office of Braşov Territorial Exploitation and SRM Braşov. The litigation is subject to file no. 2268/62/2012 filed with the Braşov Court of Appeal. Stage of the legal procedure: Appeal.

The Ruling no. 136/2013 20.11.2013, issued by the Court of Appeal Braşov in the case file 2268/62/2012, partially upheld the appeal brought and stated by the plaintiff SNTGN "Transgaz" SA against the defendants Stoica Gabriela, Acojocăritei Marcela, Turcu Ion, Turcu Violeta Maria, the Romanian State through the Ministry of Finance and Braşov through the mayor. The court ruled the partial nullity of the heir certificate 14/2009 on the property registered with the Land Registry Office of Braşov under no. 115328 topographical no. 10213/7/2/1/8 with a surface of 6290 sq.m.

The court ruled the nullity of the sale contract authenticated under no. 425/2010 entered into between the defendant Acojocăritei Marcela and the defendants Turcu Ion and Turcu Violeta Maria covering the share of 1 of the property registered with the Land Registry Office of Braşov under no. 115328 topographical no. 10213/7/2/1/8 with a surface of 6290 sq.m. The court ruled the deregistration of the ownership of the defendants Stoica Gabriela, Turcu Ion and Turcu Violeta Maria and the registration of ownership of the Romanian State over the property registered with the Land Registry Office of Braşov under no. 115328 topographical no. 10213/7/2/1/8 with a surface of 6290 sq.m.

The court maintained the ruling related to the rejection of the exception concerning the lack of locus standi of the plaintiff, the lack of locus standi of the defendant the Municipality of Braşov and of the defendant the Romanian State and the exception regarding the lack of representativity of the Romanian State by the Ministry of Public Finance, rejection of the exceptions of the other petitions of the lawsuit and the rejection of the counterclaim and the court ordered the plaintiff to pay the amount of 2180 RON to the defendant SC Nelsand SA, representing attorney fees. The court dismissed as irrelevant the action brought by the plaintiff SNTGN "Transgaz" SA against SC Nelsand SA and SC District SRL.

The court dismissed the appeal filed by the counterclaim plaintiffs Turcu Ion and Turcu Violeta Maria and the appeal filed by the counterclaim plaintiff Stoica Gabriela against the above mentioned ruling. The court ordered the appellants Turcu Ion, Turcu Violeta Maria, Stoica Gabriela and Acojocăritei Marcela to pay to the plaintiff, the National Gas Transmission Company Transgaz SA, the amount of 18,868 RON for legal fees incurred

with the court of first instance and the court of appeal. The court dismissed the petition filed by the appellants Turcu Ion, Turcu Violeta Maria, Stoica Gabriela, SC Nesland SA and the municipality of Braşov to order the plaintiff S.N.T.G.N. "Transgaz" SA to pay the legal fees for the appeal; with the possibility to appeal within 15 days of notification. **The defendants filed an appeal. The case file is currently pending in the High Court of Cassation and Justice Bucharest, the hearing is on 14.05.2014.**

3.2.2 Investments achieved versus Investments planned in 2013

The difference between the achieved value and the planned one was determined by:

- for the "Works in compliance with the contract 17095/15.07.2009" was concluded the Addendum no. 6 which provides the delay of the execution term and an interim payment as it was executed on 01.12.2013;
- for the "Works related to SCADA", most of the works for the contracted technological nodes will be completed in 2014 and the ones that were not contracted are currently being designed and will be contracted in 2014
- as part of the works related to "Fencing valves" there are under execution only the facilities which were contracted and where the land has a regulated legal status and the rest of the facilities will be executed in 2014, after settling the legal situation of the lands.

There are still encountered difficulties in the achievement of investment objectives such as:

- in the case of the **pipeline Ø20" Plătăreşti – Bălăceanca**, the technical project is under review due to the need to deviate the pipeline to another route as there are still missing the approvals of some landowners;
- in the case of the **natural gas transmission pipeline Ø 10" Câmpulung Moldovenesc – Vatra Dornei**, the first stage of the pipeline, 9.2 km long, between Câmpulung Moldovenesc and Pojorâta is under execution, 8.2 km of pipeline were completed. There arose disputes with landowners who do not allow the construction of the pipeline through their gardens and there are problems related to the undercrossing of 2 roads which were originally recorded in the project as communal roads and which became county roads due to investments made from European funds to modernise them. Therefore, the City Hall does not agree to issue permits for undercrossing the roads through open tranches, as provided in the original project and the works were ceased to modify the undercrossing solution. In addition, further works in the forestry sector on the section designed from Pojorâta to Vatra Dornei with a length of 26.47 km are conditioned by the approval of the ROMSILVA permit, required for obtaining the Building Permit and which has not been issued to date.
- in the case of the **natural gas transmission pipeline Ø 24" PM Gherceşti – SDE Craiova**, due to a landowner who still needs to clarify the legal situation of the land, the pipeline execution works were stopped because the Building Permit is missing and the works will be continued in 2014 after the settlement of the problems;
- in the case of the **interconnection pipeline Ø 20" Giurgiu – Ruse**, the undercrossing of the pipeline ND 150 mm for optical fibre is currently completed. The drilling works for laying line I (the main line of 2.1 km) of the

pipeline undercrossing the Danube River at ND 300 mm were fully completed and currently are conducted works for enlarging it up to a diameter of 800 mm; 1600 linear meters have already been completed. The pipeline, which is 2100 linear meters long, is entirely laid on the Romanian bank and the (in-house) leak test is carried out at 35 bars.

In parallel, works for checking the drill stems are conducted and the enlarging procedure, for the remaining 500 linear meters, will be resumed in 2014 when the weather conditions allow it. From the data provided by the constructor, due to the soil structure, the speed of the execution of the drilled tunnel is lower than the one expected and, therefore, the works for undercrossing line II of the pipeline cannot be completed in 2013. Considering all the above, the works and expenses related to the undercrossing of line II will be delayed to 2014;

- in what concerns the **SRMs**, the value achieved is lower than the scheduled one as initially it was proposed to purchase 22 new stations to replace the morally and physically out-dated ones, but later it was agreed to purchase them as part of a framework contract performed over several years;
- in **chapter B, position "Other works"**, the works for the execution of 6 sectoral administrative offices were originally included, but, due to the problems encountered with obtaining the required land, the works were reduced to two offices only. Under the same position were included the works for TRANSGAZ on Șos. Sibiului which was later abandoned.
- regarding **the Project Nabucco**, where Transgaz was also involved, the consortium operating the exploitation from Shah Deniz (Azerbaijan) opted for another natural gas transmission route to Europe.

3.2.3 Achieved rehabilitation, repairs and maintenance works for NTS vs. the planned ones 2013

The nonfulfillment of the repairs schedule was mainly caused by:

- the delay of the technical projects drafting deadlines, difficulties in obtaining agreements from the owners or the institutions which own or manage lands in the areas neighbouring the pipeline and, therefore, the failure to obtain in due time the Building Permits; there were also recorded technical accidents undertaken by the Contractor (the pipeline for connecting the supply of Caracal) and litigations with the constructor (the company Pegamont) which contributed to the failure to complete the works within the set period;
- the change by the NARMPP of the tender validation procedures which led to delays in commencing some scheduled works and services and to delaying their completion term;
- in what regards the services, the budgetary allowances for some repairs and service works can be estimated with a reasonable degree of predictability, but in the case of others, the amounts provided for in the programmes are based solely on ensuring an appropriate budget for the situations where these provisions must be purchased. Therefore, most of the times, the corrections under this chapter of the programme are negative (the amount is smaller) and waiving or reducing the amounts of these purchases means budgetary savings and not non-fulfillments

3.2.4 Development plans

Considering the requirements of European Directive CE/73/2009 Art. 22 on the obligation to prepare **10 Year Development Plans** by all the operators of the natural gas transmission systems in the European Union, SNTGN Transgaz SA Mediaş, as technical operator of the Romanian Natural Gas Transmission System prepared the **Development Plan of the Natural Gas Transmission System for 2014-2023**.

The document presents the development directions of the Romanian natural gas transmission network and the major projects the company intends to implement in the next 10 years in order to achieve a maximum degree of transparency in the development of the National Natural Gas Transmission System and the possibility of the market players to be timely informed on the existing and planned transmission capacities so that, through public consultation, the decisions regarding the investments in the natural gas transmission network meet the market requirements.

The Development Plan of the Natural Gas National Transmission System (NTS) in 2014-2023, prepared in accordance with **Art. 128 let. (e) of Law 123/2012 on Electricity and Natural Gas**, together with the objectives set in the Romanian Energy Strategy for 2011-2035 and the Pact for Energy concluded in 2013, meets the requirements of the European energy policy, as follows:

- it ensures the safety of the natural gas supply;
- it increases the degree of interconnection of the national natural gas transmission network to the European network;
- it increases the flexibility of the national natural gas transmission network;
- it allows the liberalization of the natural gas market;
- it creates an integrated natural gas market in the European Union.

Being a transmission and system operator certified pursuant to the third energy legislative package, TRANSGAZ is a member of ENTSOG (European Network of Transmission System Operators for Gas), body within which the company cooperates with all transmission and system operators of the European Union in order to create a common regulatory framework and a shared development strategy and vision at EU level for creating the integrated energy market.

In this context, when preparing the Development Plan of the Natural Gas National Transmission System in 2014-2023, coordination with the development plans envisaged by the other operators in the region was taken into account. The development projects described in the development plan were identified following detailed analyses and evaluations conducted by the company in the last six months and consider the latest evolutions of the supply trends and scenarios on the European market of natural gas.

A sustainable development of the natural gas transmission infrastructure in Romania requires an ample investment programme which allows the alignment of the NTS to the transmission and operation requirements of the European natural gas transmission network.

In the context of the geopolitics and geo-strategy of the European energy routes, Romania benefits from the advantages of the geographic location on important

corridors of transmission and access to the major resources of natural gas recently discovered in the Black Sea, which leads to the need for the efficient use of these opportunities.

In the **Development Plan of the Natural Gas National Transmission System for the next 10 years**, Transgaz proposes major investment projects for the strategic and sustainable development of the Romanian natural gas transmission infrastructure and its compliance with the relevant European regulations. The orientation of the operators of natural gas transmission system from neighbouring country towards creating new cross-border transmission capacities or the amplification of the already existing ones clearly shows the pursuit of a significant increase of the interconnection in an area of Europe that still needs to achieve a lot to create a fully integrated market.

On this background, **Romania** is the country with the most developed market and, especially with the lowest dependence on imported natural gas. Furthermore, in addition to the favourable geostrategic position, the recently discovered resources from the Black Sea and the potential future created by the shale gas, Romania could obviously play a defining role in the region. In this context, the natural gas transmission infrastructure becomes, probably, the most important factor and **Transgaz** is now facing a major challenge: **the development - in the shortest possible time - of gas transmission corridors ensuring both the required degree of connectivity at European level and sufficient potential for natural gas transmission in order to harness the resources of the local and regional markets.**

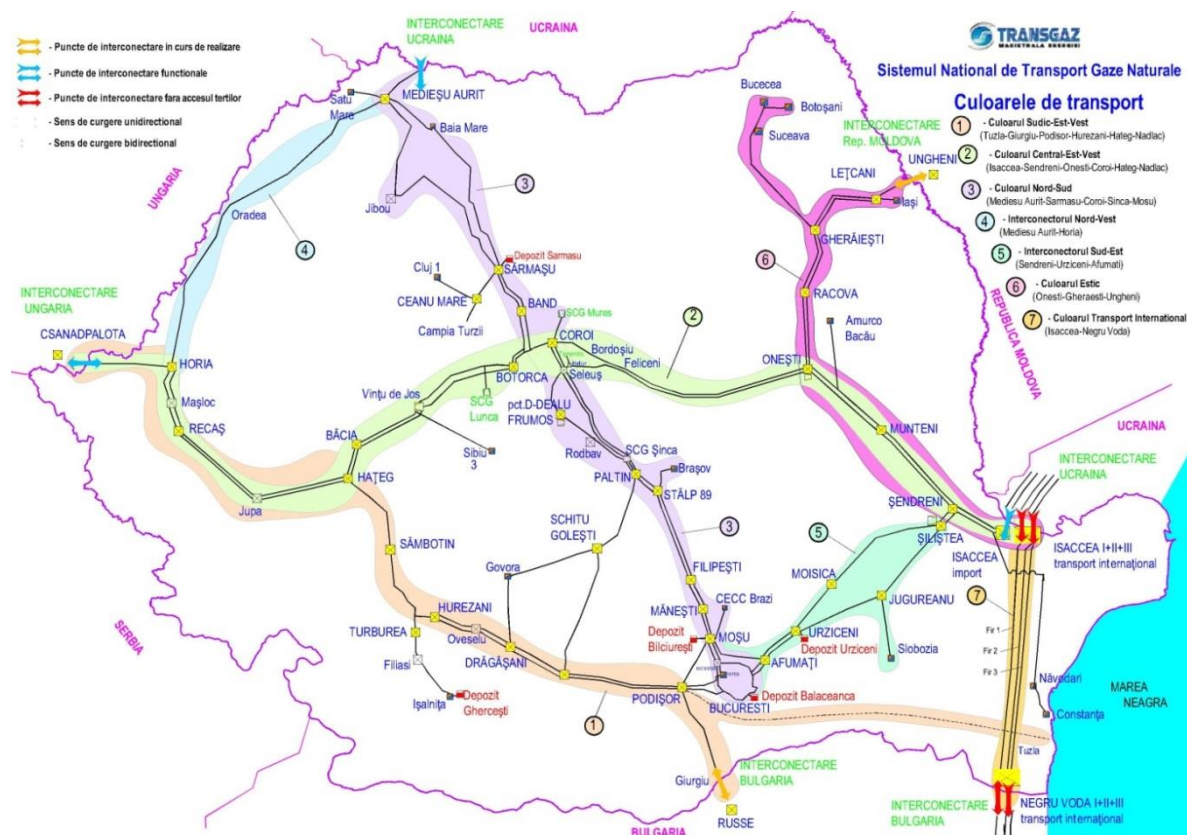


Fig. 4- The natural gas transmission corridors within the NTS

3.3 Analysis of corporative activity

3.3.1 Activity on the capital market

SNTGN TRANSGAZ SA Mediaș, a dynamic company capable of adjusting its operations to the requirements of the current national and international context within which it carries out its activity, has succeeded in achieving good results on the capital market, **being today, 6 years after its listing, the 9th company in top 100 companies listed on the Bucharest Stock Exchange.**

The **TGN title** is an appealing portfolio share due to the business area of the company, the monopoly status owned by Transgaz in the transmission of natural gas, the position held by the company on the national and international market, the robust financial profile and the capacity of the company of generating performance, to the stable and predictable income, the attractive dividend policy, and the quality of the company management.

3.3.1.1 Characteristics and evolution of securities issued by Transgaz

The trading of Transgaz shares on the regulated market managed by the Bucharest Stock Exchange (BSE) is conducted under the following coordinates:

- Symbol **TGN**;
- ISIN Code **ROTGNTACNOR8**;
- BSE Section -**category I**, main market **REGS**.

The activity carried out by Transgaz in 2012, as issuer of securities on the Romanian capital market, is as follows:

- in the 248 trading days, **a total number of 25,428 transactions was recorded**, which represented **an average daily number of 103 transactions**;
- the increase of the transactions volume in 2013 was due to the SPO conducted in May and the sale in December of the entire package of shares owned by SC Fondul Proprietatea SA ;
- **the value of the transactions** had an increasing trend, reaching a maximum of **402,335,656.05 RON** in December 2013, a maximum owed to the sale of the entire package of Transgaz shares held by SC Fondul Proprietatea SA;
- **the average price of TGN shares** recorded higher values at the beginning of 2013, followed by a decreasing trend, reaching a value of **184.56 RON/share** at the end of 2013.

Month	Volume of traded shares	Value of transactions (RON)	Average price (RON/share) on the last day of the month
JANUARY	41,112	12,764,424.55	211,00
FEBRUARY	28,991	6,132,916.75	208,90
MARCH	51,077	11,368,069.55	215,00
APRIL	126,190	24,460,121.60	194,50
MAY	138,072	28,332,451.25	208,80
JUNE	160,148	31,512,968.25	180,00
JULY	63,896	13,900,358.45	185,50
AUGUST	127,631	24,082,178.45	186,70
SEPTEMBER	185,230	34,779,407.40	186,90
OCTOBER	103,234	20,315,010.80	182,45
NOVEMBER	183,833	36,652,835.00	190,00
DECEMBER	2,305,057	402,335,656.05	185,25
TOTAL	3,514,473	646,636,398.10	x

Source: www.ktd.ro

Table 25- Evolution of the average price of the TGN shares in 2013

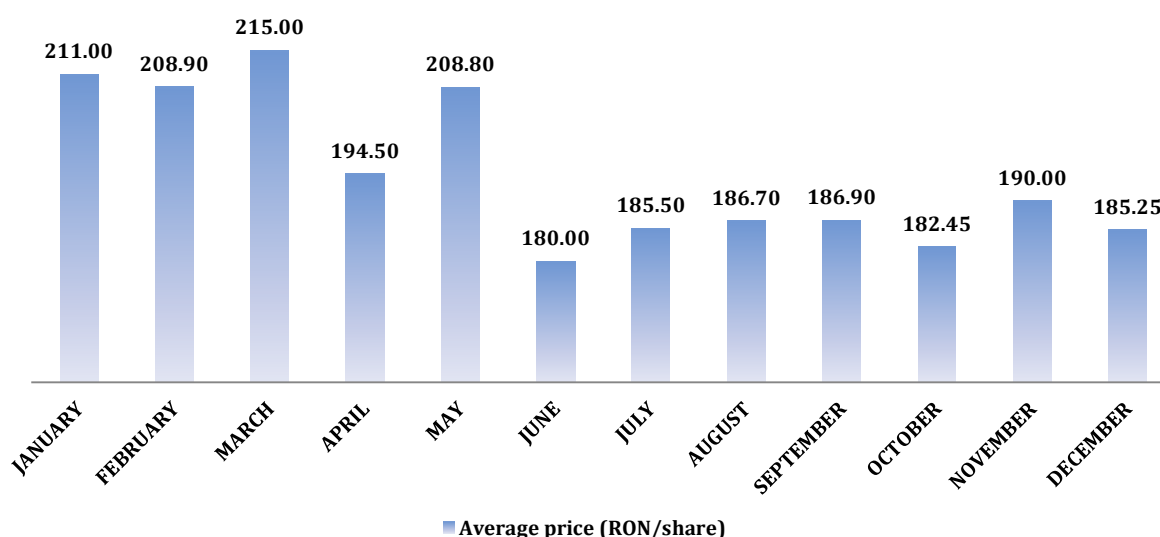


Chart 31- Evolution of the average price of the TGN shares in 2013

At the end of 2013, the market capitalization of SNTGN Transgaz SA was of 2.18 billion RON, i.e. 486.3 billion EUR.

Evolution of TGN shares in 2013

Source: www.ktd.ro

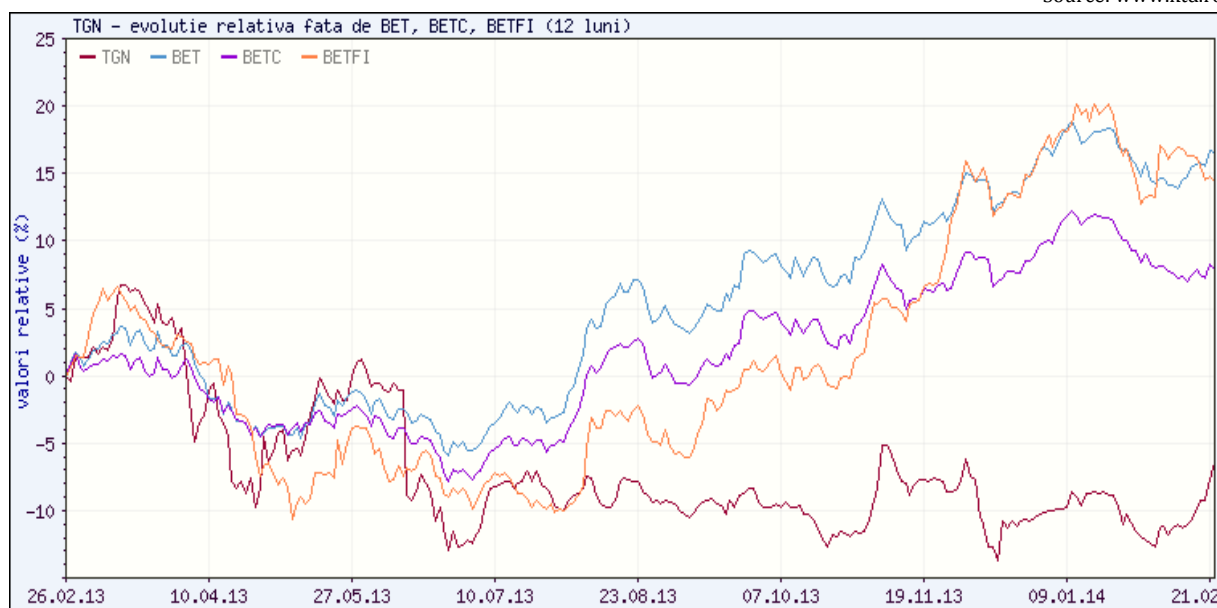


Chart 32-Evolution of TGN shares in 2013

As it can be noted, in the first part of 2013 the TGN shares recorded values similar to the BET, BETC and BETFI indexes for relatively short periods of time and the shares even surpassed the indexes; afterwards, in the period July - August, the shares recorded a downward trend and thus moved away from the values of three stock market indexes.

This downward trend was caused by the influence of several factors such as the liquidation of the project company and of the National Nabucco Companies (NNCs), by the Secondary Sale Offer of 15% of the TGN capital and by the private placement through which Fondul Proprietatea sold the 14.99% package owned in Transgaz.

For the period 2011-2013, in the case of TGN shares, the main stock exchange indexes recorded the following values:

	December 2011	December 2012	December 2013
PER	6,99	8,26	6,45
P/BV	1,02	0,79	0,71
EPS	31,94	32,24	28,61
DIVY	12,88	13,65	7,91

Table 26- Evolution of TGN shares stock exchange indexes for the period 2011-2013

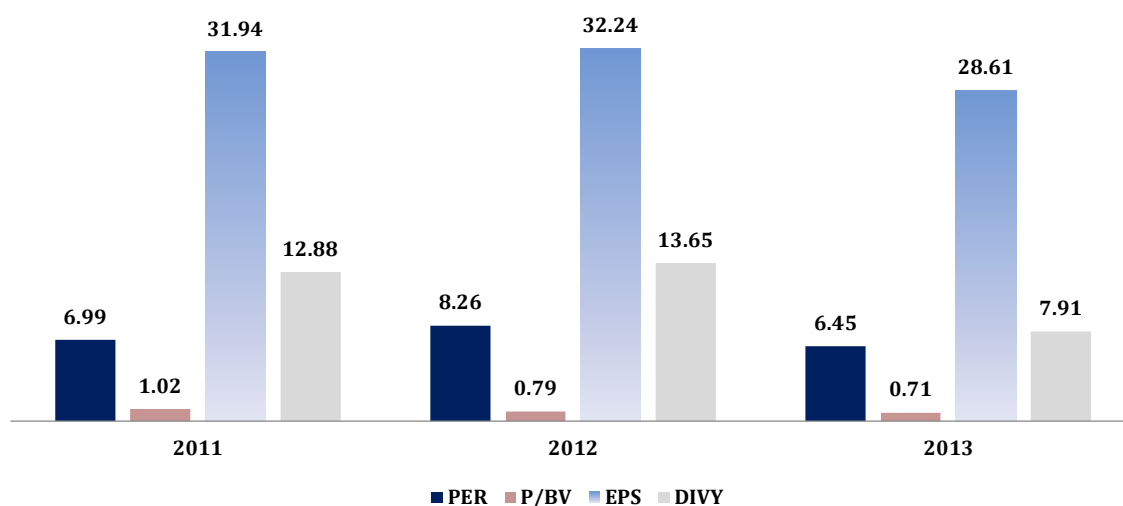


Chart 33 - Evolution of TGN shares stock exchange indexes for the period 2011-2013

3.3.1.2 Policy on dividends

The value of the dividends to be distributed to shareholders is determined according to the **Government Ordinance no. 64 of August 30, 2001 on the profit distribution in national companies, national enterprises and trading companies with full or majority state capital, as well as in the autonomous administrations, approved by Law no. 769/2001**, as amended and supplemented, which provides under article I paragraph (1) letter f) the profit distribution after the deduction of the profit tax of **"at least 50% dividends for the national companies with full or majority state capital"**

In 2013, the amount proposed for dividends is determined by applying the 60.02435% quota to the net profit to which is added the amount representing the participation of employees to the profit.

The company registers and pays dividends distributed from the net profit, only after the approval of the annual financial statements by the General Meeting of Shareholders.

The situation of dividends allocated from the net profit between 2011 and 2013 is the following:

Specifications	MU	2011	2012	2013 proposal
Net profit reinstated with the amount representing the employees' participation to profits determined according to OMFP no. 144/2005 and recorded in the expense account	RON	89,258,615.00	294,876,836.00	344,833,681.00
Net profit	RON	379,571,465.00	284,852,188.00	334,491,415.00
Dividends	RON	350,389,597.44	250,665,138.76	206,984,177.52
Dividends share				
*in the reinstated net profit	%	90.01	85.01	60.02435
*in the net profit	%	92.31	87.99	61.88027

Table 27- Situation of the dividends corresponding to the period 2011-2013

The intent of Transgaz of purchasing own shares

Not applicable.

The number and face value of shares issued by the parent company owned by subsidiaries

Not applicable.

Bonds and/or other debt securities

Not applicable.

3.3.2 Significant mergers or reorganizations during the financial year

During 2013 there were no mergers or reorganizations, except for setting the Bucharest Agency of SNTGN Transgaz SA where are conducted own office activities for the company.

On January 29, 2013, the Extraordinary General Meeting of Shareholders Resolution no. 3, Art. 3 approved the dissolution of the Transit Territorial Exploitation Constanța, by taking over its patrimony and personnel by the Territorial Exploitation Constanța.

3.3.3 Corporate Governance

Corporate governance is a concept with a very wide meaning which includes elements such as: the responsibility of the managers regarding the accuracy of the information in the financial reports, the existence of very tight deadlines for financial reporting, communication and total transparency regarding the financial results, the transparency of the internal audit, of the procedures and external audit.

The corporate governance refers in detail to the manner of allotting the rights and the responsibilities between the categories of participants to the company's activity, such as the board of directors, managers, shareholders and other interest groups, specifying the manner in which decisions are made regarding the activity of the company, the manner of defining the strategic objectives, which are the means of achieving such and the manner of monitoring the economic performance.

The practice confirms the necessity of intensifying the efforts of accepting the corporate governance, because it was noticed that the organizations which focus on implementing the principles of such succeeded in maximizing their performance.

The general and specific strategic objectives of Transgaz activity are established in the context of applying the requirements of the new European energy policy regarding the energy safety and security, sustainable development and competitiveness.

In this context, the implementation and development of the principles of corporate governance, the development of the responsible, transparent business practices become more important in the substantiation and implementation of the business strategies and policies of the companies.

By subscribing to this goal, Transgaz intends through its own corporate governance regulation to ensure a strict framework for dimensioning and regulating the corporate governance at company level.

The Corporate governance regulation of the company was endorsed by the Board of Directors by the Resolution no. 3/18.01.2011 and approved by the General Meeting of Shareholders of March 2, 2011, by the Resolution of the General Meeting of Shareholders no. 1/2011 (article 4).

The document has a structure compliant with the relevant requirements and includes **9 chapters**, as follows:

- Chapter 1 – **Corporate governance structures**: Board of directors, advisory committees, executive management. The tasks of the executive management are established through the Organization and Operation Regulation of Transgaz, while through the Code of Professional Conduct the ethical conduct norms compulsory for all the employees are regulated and applied in all the organisational and hierarchical structures of the company;
- Chapter 2 – **The rights of the shareholders**: The rights and treatment of shareholders;

- Chapter 3 – **The Board of Directors**: The role and the obligations of the Board of Directors, the structure of the Board of Directors, the appointment of the members of the Board of Directors, the remuneration of the members of the Board of Directors;
- Chapter 4 – **Transparency, financial reporting, internal control and risk management**: transparency and financial reporting;
- Chapter 5 – **Conflict of interests and transactions with the persons involved**: conflict of interest; transactions with persons involved;
- Chapter 6 – **The regime of corporate information**;
- Chapter 7 – **Social responsibility**;
- Chapter 8 – **The administration system**;
- Chapter 9 – **Final dispositions**.

Starting with 2010, the description of the Corporate Governance in the Directors' Report is compulsory for the companies listed on the stock exchange.

The companies listed on the stock exchange that decided to implement the corporate governance principles shall fill in the **"Apply or Explain" Statement**, starting with 2011.

Transgaz adhered to the Corporate Governance Code of the Bucharest Stock Exchange and applies from the recommendations of this code, according to the Statement regarding the compliance or non-compliance with the provisions of the Corporate Governance Code ("Apply or Explain" Statement), the recommendations corresponding to principles no: 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 15, 17, 18 and explains the recommendations corresponding to principles no.: 14, 16 and 19.

LEGAL DOCUMENTS CONCLUDED IN ACCORDANCE WITH THE PROVISIONS OF ART. 52 PARAGRAPH (1) AND PARAGRAPH (6) OF THE GEO NO. 109/30.11.2011

In 2012, the Company did not conclude transactions with the directors, managers, employees or shareholders who hold control over the company.

Until May 2013, the majority shareholder of SNTGN Transgaz SA was the Ministry of Economy. In compliance with Art. 2 of GEO 18/2013, as of May 1, 2013, the state-owned shares to the National Gas Transmission Company "Transgaz" - SA Mediaș pass from the administration of the Ministry of Economy in the administration of the Ministry of Public Finance.

Concluded transactions:

No.	Contract data	Contractual clauses set out in the contract
	Contracting parties	concluded between SNTGN Transgaz SA and SNGN Romgaz SA
1.	Contract no.	Contract no. 20/2009 – extended by Addendum no.11/2013
	Contract object	Domestic natural gas sale
	Contract value	100,754,447.00 RON without VAT

	Penalties and warranties	-
	Terms and payment methods	90 days from the date of invoice
	Contract duration	01.07.2013- 31.03.2014
	Balance on 31.12.2013	42,658,976.37 RON without VAT
	Contracting parties	concluded between SNTGN Transgaz SA and SNGN Romgaz SA
2.	Contract no.	Contract no. 768/2013
	Contract object	Underground natural gas storage;
	Contract value	2,823,840.00 RON without VAT
	Penalties and warranties	-
	Terms and payment methods	15 days from the date of invoice
	Contract duration	16.04.2013- 15.04.2014
	Balance on 31.12.2013	1,916,480 RON without VAT
	Contracting parties	concluded between SNTGN Transgaz SA and SNGN Romgaz SA
3.	Contract no.	Contract no. 32 / 20.06.2013
	Contract object	Natural gas transmission services;
	Contract value	45,518,800.85 RON without VAT
	Penalties and warranties	-
	Terms and payment methods	90 days from the date of invoice.
	Contract duration	01.07.2013 – 01.07.2014
	Balance on 31.12.2013	26,063,995.29 RON without VAT
	Contracting parties	concluded between SNTGN Transgaz SA and SC Electrocentrale Galați SA
4.	Contract no.	Contract no. 15 / 20.06.2013
	Contract object	Natural gas transmission services
	Contract value	18,904,687.39 RON
	Penalties and warranties	-
	Terms and payment methods	15 days from the date of invoice;
	Contract duration	01.07.2013 – 01.07.2014
	Balance on 31.12.2013	9,553,744.31 RON without VAT
	Contracting parties	concluded between SNTGN Transgaz SA and SC Electrocentrale Bucuresti SA
5.	Contract no.	Contract no.14 / 20.06.2013
	Contract object	Natural gas transmission services
	Contract value	38,572,094.01 RON without VAT
	Penalties and warranties	-
	Terms and payment methods	15 days from the date of invoice;
	Contract duration	01.07.2013 – 01.07.2014
	Balance on 31.12.2013	56,375,326.58 RON without VAT
	Contracting parties	concluded between SNTGN Transgaz SA and

		Complexul Energetic Hunedoara
6.	Contract no.	Contract no. 8 / 20.06.2013
	Contract object	Natural Gas transmission services;
	Contract value	814,068,93 RON without VAT
	Penalties and warranties	Guaranteed account
	Terms and payment methods	15 days from the date of invoice
	Contract duration	01.07.2013 – 01.07.2014
	Balance on 31.12.2013	3,484,925.96 RON without VAT

The Corporate Governance and the Statement "Apply or Explain" are detailed in Annex 1.

3.4 Analysis of the financial activity

3.4.1 Financial Position

According to Art. 1 of the OMFP no. 881/June 25, 2012 *on the application by companies whose securities are admitted for trading on a regulated market of the International Financial Reporting Standards*, starting with the financial year of 2012, companies whose securities are admitted for trading on a regulated market have the obligation to apply the International Financial Reporting Standards (IFRS) in the preparation of the individual annual financial statements.

The financial position for 2011 - 2013 is as follows:

Indicator	31.12.2011	31.12.2012	31.12.2013	Dynamics (%)		
	thousand RON	thousand RON	thousand RON			
0	1	2	3	4=2/1	5=3/2	6=3/1
Intangible assets	2,458,211	2,495,793	2,533,955	101,53	101,53	103,08
Tangible assets	760,866	742,425	694,971	97,58	93,61	91,34
Financial assets available for sale	65,384	105,357	5,953	161,14	5,65	9,10
Fixed assets	3,284,461	3,343,575	3,234,879	101,80	96,75	98,49
Inventories	43,226	35,828	34,054	82,89	95,05	78,78
Trade receivables and other receivables	370,803	347,782	398,893	93,79	114,70	107,58
Cash at bank and in hand	274,147	178,638	267,262	65,16	149,61	97,49
Current assets -TOTAL	688,176	562,248	700,209	81,70	124,54	101,75
Debts to be paid within one year	372,562	358,276	323,037	96,17	90,16	86,71
Debts to be paid within more than one year's time	591,416	559,971	539,417	94,68	96,33	91,21
Total debts	963,978	918,248	862,455	95,26	93,92	89,47
Equity						
Share capital	117,738	117,738	117,738	100,00	100,00	100,00
Adjustments of the share capital to hyperinflation	441,419	441,419	441,418	100,00	100,00	100,00
Capital premiums	247,479	247,479	247,479	100,00	100,00	100,00
Other reserves	1,265,797	1,265,797	1,265,797	100,00	100,00	100,00
Result carried forward	936,226	915,142	1,000,201	97,75	109,29	106,83
Total equity and debts	3,972,637	3,905,823	3,935,088	98,32	100,75	99,05

Table 28-The financial position of the company for the period 2011-2013

Intangible assets

As of 2010, the Company, in accordance with the EU approval process, started to apply IFRIC 12, ***Service Concession Commitments***, adopted by the EU. The scope of IFRIC 12 includes: the existing infrastructure at the signing of the concession agreement and, also, modernisations and improvements brought to the pipeline system, which is transferred to the regulatory authority at the end of the concession agreement.

The company is entitled to charge the users of the public service and, as a consequence, an intangible asset has been recognized for this right.

Due to the fact that the Service Concession Agreement (“SCA”) did not have a commercial substance (i.e. no substantial changes were made in the manner in which the Company operated the assets; cash flows changed only in terms of royalty payment, but, on the other hand, the transmission tariff increased in order to cover the royalty), the intangible asset was measured at the net value remained of derecognized assets (classified in the financial statements as tangible assets on the date of application of the IFRIC 12). Therefore, the Company has continued to recognize the asset, but reclassified it as intangible asset. The Company has tested the intangible assets recognized at that time without identifying impairment.

As they occur, the replacement costs are recorded as expenses, while the improvement of assets used in the SCA are recognized at fair value.

Intangible assets are amortized to zero throughout the remaining period of the concession agreement.

Intangible assets increased by 38,163 thousand RON compared to 31.12.2012, mainly due to improvements brought to the national transmission system.

Tangible assets

Tangible assets include ancillary buildings of operational assets, office buildings, land, assets used for the transit activity and facilities related to the national transmission system taken over free of charge.

Tangible assets recorded a decline of 47,457 thousand RON compared to 2012, mainly determined by the fact that inputs of tangible assets amounting to 9,954 thousand RON were exceeded by the depreciation expense on tangible assets, amounting to 57,294 thousand RON.

Financial assets

Financial assets increased in 2013 due to the contribution to the share capital increase of Nabucco Gas Pipeline International GmbH Vienna amounting to 7,538,834.93 EUR, partly ensured (2,538,834.93 EUR) from own Transgaz sources and partly (5,000,000 EUR) from the grant received from Shah Deniz.

Inventories

On December 31, 2013 the inventories recorded a decline by 1,773 thousand RON compared to December 31, 2012, mainly due to repair and investment programs conducted by the company.

Trade receivables and other receivables

On December 31, 2013, the balance of trade receivables and other receivables decreased by 51,111 thousand RON as compared to 2012 and such decrease was mainly determined by the following factors:

- the increase of the customer receivables balance by 37,480 thousand RON mainly as a result of an increase of income in 2013 as compared to 2012;
- increase of advance payments made to suppliers by 19,140 thousand RON;
- decrease of the balance of other receivables by 5,520 thousand RON;
- decrease in provisions for receivables depreciation by 2,797 thousand RON.

Cash at bank and in hand

On December 31, 2013 the company's cash increased by 88,624 thousand RON as compared to the end of 2012 and such increase was determined by the fact that the cash generated by the operation, amounting to 496,179 thousand RON, exceeded the cash used for investment (185,178 thousand RON) and financing (222,377 thousand RON)

Debts to be paid within one year

The structure of debts to be paid within one year's time has undergone the following changes in relation to the previous year:

- the increase in the balance of commercial debts and other debts by 6,785 thousand RON mainly due to the increase in debts corresponding to the royalties by 6,339 thousand RON, to the increase of payable VAT by 7,575 thousand RON, to the increase of debts related to other taxes by 4,810 RON, to the increase of the amounts payable to employees by 3,223 thousand RON, to the increase of other debts by 11,547 RON, to the decrease of commercial debts by 20,373 thousand RON and to the decrease of fixed assets suppliers by 3,614 thousand RON;
- the increase in the risk and expense provision by 2,419 thousand RON due to the increase in the provision for the mandate contract by 1,490 thousand RON;
- the decrease of the debt related to profit tax due to the implementation by Transgaz of advance payment of profit tax and to the decrease in the fiscal obligations for 2014 as 2013 was a year where tax restatements were required as a result of implementing for the first time the IFRS as base of statutory tax statements;
- the increase in the provision for employees' benefits by 1,561 thousand RON determined by the increase of salaries according to the inflation rate.

Long-term debts

The evolution of the long-term debts is based on the following:

- the partial reimbursement (24,000 thousand RON) of the loan secured with BRD Groupe Societe Generale for the partial financing of the Company's investment program;
- the increase of the deferred income by 7,919 thousand RON due to collecting European funds for the SCADA objective;
- the reduction of the debt on the deferred profit tax by 4,604 thousand RON due to the increase in the provision for the employees' benefits as compared to 2013 and to the decrease of the differences between the accounting base and the fiscal base of tangible and intangible assets of Transgaz.

As of December 31, 2013, the status of Transgaz medium and long term loans is the following:

Financing bank	Loan currency	Loan value (thousand RON)	Balance as at 31.12.2013 (thousand RON)
BRD GSG	RON	120,000,00	48,000,00

Table 29- Status of medium and long term loans as at 31.12.2013

Equity

The value of the subscribed and paid up share capital underwent no modifications in 2013.

The increase of the result carried forward by 85,057 RON is determined by achieving a profit in 2013 which is higher than the value of dividends distributed in 2013, dividends corresponding to the profit recorded in 2012.

3.4.2 Global result

The status of the profit and loss account for the period 2011 - 2013 is the following:

No.	Specification	Results (thousand RON)			Dynamics (%)		
		2011	2012	2013			
0	1	2	3	4	5=3/2	6=4/3	7=4/2
1.	TOTAL income. out of which	1,457,621	1,420,158	1,557,361	97,43	109,66	106,84
1.1	Operating income	1,398,503	1,365,369	1,516,640	97,63	111,08	108,45
1.2	Financial income	59,118	54,790	40,721	92,68	74,32	68,88
1.3	Windfall income	-	-	-			
2.	TOTAL expenses. out of which	994,137	1,025,612	1,127,429	103,17	109,93	113,41
2.1	Operating expenses	954,715	998,817	980,843	104,62	98,20	102,74
2.2	Financial expenses	39,422	26,795	146,586	67,97	547,06	371,84
2.3	Windfall expenses	-	-	-			
3.	GROSS PROFIT. out of which	463,484	394,546	429,932	85,13	108,97	92,76
3.1	Result from operation	443,788	366,552	535,798	82,60	146,17	120,73
3.2	Financial result	19,696	27,995	-105,865	142,13	-378,16	-537,49
3.3	Windfall result	-	-	-			
4.	PROFIT TAX	82,689	113,404	100,045	137,15	88,22	120,99
5.	Income from deferred profit tax	8,161	49,793	4,604	610,13	9,25	56,41
6.	NET PROFIT	388,956	330,935	334,491	85,08	101,07	86,00

Table 30- Status of the profit and loss account for the period 2011-2013

Operating income

The operating income recorded for the period 2011-2013 is as follows:

No	Specifications	Results			Dynamics (%)		
		2011	2012	2013			
0	1	2	3	4	5=3/2*100	6=4/3*100	7=4/2*100
1.	Income from domestic transmission of natural gas						
	- thousand RON	1,092,023	1,052,112	1,210,480	96,35	115,05	110,85
	- MWh	136,133,151	130,466,645	119,741,363	95,84	91,78	87,96
	- RON/MWh	8,02	8,06	10,11	100,50	125,42	126,05
	- thousand cm	12,820,532	12,273,576	11,258,941	95,73	91,73	87,82
	- RON/1000 cm	85,18	85,72	107,51	100,63	125,42	126,22
2.	Income from international transmission of natural gas						
	- thousand RON	244,956	275,875	268,537	112,62	97,34	109,63
3.	Other operating income						
	- thousand RON	61,524	37,382	37,623	60,76	100,64	61,15
*	TOTAL OPERATING INCOME	1,398,503	1,365,369	1,516,640	97,63	111,08	108,45

Table 31- Operating income recorded for the period 2011-2013

In relation to the previous year, the operating income is higher due to the increase in the tariff for reserving transmission capacity.

Financial income

The evolution of the financial income in comparison to the previous year is determined by:

- the decrease in interest income by 5,800 thousand RON due to a lower level of bank deposits and to lower interest rates paid on deposits;
- the decrease in income from foreign exchange differences by 30,097 thousand RON; such differences were mainly due to the monthly re-evaluation of liquidities and deposits in foreign currency;
- the increase of other financial income by 21,920 thousand RON, representing the grant the company benefited from for increasing its participation in the company Nabucco Gas Pipeline International GmbH.

Operating expenses

The operating expenses recorded for the period 2011-2013 are as follows:

No.	Specification	Results (thousand RON)			Dynamics (%)		
		2011	2012	2013	5=3/2	6=4/3	7=4/2
0	1	2	3	4			
1	Consumption and technological losses in the transmission system						
	- thousand cm	278,577	239,199	160,140	85,86	66,95	57,48
	- thousand RON	133,898	118,925	95,500	88,82	80,30	71,32
	- RON/1000 cm	480,65	497,18	596,35	103,44	119,95	124,07
2	Auxiliary materials	20,431	22,433	22,136	109,80	98,67	108,34
3	Energy, water	6,309	7,020	7,612	111,27	108,43	120,65
4	Depreciation and provisions	159,559	164,540	180,880	103,12	109,93	113,36
5	Works, services executed by third parties	156,905	147,106	108,884	93,76	74,02	69,39
6	Salary fund	185,034	190,687	194,972	103,05	102,25	105,37
7	Health insurance fund, unemployment fund, health fund and other staff expenses	69,026	74,246	77,401	107,56	104,25	112,13
8	Gas share	39,832	40,338	43,036	101,27	106,69	108,04
9	Food vouchers	9,308	9,228	9,266	99,14	100,41	99,55
10	Other expenses incurred with materials	3,655	3,826	3,786	104,67	98,97	103,59
11	Expenses incurred with other taxes and duties	8,481	6,737	6,778	79,44	100,61	79,93
12	Tax for the gas transmission and international transit license	5,805	8,794	7,434	151,49	84,53	128,06
13	Royalty for NTS concession	133,698	132,799	147,902	99,33	111,37	110,62
14	Monopoly tax			40,121			
15	Other operating costs	22,774	72,137	35,135	316,75	48,71	154,28
*	TOTAL OPERATING EXPENSES	954,715	998,817	980,843	104,62	98,20	102,74

Table 32- Operating expenses recorded for the period 2011-2013

Compared to 2012, operating expenses recorded a decrease of 17,974 thousand RON, mainly determined by the following factors:

- the decrease in the technological consumption expenses by 23,425 thousand RON;
- the decrease in the expenses incurred with works and services provided by third parties by 38,222 thousand RON;
- increase in the expenses incurred with depreciation by 16,340 thousand RON.

Financial expenses

The financial expenses mainly include: adjustments for impairment of financial assets, expenses incurred with interest and fees for contracted loans and expenses incurred with foreign exchange differences, as follows:

- adjustments for impairment of financial assets amounting to 132,591 thousand RON due to the provision established for the depreciation of the Transgaz participation to the share capital of Nabucco Gas Pipeline International GmbH;
- the interest related expenses decreased by 1,064 thousand RON following the full repayment of the loans contracted with BIRD and Unicredit Ţiriac and the partial repayment of the loan contracted with BRD;
- the expenses related to foreign exchange differences decreased in relation to 2012 by 14,959 thousand RON;
- the increase of the effect of updating the provision for the employees' benefits by 2,436 thousand RON.

3.4.3 Cash flow

The status of cash-flow for the period 2011-2013 is presented below:

Indicator	Financial year ending on 31 December (thousand RON)		
	2011	2012	2013
Profit before tax	461,731	394,546	429,933
<i>Adjustments for:</i>			
Amortisation	159,559	164,540	180,880
Loss on disposal of fixed assets	-389	122	-20
Provisions for risks and expenses	-1,932	5,101	2,419
Provisions for depreciation of intangible assets	-	-	806
Income from connection taxes	-12,991	-14,651	-16,958
Provision for the employees' benefits	1,266	29,137	-2,123
Provisions for receivables depreciation	-6,327	9,355	162
Provisions for depreciation of financial assets	-	-	132,591
Loss /(gain) from inventory depreciation	-716	-556	891
Loss on receivables	2,823	41	83
Expenses incurred with interest	7,084	3,929	2,865
Effect of updating the provision for benefits granted to employees	2,158	2,609	5,046

Indicator	Financial year ending on 31 December (thousand RON)		
	2011	2012	2013
Income from interest	-18,719	-15,364	-9,563
Effect of exchange rate variation on other items than the operating items	-153	21	-119
Other income	<u>-1,236</u>	<u>-1,074</u>	<u>-23,167</u>
Operating profit before changes in working capital	592,158	577,756	703,726
(Increase)/ Decrease in trade receivables and other receivables	-27,015	10,662	-95,669
(Increase)/ Decrease in inventories	-14,881	7,954	882
Increase/(Decrease) in commercial debts and other debts	<u>10,624</u>	<u>-17,075</u>	<u>26,451</u>
Cash generated by operation	<u>560,886</u>	<u>579,296</u>	<u>635,391</u>
Paid interest	-7,199	-3,962	-2,865
Received interest	18,201	15,601	9,703
Paid profit tax	<u>-78,007</u>	<u>-82,872</u>	<u>-146,050</u>
Net cash income generated by operation	493,881	508,063	496,179
Cash flow from investment activities			
Payments for the acquisition of fixed tangible and intangible assets	-118,804	-168,504	-174,046
Income from the assignment of fixed tangible assets	716	112	135
Acquisition of financial investments, net	<u>-27,041</u>	<u>-39,973</u>	<u>-11,268</u>
Net cash used in investment activities	-145,129	-208,365	-185,178
Cash flow from financing activities			
Paid dividends	-335,219	-350,122	-253,386
Cash from connection taxes	58,488	5,114	55,009
Income from long-term loans	44,500	-	-
Reimbursements of long-term loans	<u>-47,671</u>	<u>-42,413</u>	<u>-24,000</u>
Net cash used in financing activities	-279,902	-387,421	-222,377
Net change in cash and cash equivalent	68,850	-87,723	88,624
Cash and cash equivalent at the beginning of the year	<u>197,511</u>	<u>266,361</u>	<u>178,638</u>
Cash and cash equivalent at the end of the year	<u>266,361</u>	<u>178,638</u>	<u>267,262</u>

Table 33- Status of cash-flow for the period 2011-2013

From the analysis of the cash flow as at December 31, 2013, there can be noticed an increase in the available funds amounting to 88,624 thousand RON, compared to the previous year.

The changes occurred in the cash flow structure in 2013 are as follows:

- ☞ the cash flow from operation is of 496,179 thousand RON, 11,884 thousand RON lower than the one corresponding to 2012;
- ☞ the cash flow used in investments is of 185,178 thousand RON, 23,187 thousand RON lower than the one corresponding to 2012;
- ☞ the cash flow used for financing is of 222,377 thousand RON, 165,044 thousand RON lower than the one corresponding to 2012.

3.4.4 Evaluation of the activity in terms of financial risk management

Financial risk factors

Due to the nature of its activities, the company is subject to various risks, such as: market risk (including monetary risk, interest rate risk related to fair value, risk of interest rate regarding cash flow and price risk), credit risk and liquidity risk.

The company's programme in terms of risk management is focused on the unpredictability of financial markets and aims to reduce the potential negative effects on the company's financial performance.

The company does not use derivatives to protect itself from certain risk exposures.

Market risk

Currency risk

The Company is exposed to currency risk through exposure to different currencies, particularly the U.S. Dollar and Euro. Currency risk is associated to assets and recognized liabilities.

The Company does not undertake formal action to minimize foreign exchange risk related to its operations; therefore, the company does not apply hedge accounting against risk. The management believes, however, that the Company is covered in terms of currency risk, given that sales in foreign currencies (mainly revenues from transit) are used to settle liabilities denominated in foreign currencies.

The following table shows the sensitivity of profit, loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period to the company's functional currency, with all variables held constant:

	2013	2012
<i>The impact on profit, loss and equity of:</i>		
US Dollar appreciation by 10%	3,654,009	2,663,068
US Dollar depreciation by 10%	(3,654,009)	(2,663,068)
Euro appreciation by 10%	2,635,180	5,029,460
Euro depreciation by 10%	(2,635,180)	(5,029,460)

Price risk

The company is exposed to commodity price risk related to the gas purchased for own consumption. If gas prices had been 5% higher / lower, the net profit for the year would have been lower / higher by 4,011,003 RON (2012: 5,083,885 RON).

Interest rate risk related to cash flow and fair value

The company is exposed to interest rate risk due to its long and short-term loans, most of which having variable rates. Also, the company is exposed to interest rate risk through its bank deposits.

The company has not entered into any commitments to reduce risk.

In the case of the average exposure in 2013, if interest rates had been 50 basis points lower / higher, with all variables held constant, the profit for the year and the equity would have been 829,187 RON (2012: profit of 787,254 RON) lower / higher, mainly as a result of reducing the interest rate on bank deposits, partially offset by lower interest expense on floating rate obligations.

Credit risk

Credit risk is mainly related to cash and cash equivalents and trade receivables. The company has developed a series of policies whose application shall ensure that sales of products and services are made to appropriate customers.

The carrying amount of receivables, net of allowances for doubtful receivables, represents the maximum exposure to credit risk. The credit risk of the company is focused on the five major clients, which together represent 73% of the trade receivables balances as at December 31, 2013 (2012: 73%).

Although the collection of receivables could be influenced by economic factors, the management believes that there is a significant risk of loss exceeding the provisions already created.

Cash is placed in financial institutions that are considered to be associated with a low risk of performance.

	2013	2012
No rating	59,511	53,863,544
BB-	86,883,471	34,639,436
BBB-	1,922,703	707,233
BBB+	122,973,017	60,361,920
BA1	-	187,202
A	53,982,844	28,727,413
A+	66,924	49,409
Caa2	<u>1,262,981</u>	-
	<u>267,151,451</u>	<u>178,536,157</u>

Liquidity risk

The prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

The company projects cash flows. The financial department of the company monitors the continual provisions of the company's cash requirements to ensure that there is sufficient cash to meet operational requirements, while maintaining a sufficient level of unused borrowing facilities at any time, so that the company does not breach the limits or the loan agreements (where applicable) of any of its borrowing facilities.

These projections take into account the company's debt financing plans, the compliance with agreements, the compliance with internal targets on the balance sheet indicators and, where appropriate, external regulations or legal provisions, for example, restrictions on currency.

The financial department of the company invests the extra cash in interest bearing current accounts and term deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide the appropriate framework established under the provisions mentioned above.

The table below shows liabilities as at December 31, 2013 after the remaining contractual maturity. The amounts presented in the maturity table are the contractual undiscounted cash flows.

The maturity analysis of financial liabilities at December 31, 2013 is as follows:

	Total amount	less than 1 year	1-5 years	over 5 years
Loans	49,333,053	24,963,393	24,369,660	-
Commercial debts	<u>151,345,228</u>	<u>151,345,228</u>	-	-
	<u>200,678,281</u>	<u>176,308,621</u>	<u>24,369,660</u>	-

The maturity analysis of financial liabilities at December 31, 2012 is as follows:

	Total amount	less than 1 year	1-5 years	over 5 years
Credits and loans	79,260,985	27,911,962	51,349,023	-
Commercial debts and other debts	<u>166,506,211</u>	<u>166,506,211</u>	-	-
	<u>245,767,196</u>	<u>194,418,173</u>	<u>51,349,023</u>	-

The commercial debts and the other debts include commercial debts, fixed assets suppliers, payable dividends, debts to the Ministry of Economy and Commerce and other debts.

Capital risk management

The objectives of the company related to capital management refer to maintaining the company's ability to continue to operate in order to provide compensation to shareholders and benefits for other stakeholders and to maintain an optimal capital structure so as to reduce the costs incurred with the capital. There are no externally imposed capital requirements.

Like other companies in this sector, Transgaz monitors the capital on the basis of indebtedness. This ratio is calculated as net debt divided by total capital.

Net debt is calculated as total borrowings (including "current and long-term loans" as shown in the statement of financial position) less cash and cash equivalents. The total capital is calculated as "equity" as shown in the statement of the financial position plus net debt .

In 2013 and 2012, the company's strategy was to maintain the indebtedness ratio as low as possible to maintain significant capacity to borrow funds for future investment if and when appropriate.

Net indebtedness as at December 31, 2013 and 2012:

	2013	2012
Total loans	48,000,000	72,000,000
Less: cash and cash equivalents	<u>(267,261,555)</u>	<u>(178,637,942)</u>
Net cash position	<u>(219,261,555)</u>	<u>(106,637,942)</u>

Estimation of fair value

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques.

It is considered that the carrying amount less the impairment provision of trade receivables and payables approximate their fair values.

The fair value of financial liabilities is estimated by discounting the future contractual cash flows using current market interest rate available to the company for similar financial instruments.

4. COMPANY MANAGEMENT

4.1 The Board of Directors

The list of company directors **from the beginning of 2013 until 30.04.2013:**

1. **SCHMIDT VICTOR ALEXANDRU Chairman of the BD** - appointed by Order of the Minister of Economy no. 576/24.03.2009, elected based on the Decision of the Ordinary General Meeting of Shareholders of 28.04.2009 – revoked in the Ordinary General Meeting of Shareholders no.5 /30.04.2013;
2. **RUSU IOAN member of the BD** – appointed by Order of the Minister of Economy no. 1022/05.06.2012, elected based on the decision of the Ordinary General Meeting of Shareholders of 19.07.2012;
3. **TRUTA OANA member of the BD** - appointed by Order of the Minister of Economy no. 8222/20.04.2011, elected based on the Decision of the Ordinary General Meeting of Shareholders of 29.04.2011 - revoked in the Ordinary General Meeting of Shareholders no. 5 / 30.04.2013;
4. **ALBULESCU MIHAI member of the BD** - appointed by Order of the Minister of Economy no. 576/24.03.2009, elected based on the Decision of the Ordinary General Meeting of Shareholders of 28.04.2009 - revoked in the Ordinary General Meeting of Shareholders no.5 / 30.04.2013;
5. **RAICU IONICA member of the BD** - appointed by Order of the Minister of Economy no. 576/24.03.2009, elected based on the Decision of the Ordinary General Meeting of Shareholders of 28.04.2009 - revoked in the Ordinary General Meeting of Shareholders no.5 / 30.04.2013.

The administrators of the company **starting with 30.04.2013:**

In **The Ordinary General Meeting of Shareholders no. 5 of 30.04.2013**, by cumulative vote, the following persons were elected as members of the Board of Directors:

1. **VĂDUVA PETRU ION member of the BD;**
2. **CERNOV RADU ȘTEFAN member of the BD;**
3. **STERIAN ION member of the BD;**
4. **PREDA MIHAELA member of the BD;**
5. **RUSU IOAN member of the BD.**

In the meeting of the Board of Directors no. 8 of June 4, 2013 its members were notified about the resignation of Mrs Mihaela Preda dated 30.05.2013 from the position of administrator of the company and appointed as of 04.06.2013 Mr Iliescu Bogdan George as provisional administrator of Transgaz.

The administrators of the company starting with 10.07.2013.

In **The Ordinary General Meeting of Shareholders no. 8 of 10.07.2013**, by cumulative vote, the following persons were elected as members of the Board of Directors:

1. **CERNOV RADU ȘTEFAN member of the BD** – present day;
2. **ILIESCU BOGDAN-GEORGE member of the BD** - present day;
3. **NEACȘU VLAD-NICOLAE member of the BD** - until 24.01.2014;
and were reconfirmed as administrators of Transgaz:
4. **STERIAN ION Chairman of the BD**- present day.
5. **VĂDUVA PETRU ION member of the BD** - present day;

The CVs of the administrators

The CVs of the administrators of the company can be found on the Transgaz website www.Transgaz.ro

Agreements/understandings or special family relationships

According to the information provided by directors, there is no agreement or family relationship between the person in question and another person by whose influence the person in question was appointed director.

Participation of the directors to the Transgaz capital

In the table below there is a situation of Transgaz shares owned by the company's directors:

Full name	administrators	Number of shares owned as at 31.12.2013	Stake (%)
Neacsu Vlad Nicolae	Member of the BD	3,475	0.0295
Rusu Ioan	Member of the BD	2,508	0.0213

Table 34- Situation of Transgaz shares owed by the company's directors

4.2 Executive management

The executive members have concluded individual employment contracts of indefinite duration.

The senior and executive management of Transgaz is appointed, employed and dismissed by the Managing Director.

According to the information,, there is no agreement, understanding or family relationship between the mentioned persons and another person due to which they were appointed as members of the executive management.

The executive management of the company is provided by the following individuals:

No.	Full Name	Position	Department/Division
1	Petru Ion Văduva	Managing Director	
2	Gheorghe Hațegan	Deputy Managing Director	
3	Ioan Rusu	Deputy managing Director	
4	Marius Lupean	Director	Economic Department
5	Florea Vasile	Director	Operation Department
6	Tătaru Ion	Director	Development Department
7	Cosma Florin	Director	Exploitation and Maintenance Department
8	Ghidiu Elisabeta	Director	Strategy and Corporate Management Department
9	Ciprian Viorel Achim	Director	Control and HSSEQ Department
10	Ciprian Octavian Alic	Director	Department of International Relations and European funds
11	Idu Olga	Director	Legal Division
12	Mateș Angela	Director	Human Resources Division
13	Oana Cristina Niculescu	Director	Budgetary Strategy Division
14	Gabriela Elena Mareș	Director	Cooperation and European Regulations Division
15	Mihai Fodor	Director	Budget and Finance Division
16	Dorin Vasile Deac Șuteu	Director	Information Technology and Communications Division
17	Sorin Gabriel Deac	Director	Works Preparation and Execution Division
18	Rău Ioan	Director	Commercial Balancing Division
19	Șai Alexandru	Director	Metering, Natural Gas Quality Division
20	Pătărnice Mihai	Director	National Natural gas Dispatching Office
21	Stroia Gheorghe Marius	Director	Gas Market Operation Division Bucharest
22	Bunea Florin	Deputy Director	Gas Market Operation Division
23	Muntean Aurel	Deputy Director	Metering, Natural Gas Quality Division
24	Lascu Sergiu	Deputy Director	Information Technology and Communications Division
25	Viorel Barbu	Director	NTS Rehabilitation Division
26	Adela Pînzar	Director	Public Procurement and Contracting Division
27	Ilie Lața	Director	Mediaș Branch
28	Leahu Mihai	Director	Design and Research Department

Table 35 – Executive management of SNTGN Transgaz SA Mediaș

The list of the members of the executive management of the company who own Transgaz shares is presented below:

No.	Full Name	Position	Number of shares as at 31.12.2013	Stake (%)
3	Ioan Rusu	Deputy Managing Director	2,508	0.02130
4	Marius Lupean	Director	8	0.00006
5	Florea Vasile	Director	14	0.00012
6	Tătaru Ion	Director	25	0.00021
16	Dorin Vasile Deac Suteu	Director	17	0.00010
19	Şai Alexandru	Director	10	0.00008
20	Pătârniche Mihai	Director	97	0.00082
27	Ilie Laţa	Director	46	0.00040

Table 36- List of members of executive management of Transgaz who own shares in the company

4.3. Possible litigations or administrative procedures

Litigations or administrative procedures which have taken place during the last 5 years regarding the administrative and executive management as well as those regarding their capacity of fulfilling their tasks within Transgaz

Not applicable.

5. OTHER ASPECTS

List of companies in which Transgaz owns participations

- **NABUCCO GAS PIPELINE INTERNATIONAL GmbH**, having its head office in Vienna, in which Transgaz owns 17.93% of the share capital; its object of activity is the development of the Nabucco project. The lack of perspective of the Nabucco project in the context of not being selected by the Shah Deniz Consortium and the lack of certitude related to the exploitation of new gas fields in the foreseeable future in the area of the Caspian Sea and the Middle East determined the Nabucco associates to decide to liquidate the project company and the Nabucco National Companies (NNCs), voluntary liquidation controlled by the NIC associates made by a liquidator;

- **SC MEBIS SA Bistrita**, having its head office in Bistrița (J06/150/1991), in which Transgaz owns 17.47% of the share capital; its object of activity is the manufacture of metal structures and complex welded assemblies, hydraulic assemblies and products. The company is undergoing insolvency procedures, according to Case File no. 101/112/2009 on the dockets of the Bistrița-Năsăud Court of Law, Legal and Administrative and Fiscal Litigation Section;
- **SC “Resial”SA** having its head office in Alba Iulia (J01/77/1991) in which Transgaz owns 68.16 % of the share capital; its object of activity is the production and marketing of refractory silicon-alumina products. The company is undergoing the bankruptcy procedure according to Case File no. 41/107/2005 on the dockets of the Alba Court of Law, the Commercial department.

Rating

Starting with 2006, Transgaz has been under the surveillance of the rating agency Standard&Poor’s for the purpose of periodically allotting and reviewing the credit rating.

Following the company’s economic performance, in February 2008, the agency granted Transgaz a corporate rating for long-term loans of **BBB- with negative outlook** (“investment grade”), this being the best rating granted to any Romanian company so far.

On October 30, 2008, following *the downgrading of the sovereign rating* justified by the increase of economic risks in Romania, based on the high indebtedness degree of the private sector and on the dependency on insecure external financing sources, the Standard&Poor’s agency lowered Transgaz’s foreign currency corporate rating from **BBB-** la **BB+**. At the same time, the corporate rating for local currency loans was reconfirmed as **BBB-**. The outlook of both rating categories remained *negative*.

On March 24, 2011, the review of the rating led to the improvement of the outlook of Transgaz from “*negative*” to “*stable*” both for the foreign currency loans and the local currency loans.

The review of the rating of Transgaz on December 7, 2011, confirmed the rating **BB+ with a stable outlook** for the foreign currency loans and reduced the rating for the local currency loans to **BB+ with a stable outlook**, from **BBB- with a stable outlook**. The decision to review the rating for the local currency was determined by the downgrade by Standard & Poor’s of the sovereign rating in local currency of Romania from **BBB-/A-** to **BB+/B**.

In 2012, Transgaz’s rating was reviewed in two stages:

In June there was a placement under supervision, with negative outlook, of the **BB+** rating granted to Transgaz both for long-term loans in foreign currency and for those in local currency.

According to Standard&Poor's, the main causes leading to the placement under supervision, with negative outlook, of Transgaz rating, were:

- the regulatory framework for the natural gas transmission activity in Romania, which became less predictable, which in the opinion of Standard&Poor's was not complying with the assessment previously made on the transparency and predictability of the regulatory environment;
- the maintenance by the Government of Romania, the majority shareholder of the operator of the National Natural Gas Transmission System, SNTGN "Transgaz" SA Mediaş, of the pressure on the company to distribute significant dividends, dividends exceeding the estimates considered by Standard&Poor's at its previous assessments.

In September 2012, following the meeting of the agency's assessment committee, it was published the decision to remove Transgaz rating from under supervision and award the new BB rating with negative outlook, down from BB+.

In the report prepared by Standard&Poor's analysts, the downgrade was reasoned by the diminished support offered by the regulatory framework of the natural gas transmission activity in Romania, which affects the competitiveness of Transgaz, determining the agency to review the risk profile of the company from "acceptable" to "poor".

The negative outlook of the rating reflects the opinion expressed by Standard&Poor's, according to which the maintenance of the uncertainty of the regulatory framework and the further payment of increased dividends could weaken the risk profile of the company over a short to medium term.

The rating BB with negative outlook was maintained in 2013.

Annexes 1 and 2 are an integral part of the Annual Report issued by the Board of Directors for 2013.

Ion Sterian

Chairman of the Board of Directors