

**THE NATIONAL GAS TRANSMISSION COMPANY “TRANSGAZ” S.A
Mediaş**

**ANNUAL REPORT ISSUED BY THE BOARD OF DIRECTORS
OF SNTGN “TRANSGAZ” SA
INDIVIDUAL FINANCIAL STATEMENTS**

(AUDITED FINANCIAL STATEMENTS)

2012

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REPORT AND ISSUER IDENTIFICATION DATA

Annual report according to the provisions of art. 227, Law no. 297/June 28th 2004, regarding the capital market, with its subsequent amendments and supplements

For the financial year concluded on: 31st December 2012

Report date: 8th March 2013

Name of the trading company: The National Gas Transmission Company "TRANSGAZ" SA

Head office: Mediaş, P-ța Constantin I. Motaş, nr.1, postal code: 551130

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

VAT Number: RO13068733

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

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

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

Main characteristics of securities issued by Transgaz: 11,773,844 ordinary, registered, indivisible, freely tradable shares since 24th January 2008, having a face value of RON 10/unit.

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

GENERAL INFORMATION REGARDING THE ISSUER

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

- Transgaz head office: the city of Mediaş, str. Piața C. I. Motaş nr. 1, Sibiu county, postal code 551130;
- Exploitation Department: the city of Mediaş, str. George Enescu nr. 11, Sibiu county, postal code 551018;
- Engineering and Research Department: the city of Mediaş, str. Unirii nr. 6, Sibiu county, postal code 550173;
- Bucharest Gas Market Operation Division: the city of Bucharest, Calea Dorobanți nr. 30, District 1, postal code 010573

Transgaz owns 10 regional operating centres and a branch, without legal personality:

1. Arad Regional Operating Centre, str. Poetului nr. 56, Arad city, Arad county, postal code 310369;
2. Bacău Regional Operating Centre, str. George Bacovia nr. 63, Bacău city, Bacău county, postal code 600238;
3. Brăila Regional Operating Centre, str. Ion Ghica nr. 5, Brăila city, Brăila county, postal code 810089;
4. Braşov Regional Operating Centre, str. Grigore Ureche nr. 12A, Braşov, Braşov county, postal code 500449;
5. Bucharest Regional Operating Centre, str. Lacul Ursului nr. 24, 6th District, Bucharest, postal code 060594;

6. Cluj Regional Operating Centre, str. Crișului nr. 12, Cluj-Napoca city, Cluj county, postal code 400597;
7. Craiova Regional Operating Centre, str. Arhitect Ioan Mincu nr. 33, Craiova city, Dolj county, postal code 200011;
8. Mediaș Regional Operating Centre, str. George Coșbuc nr. 29, Mediaș city, Sibiu county, postal code 551027;
9. Constanța Regional Operating Centre, str. Caraiman nr. 2 bis, Constanța city, Constanța county, postal code 900117;
10. Mediaș Branch, Sos. Sibiului nr. 59, Mediaș city, Sibiu county.

The **Mission** of Transgaz is represented by the safe, transparent, efficient and competitive fulfilment of the national energy strategy for the transmission, the international natural gas transit, dispatching of the natural gas and the research-engineering activity in the area of natural gas transmission.

EXECUTIVE SUMMARY

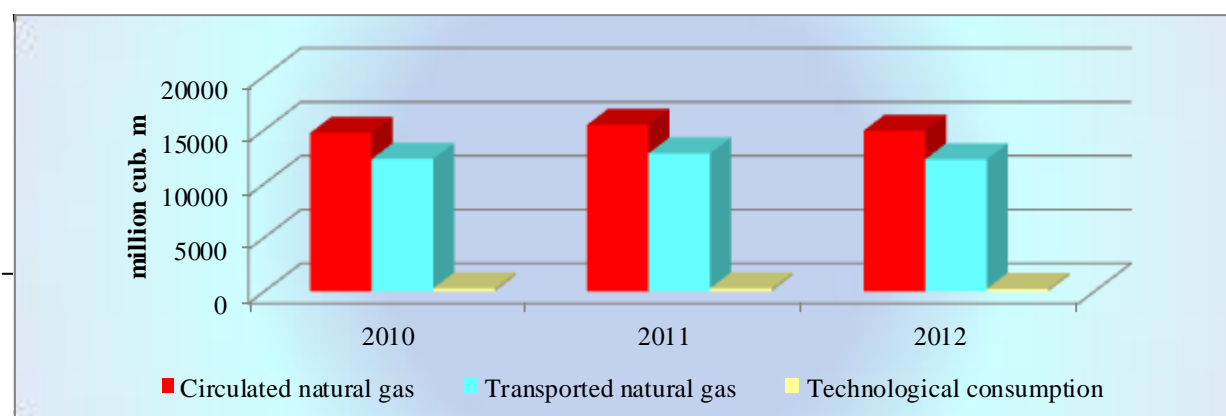
Transgaz performance indicators

No.	Indicator	MU	2010	2011	2012	% variation 2011/2010	% variation 2012/2011
0	1	2	3	4	5	$6=4/3*100$	$7=5/4*100$
1	Turnover	MN RON	1,308.10	1,336.98	1,327.99	102.21	99.33
2	Operating revenue	MN RON	1,337.73	1,398.50	1,365.37	104.54	97.63
3	Operating expenditures	MN RON	907.40	956.47	1,000.45	105.41	104.60
4	Operating profit	MN RON	430.33	442.04	364.92	102.72	82.55
5	Financial profit	MN RON	8.28	19.70	27.99	237.76	142.13
6	Profit tax	MN RON	75.15	82.69	113.40	110.03	137.14
7	Revenues from the postponed profit tax	MN RON	6.85	8.16	49.79	119.16	610.14
8	Net profit	MN RON	370.31	387.20	329.31	104.56	85.05
9	Gross dividend/share	RON	28.77**	29.76**	21.29*	103.44	71.54

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

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

The evolution of the natural gas quantities circulated and transported through the National Natural Gas Transmission System (NTS), as well as of the technological consumption during 2010-2012 is the following:



No.	Indicator	MU	2010	2011	2012
1	Circulated natural gas	MCM	14,735.00	15,476.30	14,942.34
2	Transported natural gas	MCM	12,306.55	12,820.53	12,273.57
3	Technological consumption	MCM	283.77	278.58	239.20
4	Technological consumption/circulated gas ratio	%	1.93	1.80	1.60

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

No.	Specifications	Results			Dynamics (%)		
		2010	2011	2012	5=3/2*100	6=4/3*100	7=4/2*100
0	1	2	3	4			
1.	Incomes from the transmission activity						
	- thousand RON	1,054,014	1,092,023	1,052,112	103.61	96.35	99.82
	- MWh	131,005,622	136,133,151	130,466,645	103.91	95.84	99.59
	- RON/MWh	8.05	8.02	8.06	99.70	100.53	100.23
	- TCM	12,306,552	12,820,532	12,273,576	104.18	95.73	99.73
	- RON/TCM	85.65	85.18	85.72	99.45	100.64	100.09
2.	Incomes from the transit activity						
	- thousand RON	254,089	244,956	275,875	96.41	112.62	108.57
3.	Other operating incomes						
	- thousand RON	29,626	61,524	37,382	207.67	60.76	126.18
*	TOTAL OPERATING INCOMES	1,337,729	1,398,503	1,365,369	104.54	97.63	102.07

The increase in incomes generated by the international transit of natural gas was generated by the USD exchange rate trend, taking into account the fact that the transit services payments in Turkey are collected in USD.

Chapter 1 - ANALYSIS OF THE COMPANY’S ACTIVITY

1.1.a). Basic 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.

The share capital structure and the ownership structure of Transgaz on January 4th 2013 are presented below, as follows:

Shareholders	Number of shares	Percentage
Ministry of Economy	8,654,917	73.5097%
SC Fondul Proprietatea SA	1,764,620	14.9876%
Other shareholders – natural and legal persons (free-float)	1,354,307	11.5027%
Total	11,773,844	100%

- The number of shareholders of Transgaz registered with SC Depozitarul Central S.A. at the beginning of 2013 was 7,078, with 103 shareholders less than registered at the end of 2011, respectively 7,181 shareholders;
- The share capital of Transgaz on December 31st 2012 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 having as an object its own shares and consequently at the end of the year 2012, the company did not hold own shares.

According to Government Decision no. 334/2000 and the updated Articles of Incorporation, the objectives of Transgaz are: implementation of the national transport strategy, international transit, natural gas dispatching and research-design in the natural gas transport field by carrying out - under national legislation - commercial deeds corresponding to the company's object of activity.

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 carries out the natural gas transmission activity based on the specific field legislation and the Concession Agreement concluded with the National Agency for Mineral Resources and approved by Government Decision (GD) no. 668/2002, with further amendments and supplements, on the Transmission Licence no. 40/17.01.2001, on the Natural Gas Transit Licence no. 41/17.01.2001, on the Natural Gas Dispatching License no. 561/13.01.2006 and the Natural Gas Transmission Units/Systems Operating Permit no. 829/20.09.2007 issued by National Energy Regulatory Authority (ANRE).

The natural gas transmission activity is a public service of national interest and 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. 54/December 13th, 2007, with its subsequent amendments and supplements.

1.1.b). Transgaz establishment date

Transgaz was set up in 2000, *through the reorganisation of the former SNGN "Romgaz" SA, according to GD no. 334/28th April 2000, 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.

In addition, as operator of the National Natural Gas Transmission System, 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.

1.1.c). Important Transgaz mergers or reorganisations occurred during the financial year.

In 2012 there were no mergers or reorganisations, except for the establishment of Mediaș Branch, whose main object of activity is represented by construction works of utility projects for fluids.

1.1.d). Acquisition and alienation of assets

Except for the acquisition of assets necessary to carry out and develop the activity, as well as assets taken out of service under the law, the company recorded no other similar operations in 2012.

1.1.e). Assessment 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 draws up dynamic strategic plans for periods of 3 calendar years, plans which are in a continuous dynamic, 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 2012 financial statements was performed by the "PricewaterhouseCoopers Audit SRL" (PwC) auditors.

1.1.1. General assessment aspects

The 2010-2012 financial and economic activity of Transgaz was carried out based on the annual income and expenditure budgets indicators, approved by General Assembly of Shareholders.

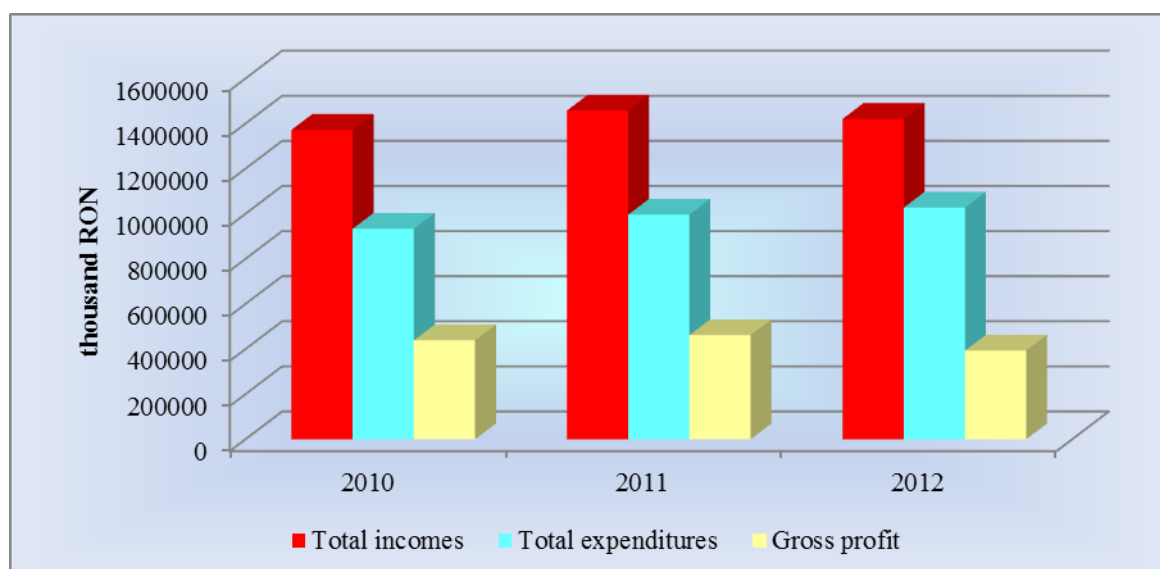
The main economic and financial indicators achieved during 2010-2012 are presented in the table below:

No.	Indicator	MU	2010	2011	2012
1	Turnover	thousand RON	1,308,103	1,336,979	1,327,987
2	Total income	thousand RON	1,371,894	1,457,621	1,420,159
3	Total expenditures	thousand RON	933,279	995,890	1,027,243
4	Gross profit	thousand RON	438,615	461,731	392,916
5	Profit tax	thousand RON	75,153	82,689	113,403
6	Incomes from the postponed profit tax	thousand RON	6,849	8,161	49,793
7	Net profit	thousand RON	370,313	387,203	329,305
8	Transported gas	TCM	12,306,552	12,820,532	12,273,575
9	Investment expenditure*)	thousand RON	410,156	128,136	212,102
10	Rehabilitation expenditure	thousand RON	118,451	111,458	104,259
11	Technological consumption	thousand RON	134,173	133,898	118,925
12	Technological consumption	TCM	283,775	278,577	239,199

*) The value of indicator achieved is determined according to principles of OMFP 3055/2009

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

Out of total incomes achieved in 2012, around 19% are in foreign currency, from the international natural gas transit activity.



2012 results vs. 2011 results

The situation of the financial results reported on 31st December 2012 compared to the similar period of 2011 is presented in the table below:

thousand RON

No.	Name	Results 2011	Results 2012	Indices (%)
0	1	2	3	4=3/2x100
1.	Income from the operating activity	1,398,503	1,365,369	97.63
2.	Financial income	59,118	54,789	92.68
3.	TOTAL INCOME	1,457,621	1,420,159	97.43
4.	Operating expenditures	956,468	1,000,448	104.60
5.	Financial expenditures	39,442	26,795	67.97
6.	TOTAL EXPENDITURES	995,890	1,027,243	103.15
7.	GROSS RESULT (row 3 - row 6) out of which:	461,731	392,915	85.10
-	from the operating activity	442,035	364,921	82.55
-	from the financial activity	19,696	27,994	142.15
8.	Profit tax	82,689	113,404	137.15
9	Incomes from the postponed profit tax	8,161	49,793	610.13
10	NET PROFIT	387,203	329,306	85.05

The total income represents **97.43%** compared to the results of the similar period of 2011, a decrease of **37,462 thousand RON**. The income was mainly influenced by:

- ⌘ *the transported gas quantity* lower than in 2011 by 5,666,507 MWh (546,957TCM), which had a negative influence of **39,911 thousand RON**;
- ⌘ *the incomes from the international natural gas transit services*, which increased by **30,919 thousand RON** due to the decrease of the average RON/USD and

RON/EUR exchange rates in 2012, given that these incomes are invoiced and collected in foreign currency;

- ✍ the decrease in other incomes, such as incomes from penalties for late payment, applied to bad payer customers.

The total expenditures increased by 3.15% versus 2011, their level being by **31,353 thousand RON** higher, while the **operating expenses** exceeded the level of the previous year by 4.60%.

Analysing these expenses in structure, we notice that *savings were made compared with 2011 worth 27,419 thousand RON*, mainly for the following items:

- ✍ consumption and technological losses on the transmission system: 14,972 thousand RON.
- ✍ works and services executed by third parties: 9,804 thousand RON.

In the same period, *certain expenditure items recorded overruns worth 71,399 thousand RON, of which we mention the following:*

- ✍ expenses with the personnel: 11,304 thousand RON;
- ✍ the employees' participation to profits (not granted for 2010): 10,025 thousand RON;
- ✍ depreciation of fixed assets: 4,981 thousand RON;
- ✍ other operating costs: 39,207 thousand RON (mainly due to establishing the provision for the employees' benefits).

The gross profit achieved in 2012 is lower compared with that posted in 2011 by **68,815 thousand RON (14.9%)**, respectively the net profit is lower by **57,898 thousand RON (14.95%)**.

2012 results vs. 2012 planned results

The synthesis of the financial results obtained on 31st December 2012 compared to the income and expenditure budget approved by GD no. 1267 of 18th December 2012 is presented in the table below:

thousand RON

No.	Name	IEB 2012	Results 2012 IFRS	Indices (%)
0	1	2	3	4=3/2x100
1.	Income from the operating activity	1,482,462	1,365,369	91.10
2.	Financial income	49,207	54,789	111.35
3.	TOTAL INCOME	1,531,669	1,420,159	92.72
4.	Operating expenditures	1,063,101	1,000,448	94.11
5.	Financial expenditures	29,074	26,795	92.16
6.	TOTAL EXPENDITURES	1,092,175	1,027,243	94.05
7.	GROSS RESULT (row 3 - row 6) out of which:	439,493	392,915	89.40
-	from the operating activity	419,361	364,921	87.02
-	from the financial activity	20,133	27,994	139.05

8.	Profit tax	84,399	113,404	134.37
9	Incomes from the postponed profit tax	-	49,793	x
9.	NET PROFIT	355,094	329,306	92.74

The total income represents **92.72%** compared to the IEB planned results, with a shortfall of **111,510 thousand RON**. The income was influenced by the following factors:

- ✍ *the transported gas quantity* was lower than planned in IEB by 16,983,384 MWh (1,514,422TCM), with a **126,462 thousand RON** negative influence;
- ✍ *the income from the international natural gas transit services*, which underwent an increase of **5,258 thousand RON** determined by the increase of the RON/USD and RON/EUR average exchange rate in comparison to the one provided in IEB;
- ✍ *the increase in other operating incomes* by **4,112 thousand RON** determined mainly by the cashing in of fines and penalties;
- ✍ *the increase in the financial incomes* due to favourable exchange rates differences and interests by **5,582 thousand RON**;

The total expenditure incurred at the end of the year is achieved at a rate of **94.05%** compared to the planned results, i.e. by **64,933 thousand RON** lower.

The achieved operating expenditures represent 94.11% of the planned level.

Savings in the amount of 106,606 thousand RON were reported for the following expenditure items:

- ✍ Technological consumption and losses of natural gas in the transmission system: 14,090 thousand RON, due to two factors:
 - the achieved quantity less than the planned one by 329,361 MWh with a positive influence of 15,259 thousand RON;
 - average price of purchase achieved (46.79 RON/MWh) superior to the one provided (46.33 RON/MWh) by 0.46 RON/MWh with a negative influence of 1,169 thousand RON;
- ✍ Works and services carried out by third parties: 19,349 thousand RON, due to the delay of certain works due to the difficult collection of the agreement of the owners regarding the access to the land and the change by ANRMAP of the procedures for validating the tenders;
- ✍ Material expenditure: 2,992 thousand RON following the failure to achieve the rehabilitation program;
- ✍ Staff expenses: 1,838 thousand RON;

Overruns were recorded at certain expenditure items, worth **43,419 thousand RON**, of which we mention the following:

- ✍ the tax for granting the gas transmission license: 1,889 thousand RON;
- ✍ other operating costs: 41,792 thousand RON, mainly due to establishing the provision for the employees' benefits.

The gross profit reported at the end of the year is lower by 46,577 thousand RON (10.6%) compared with the planned profit, while the net profit – by 25,789 thousand RON (7.26%).

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

No.	Indicators	Calculation formula	2010	2011	2012
1.	Profitability indicators				
a)	EBITDA in total sales	$\frac{\text{EBITDA}}{\text{Turnover}}$	44.67%	47.00%	42.27%
b)	EBITDA in equity	$\frac{\text{EBITDA}}{\text{Equity}}$	19.74%	20.89%	18.79%
c)	Gross profit rate	$\frac{\text{Gross profit}}{\text{Turnover}}$	33.53%	34.54%	29.59%
d)	Return on equity	$\frac{\text{Net profit}}{\text{Equity}}$	12.51%	12.87%	11.02%
2.	Liquidity indicators				
a)	Current ratio	$\frac{\text{Current assets}}{\text{Short-term debts}}$	1.58	1.85	1.58
b)	Acid test ratio	$\frac{\text{Current assets} - \text{Inventories}}{\text{Short-term debts}}$	1.51	1.73	1.48
3.	Risk indicators				
a)	Degree of indebtedness indicator	$\frac{\text{Borrowed capital}}{\text{Equity}}$	2.66	2.39	1.61
b)	Times interest earned	$\frac{\text{EBIT}}{\text{Interest expenditures}}$	160.55	66.18	101.00
4.	Activity indicators				
a)	Debit turnover ratio - customers	$\frac{\text{Average customer balance} \times 365 \text{ days}}{\text{Turnover}}$	97.55	103.04	104.58
b)	Credit turnover ratio - suppliers	$\frac{\text{Average supplier balance} \times 365 \text{ days}}{\text{Turnover}}$	37.23	39.34	32.46

1.1.2. The main activities performed by the company

Transgaz achieves incomes based on the following activities:

The natural gas transmission activity, which is regulated by ANRE through Order no. 22/May 25th 2012 approving the Methodology for the approval of prices and determining the regulated tariffs in the natural gas sector.

The evolution of transmission tariffs during the analysed period is shown in the table below:

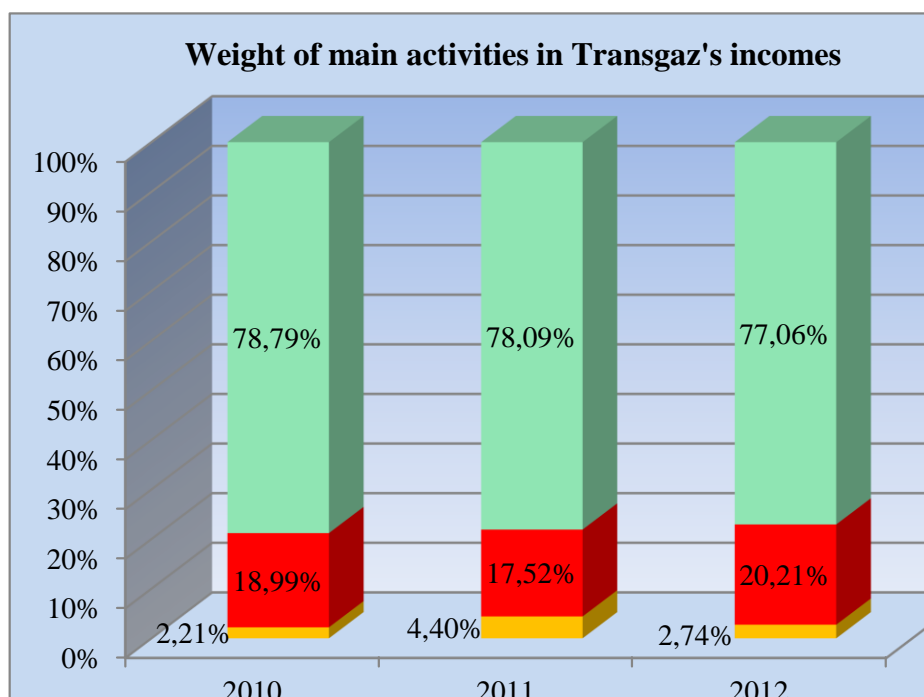
Running No.	Order of the regulatory authority	Date from when it is applied	Tariff for transport services		
			Volumetric component (RON/MWh)	Component regarding capacity reservation for permanent services (RON/MWh/hour)	Component regarding capacity reservation for interruptible services (RON/MWh/hour)
0	1	2	3	4	5
1.	ANRE Order 72/26.06.2008	July 1 st , 2008	6.89	0.18	0.14
2.	ANRE Order 76/27.08.2009	September 1 st , 2009	7.50	0.22	0.17

According to ANRGN Decision no. 1078/2003, the regulated income should have been adjusted starting with July 1st, 2010, but through the ANRE Order no. 18 of June 24th 2010, the validity period of the ANRE Order no. 76/27.08.2009 was extended "*until a new regulated income is established*". Although Transgaz submitted to ANRE the substantiations regarding the adjustment of the regulated income and the transmission tariffs for the *last two gas years* of the second regulatory period (July 1st, 2010 – June 30th, 2011, respectively July 1st, 2011 – June 30th, 2012), respectively for the first year of the third regulatory period (July 1st 2012 – June 30th 2013), according to the applicable methodology, ANRE has not yet approved new tariffs.

The international natural gas transit activity is also a gas transmission activity, but because it is carried out through dedicated pipelines which are not interconnected with the national transmission system (NTS), *it is not considered a regulated activity, and the transit tariffs have been established on commercial basis through negotiations between the parties.*

Other activities with a marginal contribution to the company's turnover (sales of assets, rents and royalties).

The weight of the main activities in Transgaz operating income is presented in the chart below:



The natural gas transmission service

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

The transmission agreements signed 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.

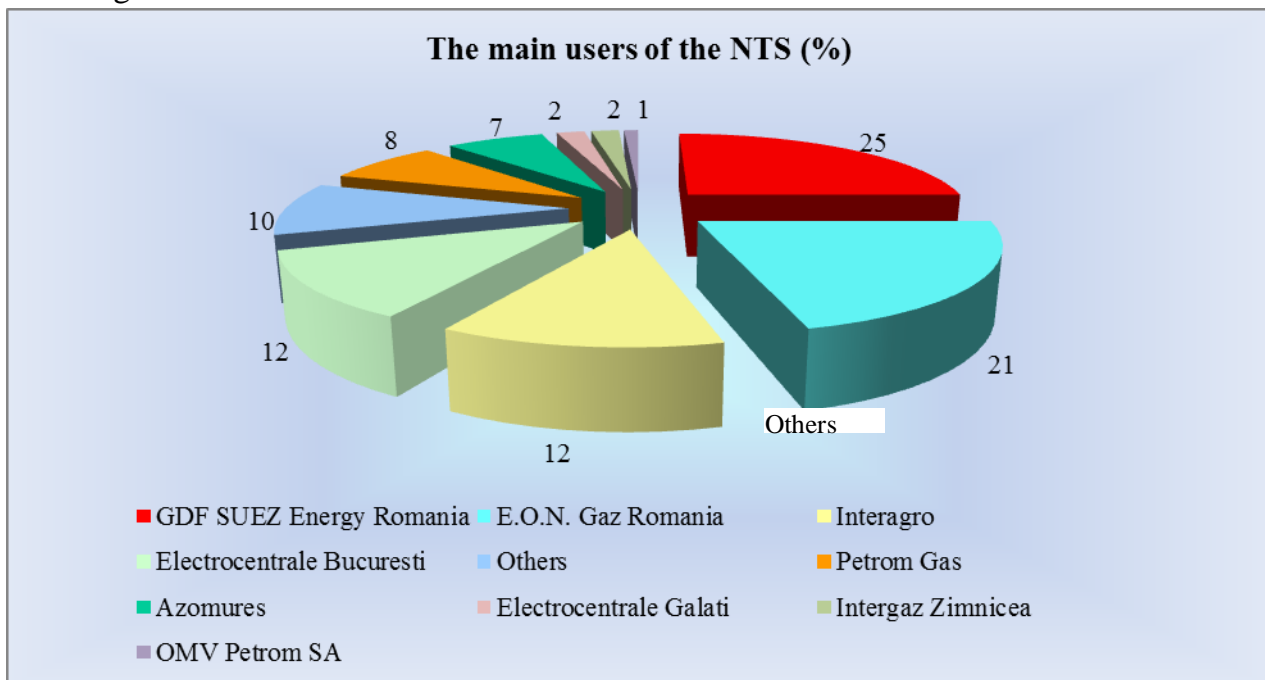
The provision of the transmission service designates all the activities and operations carried out for and in relation to the reservation of transmission capacity and transmission through the NTS of determined natural gas quantities. The transmission of natural gas quantities is made from the commercial delivery/receipt points from entering the NTS to the commercial delivery/receipt points from exit from the NTS, *natural gas volumes required to cover losses in the NTS being the responsibility of Transgaz.*

Through the transmission services contracted for 2012, a total amount of **130,466,644.582 MWh** was transported, the booked capacity in this regard being **39,059.340 MWh/h.**

The main categories of beneficiaries of the natural gas transmission services provided by Transgaz through the NTS were:

- *licensed supply and distribution operators*, with a share of **5%** out of total transmission services provided in 2012;
- *licensed natural gas supply companies*, with a share of **62%** out of total transmission services provided in 2012;
- *eligible consumers*, with a share of **33%** out of total transmission services provided in 2012.

The weight of the main beneficiaries of the transmission service is presented in the following chart:



In order to cover losses in the NTS and its own technological consumption, Transgaz purchased in 2012 a quantity of **2,541,664.917 MWh (239,198.619 TCM)** of natural gas. According to the provisions of the *ANRE Order no. 2/20.01.2011* regarding the approval of the level of the stock of natural gas corresponding to SNTGN Transgaz SA, article 3 paragraph (1), the company contracted services of capacity reservation in the underground storage facilities in order to maintain in stock the amount of **212,000 MWh** of natural gas, meant to ensure the balance of the system and for its operation in safety conditions.

The international natural gas transit service

The international natural gas transit activity ensures the transit of natural gas from the Russian Federation to Bulgaria, Turkey, Greece and other countries, through three gas mains, between Isaccea and Negru-Vodă.

This activity is carried out 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:

- The Convention regarding the construction of a pipeline on the territory of the Socialist Republic of Romania to ensure the gas transit from U.S.S.R. to the People's Republic of Bulgaria, signed on November 29th, 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 29th, 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 countries and in Romania, signed on October 25th, 1996.
- The cooperation agreement in the energy sector concluded on October 29th, 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. 1278/27 December 2011, based on the provisions of article 351, paragraph 2 of the Treaty regarding the operation of the European Union.

The validity period of the three contracts is as follows:

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

1.1.3. 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.

1.1.4. Evaluation of the sales activity

Transgaz is the single operator for natural gas transmission in Romania. The table below indicates the evolution of the transmission and transit services performed for the period 2010-2012.

No.	Specifications	Achievements (thousand RON)			Dynamics (%)		
		2010	2011	2012	5=3/2*100	6=4/3*100	7=4/2*100
0	1	2	3	4			
1.	Revenues generated by the transmission activity	1,054,014	1,092,023	1,052,112	103.61	96.35	99.82
2.	Revenues generated by the transit activity	254,089	244,956	275,875	96.41	112.62	108.57

The natural gas transmission activity through the NTS carried out by Transgaz involves over 90% of the natural gas consumed in Romania. Therefore, we can state that:

- there is no competition in the field;
- the company does not rely heavily on a single customer or a group of customers from its portfolio.

1.1.5. Evaluation of company employees/staff aspects

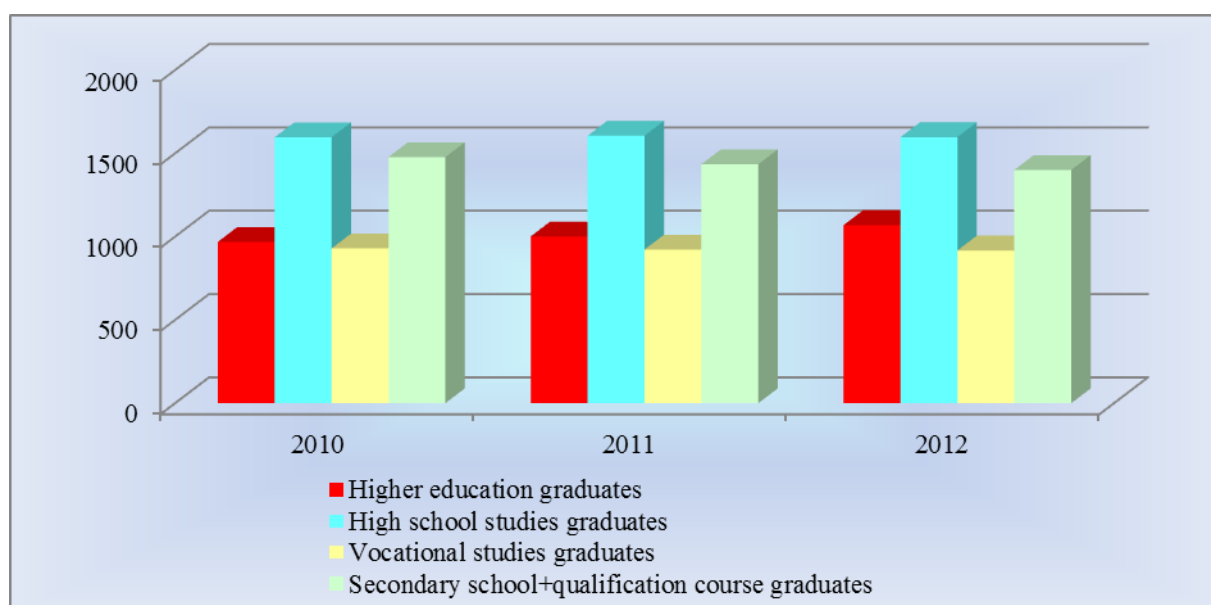
On 31st December 2012, Transgaz had 4,978 employees with an individual labour contract, of which 4,960 employed for an unlimited period of time and 18 for a limited period of time.

During 2010-2012, the number of company employees evolved as presented in the following table:

No.	Specification	2010	2011	2012
0	1	2	3	4
1	Number of employees at the beginning of the period	4,990	4,970	4,962
2	New employees	108	114	117
3	Employees who terminated their labour contract	128	122	101
4	Number of employees at the end of the period	4,970	4,962	4,978

The personnel evolution according to study categories reflects the company's interest in covering personnel needs by hiring highly-qualified specialists, as well as in the continuous improvement of the existing personnel.

No.	Category	31.12.2010	31.12.2011	31.12.2012
0	1	2	3	4
1	University graduates	968	1,001	1,069
2	High-school graduates	1,596	1,605	1,597
3	Vocational school graduates	929	922	917
4	Secondary school + qualification course graduates	1,477	1,434	1,400
*	TOTAL employees	4,970	4,962	4,978



As regards the employees' continuous training and specialisation in 2012, the company organised professional and specialisation training courses delivered by in-house trainers for 862 employees, for jobs specific to the business activity of the company.

During the same period, 746 employees took part in training courses delivered by external trainers.

On 31st December 2012, 98.79% of the labour force was part of a trade union (4.918 employees out of 4.978 were trade union members).

Transgaz employees are members of 4 trade unions, namely the following:

- The Mediaş Gas Transport Trade Union;
- The Free Trade Union SNTGN Transgaz SA Mediaş ;
- The Research Technology „CERTEH” Mediaş Trade Union;
- The „Metan” Mediaş Professional Trade Union.

The Mediaş Gas Transport Trade Union is the representative union of the unit, according to the provisions of Law no. 62/2011 – of Social Dialogue, art. 51, letter c), which is why it represented the company's employees at the conclusion of the Collective Labour Contract for 2012-2014.

1.1.6. Evaluation of aspects related to the environmental impact of Transgaz main activity

These aspects are described under point 6 in the Appendix to the Directors' Report regarding Corporate Governance.

1.1.7. Evaluation of the research and development activity

The activity of the research and engineering department was carried out in 2012 on two directions: engineering and scientific research.

A. The engineering activity:

In 2012 the Technical and Economic Council of Transgaz Mediaş (CTE Transgaz Mediaş) approved 76 works, the investment amounting to a total of RON 292,028,141, as follows:

- 3 solution studies;
- 10 investment works;
- 10 maintenance works;
- 19 works for access to the NTS;
- 11 Technological nodes – SCADA Project;
- 16 works of cathode protection and power supply.

Out of the 76 authorized works, 23 were received.

Also, in 2012 technical assistance was granted for works under execution.

An important part of the engineering activity was the *Engineering of the Nabucco pipeline on Romania's territory*.

Activities carried out throughout 2012 by the Engineering and Research Department are:

- Changing and completing the route of the Nabucco pipeline;
- Completing the crossing details;
- Setting the locations for the surface facilities;
- Completing the documentation of process calculation for surface facilities;
- Continuing the activity for obtaining permits and approvals from the relevant authorities and from third parties.

The value of services provided and invoiced in 2012 by the Engineering Department amounts to EUR 878,741.

It should be mentioned that the following activities/works were completed at the level of the entire project:

- The identification of landowners for the entire route;
- Completing the geotechnical and hydro geotechnical reports;
- Submitting the environmental documentation (Appropriate Assessment Studies, the Environmental Report and the Cross-border Impact Report) to the National Environmental Protection Agency.

B. The research activity

It was carried out according to the *Scientific Research, Technological Innovation and Standardization Program for 2012* and included 19 research themes, of which 12 were carried out during 2008-2011 and the other 7 were new themes for 2012.

In terms of the themes' accomplishment manner:

- out of 4 themes totalling RON 1,000,000 allocated for accomplishment by the Engineering and Research Department, 2 themes were partially completed, worth a total of RON 256,047. They solved problems related to:
 - the identification, assessment and streamlining of the recoverable energy potential within the natural gas transmission process at the NTS level;
 - the assimilation of electrical micro generators powered by pneumatic engines, on natural gas, meant to supply electricity for the own facilities within the metering stations and technological nodes;
- out of 15 themes worth RON 3,313,053, allocated for realization in cooperation with specialized universities and research institutions:
 - 9 themes worth **RON 1,475,749** were achieved, of which we recall:
 - *Technical norms on the design and execution of natural gas upstream supply and transmission pipelines (The Oil and Gas University of Ploiesti);*
 - *Study on the configuration of the zero system, taking into account the latest major changes in natural gas flows to the west and south of the country (the assessment of compression needs) (The Oil and Gas University of Ploiesti);*
 - *Theoretical analysis of the NTS's transmission capacity, based on a computer model of the NTS, developed for this purpose (the Oil and Gas University of Ploiesti);*
 - *Implementation and use of a Risk-based Management System by analysing the existing conditions compared to the necessary conditions.*

1.1.8. Evaluation of Transgaz activity regarding the financial risk management

By the nature of its activities, the company is subject to various risks, such as: credit risk, foreign exchange risk, interest rate risk, liquidity risk and capital market risk. The management aims at the reduction of potential negative effects of these risk factors on the company's financial performance.

Credit risk

The company is subject to credit risk due to its trade receivables and other types of receivables. In general, the company obtains references regarding the financial creditworthiness of all new customers, the maturity date of debts is carefully monitored and the outstanding amounts are accurately verified.

Foreign Exchange risk

The company no longer has loans in foreign currency and as such it is exposed only to the foreign exchange risk related to the commercial debts denominated in foreign currency. Due to high costs associated, the company's policy is not to use financial instruments for the mitigation of such risks.

Interest rate risk

The company’s financial cash flows are affected by interest rate variations mainly due to variable interest loans. The company does not use any financial instruments as protection from interest rate variations.

Liquidity risk

A prudent liquidity risk management involves maintaining a sufficient cash flow and of available credit lines. Due to the nature of its activity, the company pursues financing flexibility, by maintaining various credit lines available for the financing of the operating activities.

Capital market risk

Transgaz increased its share capital by a primary initial public offering for the sale of shares, which took place in the period 19 November-7 December 2007. It was followed by the trading on the Bucharest Stock Exchange (BSE) of allocation rights and of shares.

According to Law no. 297/2004 regarding the capital market, companies approved for trading have a series of reporting obligations to the National Securities Commission (CNVM) and BSE. Thus, Transgaz undertakes to immediately report all legal acts concluded by the company with directors, employees and shareholders who hold control or with their stakeholders. In addition, the company undertakes to immediately inform CNVM and its shareholders of privileged information, to place quarterly, half-yearly and annual reports at the disposal of the public and of CNVM, to provide information on any financial, organisational or environmental factors, on all modifications of the company’s objectives, business strategy or investment plans which may have a significant influence on the company’s activity.

Since BSE is a small stock exchange, the variation of the market price of listed shares may be easily influenced by the information provided by the issuer.

1.1.9. An outlook on the activity of Transgaz**Evolutions regarding the Nabucco Project:**

The Nabucco Project started for the purpose of connecting and benefiting from the important natural gas reserves in the area of the Caspian Sea and Middle East (Iraq, Egypt), to the European markets. Nabucco project was included in Romania’s 2007-2020 energy strategy, chapter IV “Energy field development objectives and measures for their accomplishment”.

The project was initiated with the participation of five industry companies: Boru Hatlari Ile Petrol Tasima AS –Turkey (Botas), Bulgarian Energy Holding EAD - Bulgaria, SNTGN TRANSGAZ SA - Romania, MOL Magyar Olaj-és Gázipari Nyrt.- Hungary and OMV Gas & Power GmbH –Austria.

In November 2011, MOL Magyar Olaj-és Gázipari Nyrt. – Hungary assigned its shares owned in NIC to FGSZ Földgázszállító Zártkörűen Működő Részvénytársaság Hungary (FGSZ), a subsidiary owned by MOL 100%. In 2008, a new shareholder joined the Project, the company RWE Supply & Trading GmbH – Germany (RWE).

The operations regarding the implementation of the project are carried out through the company Nabucco Gas Pipeline International GmbH (NIC), having its office in Vienna, and through 5 subsidiaries, one in every transited country.

The stakes of the 6 shareholders in Nabucco Gas Pipeline International GmbH on 31.12.2012 is the following:

Shareholder	Stake in NIC's share capital (%)
OMV	17.38
RWE	17.38
FGSZ	13.10
Transgaz	17.38
BEH	17.38
Botas	17.38
Total:	100

As from 2012, shareholder FGSZ Hungary no longer contributed, proportionally to its stake owned the share capital of NIC, to the project's financing, thus the share capital infusion was made only by contributions of the other five shareholders (BEH, Botas, OMV, RWE, Transgaz), their stake increasing from 16.67% each to 17.06% and, subsequently, to 17.38%, while FGSZ Hungary was diluted from 16.67% initially to 14.68% and then to 13.10%.

If the shareholder FGSZ Hungary maintains its position not to finance the project, it will continue to be diluted.

Initially, the Nabucco project was defined as a pipeline system starting from the borders of Turkey/Georgia and Turkey/Iraq, respectively, and having as terminus point the gas hub in Baumgarten, Austria (the classical Nabucco).

The announcement made by Azerbaijan's Shah Deniz Consortium, according to which the point for natural gas supply from the Shah Deniz II gas field for export to Europe will be the border between Turkey and Bulgaria or the border between Bulgaria and Greece (depending on the route to be selected) and the consortium's intention to build on Turkey's territory a new gas transmission pipeline, called Trans Anatolian Pipeline (TANAP), determined NIC shareholders to reconsider their position by preparing an alternative to the initial Nabucco project, resulting in the emergence of the Nabucco West version (the European section), which would start from the Turkey/Bulgaria border. Thus, Nabucco West will carry the Caspian gas from the western border of Turkey through Bulgaria, Romania, Hungary to Baumgarten, Austria.

Shah Deniz has taken into account, for gas transmission from SD II field to Europe, two routes:

- to Italy
- to South-Eastern Europe.

Thus, for each route version, Shah Deniz consortium selected in mid-2012 a preferred project: Nabucco West, to the detriment of South East European Pipeline – SEEP for the South-East European route, and Trans-Adriatic Pipeline – TAP to the detriment of Italy Turkey Greece Interconnector – ITGI for the Italian route, following to make a final decision by June 30th 2013 on the preferred project for natural gas transmission from the Shah Deniz II field.

The Nabucco project is strategically important for all the states involved and for the investors and its importance was recognised by the Community bodies, the European Commission including it within the TEN (Trans-European Networks) and also by allotting grants via the European Energy Recovery Plan (EERP).

According to the financing mechanism adopted by the shareholders, consisting of classic increases in the share capital (respectively the amounts transferred by the shareholders following the cash demands coming from NIC are registered as direct contribution to NIC share capital), at the end of 2012 NIC share capital increased to EUR 140,666,700, as it results from the certificate confirming the company details issued by the Commercial Court of Vienna on November 28th 2012.

Technical aspects

The Engineering Works for the Nabucco pipeline in all the countries transited by it are in progress. In Romania, the local engineering works were provided, for the Classical Nabucco (56’’) concept, by the Association made up of S.N.T.G.N. TRANSGAZ S.A. Mediaş, S.C. PETROSTAR S.A. Ploieşti and S.C. GAZPROIECT S.A. Braşov.

Also, due to the change of the project’s concept from Classical Nabucco to Nabucco West, in January 2013 the reengineering of the pipeline started, from 56’’ to 48’’, by selecting, through a tender procedure, a new general engineering company.

Up to this moment, the works for the confirmation of the route of the Nabucco pipeline as well as the topographical, geological and hydrological surveys have been finished. The urban-planning certificates have been obtained in the five counties transited by the Nabucco pipeline (Dolj, Mehedinţi, Caraş-Severin, Timiş and Arad). At the same time, the environmental impact assessment procedure was launched.

The progress of the engineering activities in Romania is approx. 80% for the initial version of 56’’.

Economic aspects

Taking into account the fact that the financing of the project shall be carried out based on drawn sources (credits) and own sources, on September 6th, 2010, the shareholders of Nabucco signed a letter of mandate with the European Investment Bank, European Bank for Reconstruction and Development and IFC – member of World Bank Group. The signing of this letter of mandate marks the start of the assessment process of the Nabucco West project, a stage necessary for the purpose of obtaining a potential financing package of up to EUR 1bn.

It is planned to achieve the project’s financing at a rate of 30% from contributions to the share capital of NIC and 70% by funds attracted from Export Credit Agencies, International Financial Institutions and commercial banks.

Currently, SNTGN Transgaz has started a number of meetings between the representatives of Transgaz, NIC, the Ministry of Public Finance, the Ministry of Economy and the Ministry of Foreign Affairs in order to identify the best financing solutions, allowing Transgaz to fulfil the financing obligations of the project, proportionally to its stake in NIC’s share capital.

Such meetings will also take place in the other states involved in the project.

Legal aspects

In order to support the implementation of the Nabucco Project, Project Support Agreements (PSA) were signed in Turkey, on June 8th 2011, between the authorities of the states transited by the Nabucco pipeline, on the one hand, and Nabucco Gas Pipeline International GmbH with the National Nabucco Company of each state, on the other hand.

Currently, PSA was ratified by the Parliament and is under promulgation by the President of Romania.

For the purpose of ensuring an optimal framework for the implementation of the project, the representatives of NIC, together with the representatives of the local company Nabucco Gas Pipeline Romania SRL (NNC Romania) in collaboration with the representatives of the relevant authorities, have drawn up a "Bill regarding certain measures corresponding to the development works of the natural gas pipeline corresponding to the Nabucco Project". This initiative practically focuses upon one of the commitments of the Romanian State, according to which such has undertaken the obligation of "*ensuring the entire cooperation of all the relevant authorities on its territory and carry out all the actions necessary so that the Nabucco Project could be fulfilled*" (Articles 11 and 3.2 in the Interstate Agreement, respectively Law no. 57/2010).

Currently, this law is under public debate.

Events that took place after December 31st 2012

On 18.01.2013, the Cooperation Agreement and the Financing and Equity Option Agreement regarding the share capital of Nabucco Gas Pipeline International GmbH was signed, subject to obtaining domestic approvals, between NIC shareholders, NIC and the potential investors in Shah Deniz consortium. The General Meeting of Transgaz Shareholders approved these agreements during the meeting that took place on March 4th 2013 (the Decision no. 4/2013).

The cooperation agreement regulates the cooperation relation between the Parties participating in the implementation of the Nabucco West project (the "Project"), up to the commissioning of the Project and the supply of the first natural gas amounts. The main rights and obligations established under the CoA include provisions regarding: the establishment and determination of the responsibilities of the committees and working groups, setting up the main parameters and stages of the Project and the Parties' obligations in order to achieve them, the distribution of the exempted capacity, negotiations on Natural Gas Transmission Agreements, as well as NIC's responsibilities regarding the implementation of the Project.

The Financing and Equity Option Agreement for NIC share capital sets the terms and conditions according to which the Shah Deniz consortium will partially finance the development costs of the Nabucco West project between July 1st, 2012 and June 30th, 2013 (and possibly until December 31st, 2013 in case of extending the validity of EFA) and contains provisions granting to potential investors in Shah Deniz consortium the option to acquire a 50% stake in NIC from the current shareholders (including from Transgaz). According to the timetable of the project, it's expected that the decision on choosing the preferred natural gas transmission route to Europe, between Nabucco West and Trans Adriatic Pipeline (TAP) to be made by June 30th 2013.

We also specify that on March 1st 2013 a transaction was performed for the sale to OMV of the full stake owned by RWE in NIC (17.38%).

The status of the process of selling the share package representing 15% of the company capital

The Government Decision no. 827/04.08.2010 marked the approval of the sale through methods specific to the capital market (secondary public offering) of a share package representing 15% of the share capital of Transgaz, managed by the Minister of Economy, Trade and Business Environment (MECMA). According to the provisions of article 2, paragraphs (1) and (2) of the Government Decision no. 827/2010 and of the laws specific to the capital market, MECMA via OPSPI (Office of State Ownership and Privatisation in Industry) proceeded to the selection of the intermediary which shall carry out the secondary public offering (SPO) for the sale of Transgaz shares.

The intermediary selected is the "Intermediation Union" made up of RAIFFEISEN CAPITAL&INVESTMENT (RCI) - lead manager, WOOD&COMPANY FINANCIAL SERVICES (Wood) and BT SECURITIES (BT). The subcontractors for the carrying out of the financial, legal and operational due diligence are the following: Schoenherr si Asociații (SA), BDO Business Advisory (BDO) and Darian DRS (Darian).

According to the Intermediation Contract no. 3/01.02.2012 signed between MECMA via OPSPI and the Intermediation Union, the schedule undertaken by the intermediary for the SPO process is a very tight one (10 weeks from signing the contract).

As Issuer, Transgaz has the legal obligation of providing all the information and documents necessary for the drawing up of the documents regarding the secondary public offering and of acting responsibly regarding its obligations for ensuring the investors that the financial information which shall be included in the statement of offer observes the principle of accuracy, precision, reality and transparency.

Transgaz has taken all the necessary measures in order to fulfil the obligations which it should undertake in a very short period of time, and here are some of them:

- ✍ appointing a commission for the coordination of the SPO process;
- ✍ contracting the services for opening a virtual data room for the submission of documents, data and information in an operative manner;
- ✍ organization of work meetings on a weekly basis or whenever it is necessary.

On the date of the report, Transgaz provided promptly and responsibly the information requested by the Intermediation Union, being on schedule with the SPO calendar.

The status of transposing the Directive 2009/73/EC into the national legislation

The Directive 2009/73/EC of the European Parliament and of the Council of July 13th, 2009 regarding the common norms for the internal market in the natural gas sector and for the cancellation of Directive 2003/55/EC imposed a new unbundling legal regime, establishing three models, namely:

1. ownership unbundling (*OU*) – the ownership over the NTS should belong to the transmission system operator (*TSO*);
2. the independent system operator (*ISO*) – the ownership regime may be:
 - a. public, owned by the Romanian state;
 - b. private, owned by the Romanian state;

3. The independent transmission operator (*ITO*) - the ownership over the NTS should belong to ITO.

In the process of transposing the Directive into the national legislation, a transposition which should have taken place on March 3rd, 2011, the Member States have the freedom of choosing a certain model, depending on the specific aspects of each.

Both the European Commission (COM) and Transgaz have supported and substantiated the selection for Romania of the OU model, a model that mainly implies the following:

- ✍ transfer of the assets which make up the national transmission system (NTS) into the ownership of Transgaz and
- ✍ transfer under the coordination of another ministry, or of the companies which carry out production activity, or of Transgaz.

In the case of this model, the owner of the transmission network acts as system and transmission operator, carrying out among others, its tasks. Concerning investments, the owner of the transmission system is responsible, by planning the investments, for ensuring the long-term capacities of the system in order to fulfil the reasonable gas demands.

Regarding the ISO model, the representatives of the Commission have underlined the following aspects which are part of the content of the Directive:

- ✍ ISO is appointed upon the proposal of the system owner;
- ✍ the Member State may approve and appoint an ISO only if the candidate operator was certified by the national regulatory authority and after being granted the permit from EC.

Concerning the *tasks of ISO*, it acts as a transmission system operator (TSO), and it should observe the tasks of the latter which it should undertake according to the Directive.

Regarding *investments*, ISO should guarantee the long-term capacity of the system in order to fulfil the reasonable gas demands by planning the investments. At the same time, it is responsible for planning, building and commissioning of a new infrastructure.

Regarding the *financing of the network*, the owner of the network should in principle finance the investments (approved by the national regulatory authority) decided by the transmission system operator. If the owner of the network does not wish to finance the investments, it shall have to agree the financing of the investments by any interested party, including the TSO. In this event, the owner of the network cannot become the owner of the new extensions of the network which it did not finance.

At the same time, the owner of the network should offer financial guarantees in order to facilitate the financing of the new extensions of the network.

And concerning this model, Transgaz, which shall act as a TSO, shall have to be coordinated by another ministry.

The Commission also underlined the fact that the Member States which intend to adopt the ISO or the ITO model must include in the national legislation the provisions regarding the ownership unbundling, taking into account the fact that they cannot prevent a vertically integrated company, owner of a transmission system, from complying with the applicable provisions in the event of a total ownership unbundling.

By analysing the provisions of the Directive, of the interpretative notes of the Commission and of the Information graphics of the Permanent Representation of Romania to the EU, and taking into account the specific aspects of the situation in Romania and the

recommendations of the Commission, Transgaz considers that the unbundling model which Romania should choose is the one of ownership unbundling (OU).

The most important arguments which support the selection of the OU are as follows:

1. Ensuring an increased flexibility at least concerning the investment and decommissioning of certain components which are part of the NTS (without the need to issue certain Government decisions), by transferring the assets which make up the NTS into the property of Transgaz;

2. The transfer of assets of the NTS into the property of Transgaz would facilitate the access of the company to financing sources and would lead at the same time to the increase of the trust of the shareholders and the investors, this having an impact upon the increase in the price of the shares and, respectively, the value of the company;

3. Avoiding additional obligations and complicated procedures which the choice of the model ISO might imply, obligations/procedures which should be observed/applied both by the owner of the network (ANRM), and the regulatory authority (ANRE), of which we mention the following:

a. obligations/procedures which should be observed/applied by the owner of the assets (ANRM):

- ✍ it proposes the appointment of ISO. The appointment of such is subject to the endorsement of the European Commission;
- ✍ it fully ensures the cooperation and support necessary for ISO for the purpose of fulfilling its obligations, providing all the relevant information;
- ✍ it finances the investments decided by ISO and approved by the national regulatory authority or agrees that such be financed by any interested party, including the ISO;
- ✍ it is responsible for the assets of the network, except for the liability regarding the tasks of ISO;
- ✍ it offers guarantees in order to facilitate the financing of possible extension of the network, except for the investments which it approved to be financed by any interested party, including by ISO;

b. obligations/procedures which should be observed/applied by the national regulatory authority (ANRE):

- ✍ it monitors together with the competent authority in the field of competition, the observance by the owner of the assets of the obligations mentioned above.

Since according to the provisions of article 9 paragraph (1) letter a) of Directive 2009/73/EC, starting on March 3rd, 2012 "*all the enterprises who own transmission systems act as transmission operators and system operators*", Transgaz underlined the need to own the assets which make up the NTS.

On July 16th 2012 it was published the Electricity and Natural Gas Law no. 123, which transposes into the national legislation the Directive 2009/73/EC. Art. 126 of the aforementioned law provides the following:

- (1) *The transmission and system operator is organized and functions after the "independent system operator" model and is a legal person certified by ANRE under the conditions referred to in art. 128.*
- (2) *In order to meet the conditions referred to in art. 128, by Government Decision issued upon proposal of the competent ministry, it will be established the public*

entity to represent the state as majority shareholder at the economic operators that carry out production and supply activities, on the one hand, and the public entity representing the state as majority shareholder at the transmission and system operator, on the other hand.

Transgaz has informed the competent decision-making factors on the need to take certain measures to facilitate the obtaining of certification, taking into account the deadlines set forth by the Directive.

Up until now, no Government Decision has been published for the purpose of the aforementioned. For this reason, the certification conditions stipulated in art. 128, paragraph (1), letters a, b, c and g cannot be fulfilled. As a consequence, Transgaz has not submitted so far the certification application to ANRE.

In terms of the other certification requirements, the supporting documentation that should accompany the certification application, according to art. 126 paragraph (3) of Law 123/2012, is under preparation, as well as the investment and development plan for 10 years referred to in art. 125 paragraphs (6)-(8) of the same law.

At the same time, Transgaz has exchanged letters and has participated in a number of meetings with representatives of ANRM, as concession provider for the NTS and the transmission activity, as well as of ANRE, as issuer of the certification decision. Within this framework, the certification issues have been inventoried and the necessary actions for Transgaz to obtain, according to the law, the certification as independent system operator have been discussed.

The infringement proceeding initiated by the European Commission in 2009 against Romania due to the breach of certain provisions of the (EC) Regulation no. 1775/2005

On November 24th, 2011, the European Commission adopted the decision of filing with the European Court of Justice an action whose object was the infringement by Romania of certain provisions of the (EC) Regulation no. 1775/2005 regarding the conditions of accessing the natural gas transmission networks.

The action represents in fact a continuation of the infringement proceeding initiated by the European Commission against Romania in 2009.

Part of the problems mentioned in the *Notice of default* sent to Romania in 2009 have been solved, a fact supported by the content of the *Reasoned opinion* communicated by the Commission in 2010.

The recent decision of notifying the Court of Justice of the European Union was based on the opinion of the Commission according to which Romania – despite the progress made in eliminating deficiencies – is not compliant with the European requirements regarding the following:

- ✍ making available at the interconnection points the reversed flow capacity ("*backhaul*") and, related to such, the interruptible capacity and short-term services;
- ✍ issuing the information regarding the available capacity.

In fact, the two problems refer to the point Negru-Vodă, located on the natural gas transit pipeline system.

During the period 2010-2011, both Transgaz, and ANRE, MECMA, MAEur and MAE made several efforts in order to solve these problems, such as:

- ✍ a series of discussions with other transmission companies (in Poland and Hungary) regarding the manner in which they approached the problem of the gas transit from the Russian Federation;
- ✍ the participation in a bilateral reunion with the representatives of the Commission for the identification of the possibilities of renegotiating with Bulgaria and the Russian Federation the conventions which regulate the regime of the natural gas transit activity in Romania from the Russian Federation for Bulgaria and respectively for Turkey, Greece and Macedonia;
- ✍ the initiation of a dialogue regarding the infringement procedure between MECMA Romania and the Ministry of Economy, Energy and Tourism of Bulgaria;
- ✍ the drawing up by Transgaz and submission to ANRE of a proposal regarding:
 - the setting of a transmission tariff for the line I (transit Romania- Bulgaria);
 - the capacity reservation procedure for the line I (transit Romania – Bulgaria).
- ✍ the participation to a session of bilateral consultations between the representatives of MECMA Romania and the Ministry of Economy, Energy and Tourism of Bulgaria;
- ✍ the organization of a bilateral reunion between the Ministry of Economy, Trade and Business Environment of Romania and the managing director of the Directorate-General for Energy in the European Union;
- ✍ the drawing up by Transgaz and the submission to ANRE of a proposal regarding the methodology of allocating capacity for the Isaccea and Negru Vodă points corresponding to the line I (transit Romania-Bulgaria);
- ✍ the approach – first, via diplomatic channels – of the Russian Federation for the purpose of initiating the procedures for the negotiation of new conventions which should regulate the transmission of the Russian natural gas in Romania, Conventions which should be compliant with the requirements of the European legislation;
- ✍ the initiation of discussions between SNTGN Transgaz SA and ANRE regarding the *backhaul* mechanism (including the interruptible capacity and the short term services);
- ✍ the denunciation – in December 2011 - by Romania of the two Conventions signed in 1986 and 1996 with the Russian Federation regarding the transit of Russian gas through Romania (transit lines 2 and 3), conventions whose expiry dates are December 31st, 2016 and December 31st, 2015, respectively.

The above mentioned actions were based on a multi-layered approach of the problem of the infringement proceeding, focusing first of all on the compliance with the European laws of the procedures applied for line I (transit Romania- Bulgaria), respectively ensuring the third party access to this pipeline (application of a regulated tariff; the application of a method for allocating capacity approved by ANRE; issuing of information regarding the available capacity).

Following such measures, the Directorate-General for Energy within the European Commission proposed the postponement of the proceeding initiated with the Court of Justice of the European Union.

Throughout 2012 actions aiming at settling the infringement issue continued, namely:

- ✍ in January two working meetings were organized between the representatives of SNTGN Transgaz SA and of BULGARTRANSGAZ and BULGARGAZ, respectively;
- ✍ the development at MAEur headquarters of a working meeting during which the necessary actions for the following period were established;
- ✍ submission to BULGARGAZ of a draft Memorandum of Understanding for the amendment of the on-going commercial contract for compliance with the EU legislation;
- ✍ in early February the draft Operating Agreement for the Negru Vodă I interconnection point was sent to BULGARTRANSGAZ;
- ✍ in March the following documents were sent to MECMA:
 - The draft new Convention to be negotiated with the Russian Federation (which includes technical specifications and general principles aligned with the requirements of the European legislation);
 - The draft Methodology for setting the transmission tariff/tariffs for Dn 1200 mm Isaccea II – Negru Vodă II and Isaccea III – Negru Vodă III pipelines;
 - The draft Mechanisms for allocating capacity for Dn 1200 mm Isaccea II – Negru Vodă II and Isaccea III – Negru Vodă III pipelines.
- ✍ the participation to a bilateral meeting with the representatives of the Commission regarding the draft Intergovernmental Convention to be negotiated with the Russian Federation;
- ✍ issuance by ANRE of the following documents:
 - Order of ANRE President no. 29/09.07.2012 for the approval of the Methodology for allocating capacity for Isaccea I – Negru Vodă I pipeline;
 - Decision of ANRE President no. 1732/09.07.2012 for determining the tariff for the provision by SNTGN Transgaz SA Mediaș of the natural gas transit service through Dn 1000 Isaccea I – Negru Vodă I pipeline;
- ✍ in September the draft Capacity Allocation Agreement for the Negru Vodă I interconnection point was sent to BULGARTRANSGAZ;
- ✍ setting a Roadmap on the occasion of the bilateral meeting TRANSGAZ – BULGARTRANSGAZ held in Bucharest on 11.09.2012;
- ✍ participation to a joint meeting TRANSGAZ – BULGARGAZ regarding the review of the on-going contract.

Transgaz is currently undertaking a series of discussions with the companies Bulgargaz and Bulgartransgaz for the purpose:

- of completing the renegotiation of the commercial contract concluded in 2005 between Transgaz and Bulgargaz (corresponding to the line 1 of transit) for the purpose of ensuring its compliance with the provisions of the European legislation;
- of completing the negotiations and concluding with Bulgartransgaz an Operating Agreement and a Capacity Allocation Agreement for the interconnection point Negru-Vodă 1 (corresponding to line 1 of transit).

For the negotiations with the Russian Federation regarding the conclusion of a new Convention corresponding to lines II and III of transit for the purpose of compliance with

the European legislation, we consider that the combined efforts of all the authorities and even that of the European Commission are necessary.

The failure of Transgaz to observe the requirements of the EU regarding transparency was due to the existing clauses in the applicable commercial contracts concluded with Bulgargaz and respectively with Gazprom Export and the provisions of Gas Law no. 351/2004, with the subsequent amendments and supplements, regarding the natural gas transit.

An outlook regarding the international operations of Transgaz

In order to implement its strategic objectives aimed at positioning the company at European level, Transgaz must strengthen the position offered by the natural monopoly in the operation of the national natural gas transport system. In addition, the company must assert its importance on a regional level by actively participating in European specific forums, organisation and bodies, by participating in regional and European projects and by active partnerships with other companies in the field.

In order to achieve the company's objectives, throughout 2012 Transgaz carried out the following activities:

1. Continuing the good collaboration relations with companies involved in the realization of the Russian natural gas transit activity on the Balkan corridor. In this context, the necessary approaches were made to solve the aspects of the existing contracts that violate 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 and of the Russian Federation in order to discuss issues related to the infringement procedure.

2. Participating at the initiative of the European Commission on issuing a new legislative package on energy infrastructure and the list of projects of common interest at the EU level. We specify that this list of projects and proposals of projects has been submitted by Transgaz.
3. Within ENTSOG, the most important activities to which our company also took part aimed at completing the network code in terms of balancing the transmission system and the issue of the Network Development Plan for 10 years 2013-2022. The network code on balancing issues was completed and presented to ACER on October 26th 2012, following that, after its approval in the General Meeting of ENTSOG, to be officially submitted to the European Commission for starting the comitology process, in order to be approved by the European Council and the European Parliament. Throughout 2012, an extensive activity was undertaken to the Development Plan for 10 years 2013-2022, which on February 21st 2013 was

approved in the General Meeting of ENTSOG and will be published in the first half of 2013.

On September 11th, 2013, ENTSOG received the invitation letter from EC, in order to start the elaboration of the network code on interoperability issues.

4. Given the objective of the European Commission of market integration at EU level, it's necessary to achieve the interconnections between the transmission systems of the EU countries with those of the neighbouring countries.

In this regard, Transgaz continues collaboration with:

- FGSZ, the transmission system operator in Hungary, by concluding a Memorandum of Understanding between the parties on 10.07.2012. Due to this fact, the parties agreed on a Cooperation Plan on introducing OBA, backhaul services, reverse flow, standardization/alignment of transmission systems operation in accordance with the European requirements, implementation means and joint allocation of the capacity merged in the interconnection point, as well as identifying certain opportunities related to the cooperation in the area of balancing the transmission systems. In August 2012, Amendment no. 2 (OBA) to the Operating Agreement concluded between the parties in 2010 was signed.
- EAD Bulgartransgaz, the transmission system operator in Bulgaria, by negotiating both of the Operating Agreement and of the Capacity Allocation Agreement regarding the Negru Voda I interconnection point. In terms of the project of the interconnection pipeline between the transmission systems of RO and BG, Transgaz and Bulgartransgaz have updated the roadmap and are in process of negotiation of the Joint Development Agreement. The deadline for beginning the commercial operation is July 1st 2013.
- Moldovagaz, with the relevant ministry of the Republic of Moldova in order to implement the interconnection project of the natural gas transmission systems of the two countries by building a pipeline on Balati – Ungheni – Iasi direction.

5. Transgaz has actively participated throughout 2012, with MECMA officials, in joint intergovernmental working groups that the Government of Romania promotes in the energy sector with a number of states, such as: Bulgaria, the Russian Federation, Hungary, Turkey etc.

A large part of the actions described above shall also be continued in 2013, when Transgaz intends to actively get involved in the activity of the relevant bodies and organizations and

strengthen the cooperation relations with all the players involved in the European energy market.

Events occurred after the end of the financial year 2012

Regulations issued in 2013, influencing Transgaz's activity:

- ✍ *Government Decision no. 22/January 22nd 2013 setting the acquisition price of natural gas from domestic production for the regulated natural gas market, with impact on the acquisition price of natural gas meant for the technological consumption;*
- ✍ *Government Ordinance no. 5/January 22nd 2013 setting certain special measures for the taxation of activities of natural monopoly nature in the electricity and natural gas sector, which provides the establishment of a monopoly tax applied to the amount of gas transported;*
- ✍ *ANRE Order no. 7/February 20th 2013 amending the Methodology for the approval of prices and determining the regulated tariffs in the natural gas sector, approved by ANRE Order no. 22/2012, through which it is allowed to apply the transmission tariff with binomial structure until the approval of the methodology for setting the tariffs for booking capacity on the entry-exit points.*

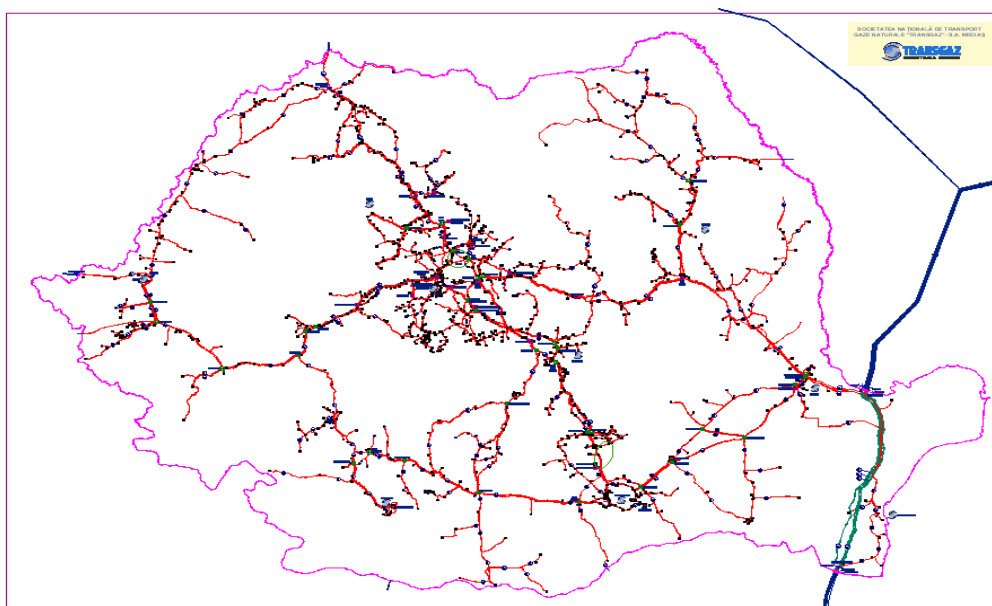
Chapter 2. THE NATIONAL TRANSMISSION SYSTEM

2.1. Location and characteristics of the main production facilities of Transgaz

The main components of the National Natural Gas Transmission System on December 31st 2012 are:

No.	NTS unit/component name	MU	Value
0	1	2	3
1	Gas mains and natural gas supply connections of which transit pipelines	km	13,081 553
2	Gas pressure regulating and metering stations under operation (SRM)	pcs	1,117 (1,238 metering directions)
3	Block valve stations (SCV, NT)	pcs	23
4	Import gas metering stations (SMG)	pcs	3
5	Metering stations located on the gas transit pipelines (SMG)	pcs	6
6	Gas compression stations (SCG)	pcs	5
7	Cathodic protection stations (SPC)	pcs	1,014
8	Gas odourisation stations (SOG)	pcs	818

The National Transmission System (NTS) covers the entire national territory and has a radial-annular structure, presented in the following diagram:



The National Natural Gas Transmission System

The natural gas transmission and transit 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 nine regional transmission operating centres and one transit regional operating centre, divided into 50 Sectors. From a technological point of view, NTS is composed of 9 regional natural gas transmission subsystems.

2.2. Description and analysis of the property wear degree

2.2.1. Description and analysis

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

No.	Period of operation	Transmission pipelines (km)	Supply connections (km)	Number of Regulating and Metering Stations
0	1	2	3	4
1	> 40 years	4885	219	119
2	Between 30 and 40 years	2631	170	62
3	Between 20 and 30 years	1339	197	70
4	Between 10 and 20 years	929	459	421
5	< 10 years	1467	785	566
6	TOTAL	11,251	1,830	
		13,081		1,117

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 2,610 km with 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 1,014 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 1.238 SRMs (metering stations), most of them consisting of physically and morally worn out equipment which needs modernization/rehabilitation to be integrated in a SCADA automated control and monitoring system. Out of the 1,238 operating SRMs (consumption points), 948 are considered for the implementation of the SCADA system.

The reduced transmission parameters (flow, pressure) and the existing metering systems within these SRMs sometimes lead to high metering uncertainties.

The compression capacity is ensured by 5 gas compression stations, located on the main transport axes. They are equipped with installations and devices manufactured in the '70s, in which in many cases fail to attain the performances imposed by the transport parameters. In 2012, rehabilitation/modernisation works were executed at the Șinca and Onești compression stations.

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 outdated 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 modernization process.

Gas odourisation is performed through a number of 818 odourisation installations, out of which 356 systems are of new type, by sampling and injection, ensuring an optimum odourisation of the transported gas. From the 356 modern systems, 18 are of centralized type, serving several supply points. The other 462 systems of "evaporation" 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 odorizer.

Even if the fixed assets basis 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 modernization programs based on the Technical norms regarding the maintenance of the national transmission system.

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.

Performance of the NTS repair works, rehabilitation and maintenance programme

The 2012 maintenance programme is presented below:

Chapter A. NTS REPAIR AND REHABILITATION WORKS (RON)				
No.	Chapter name	Scheduled 2012	Results 2012	%
0	1	2	3	4=3/2*100
1	Scheduled repairs of gas mains	83,240,000	82,257,903	98.82
2	Rehabilitation of Regulating and Metering Stations (SRM)	3,750,000	3,740,100	99.74
3	Rehabilitation of technological nodes	0	0	0
4	Rehabilitation of compression stations	976,000	83,094	8.51
5	Repair of special constructions associated with the SRM and SCV	623,000	614,612	98.65
6	Rehabilitation of cathodic protection systems (SPC)	706,000	607,915	86.11
7	Repairs and TC equipment	0	0	0
8	Repair of buildings	5,500,000	5,474,731	99.54
	TOTAL WORKS	94,795,000	92,778,355	97.87
Chapter B. NTS MAINTENANCE ASSURANCE SERVICES (RON)				
1	Repair and maintenance services for gas compression aggregates	5,490,000	4,388,937	79.94
2	Repair and maintenance services for mechanical and special installations of SRMs, SCVs	1,000,000	997,796	99.78
3	Repair services for machinery sub-assemblies, machines, work installations, metering and control devices	2,125,000	1,523,465	71.69
4	Repair services for gas metering systems	1,760,000	697,485	39.63
5	Pipeline diagnosis services	2,300,000	282,299	12.27
6	TI maintenance services	1,805,000	766,676	42.48
7	Other services	6,225,000	2,823,758	45.36
	TOTAL SERVICES	20,705,000	11,480,416	55.45
	TOTAL WORKS+SERVICES	115,500,000	104,258,771	90.27
1	Repair and rehabilitation works executed with own resources	7,000,00	14,790,000	211.28
	TOTAL WORKS + SERVICES	122,500,000	119,048,771	97.18

The value of the program for the repair, rehabilitation and ensuring the NTS maintenance for 2012 amounted to RON 122,500,000, while at the end of the year the achievements amounted to RON 119,048,771, representing a fulfilment of the program amounting to 97.18%. Within such achievements were included mainly the repair works of 19,12km of pipelines, the rehabilitation of 19.10km of pipelines and various repair works for compression assemblies, special constructions, pipeline diagnosis operations, etc.

The shortfalls of the repair program are mainly due to the following:

- the postponement of the deadlines for drawing up the technical projects due to the difficulties encountered in being granted the agreements by the landowners and, consequently, the failure to timely issue the construction permits;
- the pipeline diagnosis services are on-going according to the framework agreement concluded for 2 years, following to be completed and settled in 2013;

- the change by ANRMAP of the procedures for validating the tenders which has led to delays in carrying out works and services scheduled and, respectively, delays of their completion deadline.

The investment programme

The investment activity is mainly focused on the development and modernisation of NTS and aims at increasing the system's efficiency and capacity and at developing new consumption areas.

The scheduled value of investments in 2012 was 248,118 thousand RON, the value of the achievements being 209,642 thousand RON, which also includes the amount of 8,617 thousand RON used for the NTS connection installations executed based on the NTS access regulation approved through GD no. 1043/2004.

The situation of total investment expenditures is the following (thousand RON):

	Scheduled	Results
▪ Investments (<i>the value of the achieved indicator is set according to principles set forth in OMFP 3055/2009</i>), of which:	248,118	209,642
- facilities for connection to the NTS	-	8,617
▪ Reimbursement of loans for investments	42,321	43,036
▪ Capitalized interest		2,460
TOTAL EXPENSES	290,439	255,137

The financing sources for the investment expenditures are the following (thousand RON):

	Scheduled	Results
▪ Net profit allocated for own financing	44,159	34,187
▪ Depreciation	213,658	150,228
▪ NTS connection tariff		8,617
▪ Other sources (European funds)	32,623	32,623
TOTAL FINANCING SOURCES	290,439	225,655

In the budget approved by GD no. 1267/December 18th 2012, it was considered the distribution of 85% of the net profit as dividends, thus significantly diminishing the financing sources for investments.

Deficit of sources, worth RON 29,482 thousand, will be covered from the company's own sources in 2013.

The execution of the modernization, development and investment programme for 2012 is presented in the table below:

Chapter	Works category	Scheduled 2012		Results 2012		(%)
		Physically (km)	Value (RON)	Physically (km)	Value (RON)	
0	1	2	3	4	5	6=5/3*100
Ch. A	NTS modernisation and development works	97.20	131,332,764	84.70	139,742,855	106.40
1	Modernisation and upgrade works of the NTS		40,105,770		54,761,866	136.54
<i>1.1.</i>	<i>Modernisation of NTS associated technological installations (SRM, SCV, PM, NT)</i>		7,385,770		6,392,205	86.54
<i>1.2.</i>	<i>Supervisory Control and Data Acquisition System</i>		32,720,000		48,369,661	147.83
2	Development of the NTS and the related installations	97.20	91,226,994	84.70	84,980,989	93.15
<i>2.1.</i>	<i>Natural gas transmission pipelines</i>	<i>92.20</i>	<i>75,878,994</i>	<i>79.70</i>	<i>72,037,333</i>	<i>94.94</i>
<i>2.2.</i>	<i>Interconnection pipelines</i>	<i>5.00</i>	<i>11,744,000</i>	<i>5.00</i>	<i>10,652,388</i>	<i>90.71</i>
<i>2.3.</i>	<i>Technological installations related to the NTS</i>		3,604,000		2,291,268	63.57
Ch. B	Own assets modernisation and development works		30,050,236	0.00	21,309,073	70.91
1	Modernisation of buildings		460,000		437,459	95.10
2	Other works		6,272,000		5,763,447	91.90
3	Independent machinery		22,318,236		13,589,822	60.89
4	Expenditures for studies and projects		1,000,000		1,518,345	151.83
Ch. C	NABUCCO Project		80,735,000		39,972,900	46.09
Ch. D	Works executed according to GD 1043 - NTS Access Regulation			0.79	8,617,172	X
	TOTAL A + B + C	97.20	248,118,00	84.70	201,024,828	81.02
	TOTAL A + B + C + D	97.20	248,118,000	85.49	209,642,000	84.49
	Other fixed assets increases					
	TOTAL INVESTMENTS		248,118,000		209,642,000	84.49

In comparison to the scheduled value of **RON 248,118 thousand**, the total amount of the achievements is **RON 209,642 thousand**, representing a fulfilment of the program of **84.49%**.

Implementation works of the second stage within the Supervisory Control and Data Acquisition system (SCADA) of the NTS have been completed, currently the acceptance tests taking place. The difference between the execution value and the scheduled value is due to the registration as accomplishment for this year of the invoice paid in 2010, as advance for the second stage.

There are still difficulties in achieving certain investment objectives, such as:

- at the Plătărești – Bălăceanca pipeline – there are problems in obtaining the Construction Permit, due to disputes with landowners, which is why the execution works are stopped;

- at the Biharia – Aleșd pipeline – currently, out of a total of 44km, 38km are executed and the execution works continue to be stopped until the settlement of lawsuits with landowners who don't allow the execution of works on their lands. Lawsuits have been pending for 2 years, being under settlement. Works will be completed in Q4 2013.

In 2012, investment objectives worth **RON 257,581 thousand** were commissioned (*the value of the achieved indicator is established according to principles set forth in OMFP 3055/2009*), of which the most important are the following:

- Modernization of STC Șinca;
- Modernization of STC Onești;
- Modernization of SMG Negru Vodă (reverse flow);
- Modernization of SRM Buhoci;
- Modernization of SRM Curtea de Argeș;
- Modernization of SRM Giurgiu;
- Modernization of SRM Marex;
- Natural gas transmission pipeline $\phi 16''$ Jibou - Gilău;
- Natural gas transmission pipeline $\phi 28''$ Filipești – Butimanu;
- Natural gas transmission pipeline $\phi 16''$ Hârlău - Bucecea;
- Natural gas transmission pipeline $\phi 32''$ Crevedia – Podișor;
- Șinca Veche pipeline and SRMP;
- Natural gas transmission pipeline $\phi 16''$ Copșa Mică – SOMETRA.

Accessing the Community funds

In 2012 no grants or European funds were obtained.

2.3. Mentioning the potential problems regarding the ownership right over the tangible assets of Transgaz

Illegal registrations with the Land Register were carried out on the land corresponding to the office of the Brașov Territorial Exploitation and SRM Brașov by the following: Stoia Gabriela, Turcu Ioan and his wife, Acojocăritei Marcela, residing in Brașov, SC "Nesland"

SA Brașov and SC "District" SRL Brașov. Transgaz owns the above mentioned land based on the legal titles of administration, respectively Decision no. 1752/1963 issued by Brașov 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 Brașov, 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 Brașov Territorial Exploitation and SRM Brașov. The litigation is subject to file no. 10232/197/2011 which is pending before the Brașov Court. Status of the suit: court of first instance.

Szabo Ileana Ana has requested the in-kind return of the land plot related to the office of Târgu Secuiesc Sector and of the company housing in Târgu Secuiesc. According to the Decision no. 547/22.09.2008, it was ordered, by combined measures:

- the in-kind return of the area of 1,940sqm;
- granting compensation for the area of 2,197sqm, according to art. 16, paragraph (2) of title VII – Law 247/2005.

The decision was challenged before Sibiu Court, file 4.337/85/2008. According to the Civil Sentence no. 381/2009, irrevocable and final under the Civil Decision no. 2.598/2010 of ICCJ Bucharest, it was ordered the in-kind return of the area of 2,355sqm and granting compensation for the area of 1,845sqm occupied by constructions.

Chapter 3. THE MARKET OF SECURITIES ISSUED BY TRANSGAZ

Being 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, **Transgaz Mediaș** has succeeded in achieving good results on the capital market, **being today, 5 years after its listing, the sixth 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 position held by the company on the national and international market, the strong financial profile and the capacity of Transgaz of achieving performance, stable and predictable incomes and the quality of the company management activity.

3.1. Characteristics and evolution of securities issued by Transgaz on the regulated market managed by the Bucharest Stock Exchange

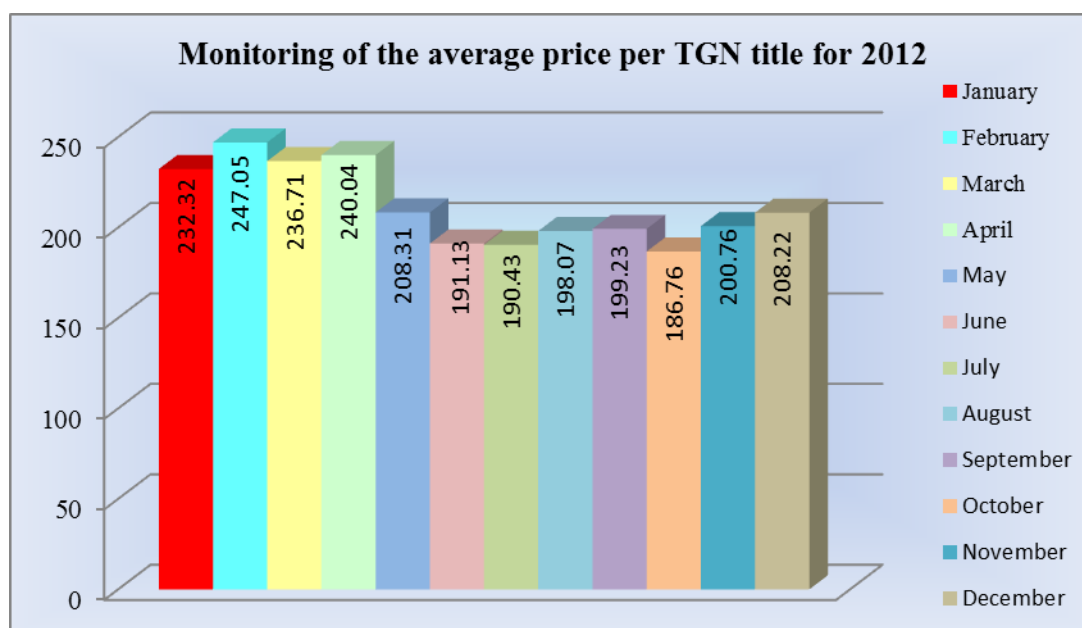
The trading of TGN shares at the BSE is defined by the following coordinates: **TGN** symbol; ISIN Code **ROTGNTACNOR8**; BSE section - **category I**, main market **REGS**.

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

- in the 244 trading days, a total number of 11,963 transactions was recorded, which represented an average daily number of 49 transactions;
- The total volume of traded shares recorded an increase in the first half of 2012, then reaching a historical minimum in June, of 9,804 traded shares, subsequently returning to values comparable to those from the beginning of the year;
- The value of TGN transactions in 2012 was RON 64,282,134.40. In the first half of the year, there was a slight increase, followed by a dramatic decline, thus reaching in June 2012 a value of RON 1,873,319.00, then, by the end of the year, increasing to values of RON 5,644,953.10;
- The average price per TGN titles reached a maximum value of RON 247.05/unit in February, followed by a decline, reaching the lowest value in July, of RON 190.43/share;
- Graphically, the evolution of the average price per TGN title for 2012 can be presented as follows:

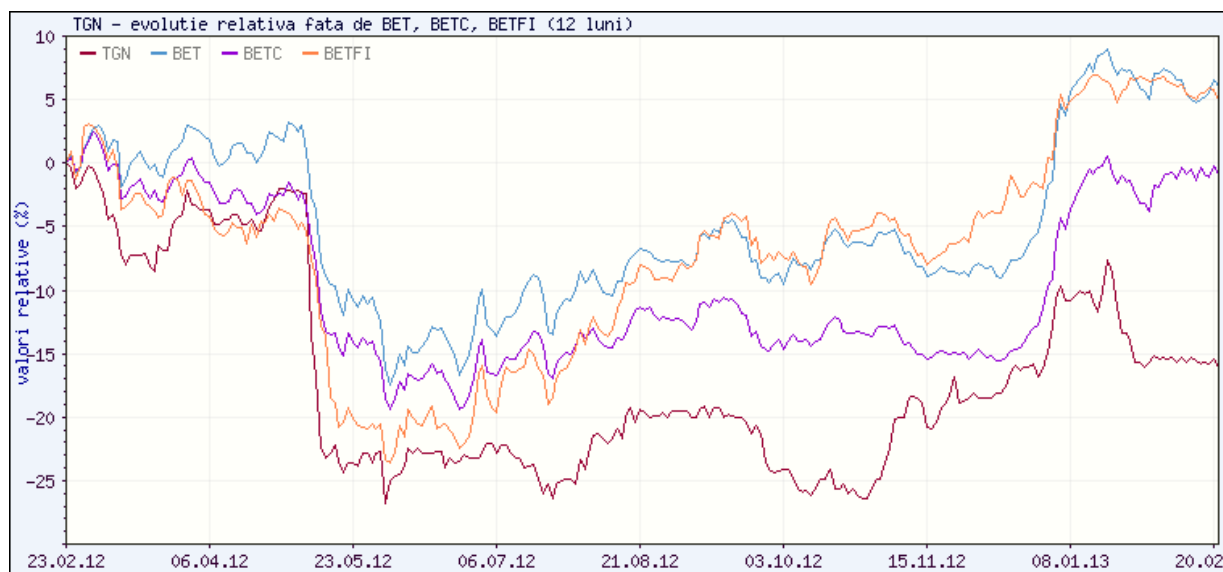
No.	Month	Volume	Value of transactions (RON)	Average price (RON/share)
0	1	2	3	4=3/2
1	JANUARY	23,037	5,355,223	232.32
2	FEBRUARY	32,387	8,005,750.40	247.05
3	MARCH	32,406	7,757,200.90	236.71

4	APRIL	33,512	8,047,259.70	240.04
5	MAY	43,886	9,940,360.80	208.31
6	JUNE	9,804	1,873,319.00	191.13
7	JULY	14,004	2,668,929.95	190.43
8	AUGUST	14,217	2,821,732.85	198.07
9	SEPTEMBER	16,016	3,378,923.30	199.23
10	OCTOBER	21,883	4,073,159.85	186.76
11	NOVEMBER	27,789	5,644,953.10	200.76
12	DECEMBER	22,552	4,715,321.55	208.22
	TOTAL	291,493	64,282,134.40	211.59



- in 2012, the market capitalization followed a slightly upward trend, reaching from a value of RON 2.629bn in early 2012 to RON 2.638bn in the last trading day of 2012. Denominated in European currency, the figures above mean a market capitalization at the beginning of 2012 of approximately EUR 608.7mln (NBR exchange rate RON 4.3197/EUR) and in December of EUR 595.8mln (NBR exchange rate RON 4.4287/EUR).

Evolution of the TGN shares in 2012



As it can be seen, in the first half of 2012 the evolution of TGN shares was above the evolution of the most performing BETFI index and at comparable values with BETC index in April – May. Thus, throughout 2012 the evolution of TGN title closely followed the fluctuations of BET, BETC and BETFI indices, which proves the same attractiveness for investors as for the components of the mentioned indices, in the current market conditions.

3.2. Description of company's dividend policy

The value of the dividends to be distributed to shareholders is determined according to the **Government Ordinance no. 64 of August 30th, 2001 regarding the profit distribution with the national companies, national enterprises and trading companies with full or majority state capital, as well as with the autonomous administrations, approved by Law no. 769/2001**, with its subsequent amendments and supplements, which provides under article 1 paragraph (l) 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"**.

By derogation from the provisions of article 1 paragraph (l) letter f) of the Government Ordinance no.64/2001, according to the **Emergency Ordinance no. 55 of June 23rd, 2010 regarding some of the measures meant to reduce the public expenditure for the financial year 2010, with the national companies, national enterprises and trading companies with full or majority state capital, the accounting profit remaining after the deduction of the profit tax is distributed up to at least 90% as dividends.**

In 2011, dividends owed to shareholders were determined by applying the 90.015% quota on the net profit remained and in 2012 the dividends were established at a quota of 85.03%, within the limit approved by the Income and Expenditure Budget.

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 2010 and 2012 is the following:

No.	Specifications	MU	2010	2011	2012 proposal
0	1	2	4	5	6
1	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	376,352,986.00	389,258,615.00	294,876,836.00
2	Net profit	RON	376,352,986.00	379,571,465.00	284,852,188.00
3	Dividends	RON	338,733,491.88	350,389,597.44	250,665,138.76
4	Dividends share				
	*in the reinstated net profit	%	90.00	90.01	85.01
	*in the net profit	%	90.00	92.31	87.99

3.3. The intent of Transgaz of purchasing own shares

Not applicable.

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

Not applicable.

3.5. Bonds and/or other debt securities

Not applicable.

Chapter 4 COMPANY MANAGEMENT

4.1. Presentation of directors

The list of company directors in 2012:

1. **SCHMIDT VICTOR ALEXANDRU** *Chairman of the Board of Directors* – appointed by Order of the Ministry of Economy no. 576/24.03.2009, elected on the basis of the Decision of the Ordinary General Meeting of Shareholders on 28.04.2009 – present day
2. **COSMA EMIL FLORIN** *member of the Board of Directors* - appointed by Order of the Ministry of Economy, Trade and Business Environment no. 1689/15.09.2010, elected based on the decision of the Ordinary General Meeting of Shareholders from 26.10.2010 – up to 07.06.2012;
3. **RUSU IOAN** *member of the Board of Directors* – appointed by Order of the Ministry of Economy, Trade and Business Environment no. 1022/05.06.2012, elected based on the decision of the Ordinary General Meeting of Shareholders from 19.07.2012 – present day;
4. **TRUTA OANA** *member of the Board of Directors* - appointed by Order of the Ministry of Economy, Trade and Business Environment no. 8222/20.04.2011, elected on the basis of the Decision of the Ordinary General Meeting of Shareholders on 29.04.2011 – present day
5. **ALBULESCU MIHAI** *member of the Board of Directors* - appointed by Order of the Ministry of Economy no. 576/24.03.2009, elected on the basis of the Decision of the Ordinary General Meeting of Shareholders on 28.04.2009 – present day;
6. **RAICU IONICA** *member of the Board of Directors* - appointed by Order of the Ministry of Economy no. 576/24.03.2009, elected on the basis of the Decision of the Ordinary General Meeting of Shareholders on 28.04.2009 – present day

4.1.a). CVs of the Directors (see the Appendix to the Report of the Board of Directors regarding the Corporate Governance)

4.1.b). 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.

4.1.c). 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:

No.	First and last name	Directors	No. of shares owned on 31.12.2012	Stake (%)
1	Schmidt Victor Alexandru	Chairman of the Board of Directors	-	-
2	Rusu Ioan	Member of the Board of Directors	2,508	0.02130
3	Truță Oana	Member of the Board of Directors	-	-
4	Albulescu Mihai	Member of the Board of Directors	-	-
5	Raicu Ionica	Member of the Board of Directors	-	-

4.1.d). List of companies in which Transgaz owns participations

1. NABUCCO GAS PIPELINE INTERNATIONAL, having its head office in Vienna, in which Transgaz owns 17.38% of the share capital; its object of activity is the development of the Nabucco project. The Nabucco project was included in the energy strategy of Romania for the period 2007-2020 under chapter IV "The objectives of developing the energy sector and the estimated measures for achieving such";

2. SC MEBIS SA Bistrița, 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 File no. 101/112/2009 on the dockets of the Bistrița-Năsăud Court of Law, Legal and Administrative and Fiscal Litigation Section.

3. 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 File no. 41/107/2005 on the dockets of the Alba Court of Law, the Commercial department.

4. NABUCCO Dogal Gaz Boru Hatti Insaati ve Isletmeciligi Limited Sireketi, based in Turkey, company in which owns a 0.5% stake; its object of activity is the construction and operation of natural gas pipelines. By Decision of the Extraordinary General Meeting of Transgaz Shareholders no. 7/04.09.2012 it was approved the sale by SNTGN Transgaz SA of the interest owned in Nabucco National Company of Turkey. On 01.02.2013 the decision was not implemented.

4.2. The members of the executive management

The company’s executive management is ensured by the following persons:

No.	First and last name	Position	Department/Division
1	Rusu Ioan	Managing Director	
2	Lata Ilie	Deputy Managing Director	
3	Mares Gabriela	Deputy Managing Director	
4	Stefănescu Ioan	Director	Economic Department
5	Florea Vasile	Director	Operation Department
6	Tătaru Ion	Director	Development Department
7	Cosma Florin	Director	Exploitation and Maintenance Department
8	Idu Olga	Director	Legal Division
9	Mates Angela	Director	Human Resources Division
10	Bucur Adrian	Director	Quality-Environment, Prevention and Protection Division
11	Ghidiu Elisabeta	Director	Strategy and Corporate Management Division
12	Lupean Marius Vasile	Director	Accounting Division
13	Marin Dumitru	Director	Budget and Finance Division
14	Stoia Gheorghe	Director	Information Technology and Communications Division
15	Comsa Adrian	Director	Works Preparation and Execution Division
16	Rău Ioan	Director	Commercial Balancing Division
17	Sai Alexandru	Director	Natural Gas Quality Measurement Division
18	Pătărnice Mihai	Director	National Natural Gas Dispatching Office
19	Stroia Gheorghe Marius	Director	Gas Market Operation Division Bucharest
20	Bunea Florin	Deputy director	Gas Market Operation Division
21	Muntean Aurel	Deputy director	Natural Gas Quality Measurement Division
22	Lascu Sergiu	Deputy director	Information Technology and Communications Division
23	Medesan Vasile	Director	Safety and Prevention Division
24	Bouariu Tudor Gabriel	Director	Public Procurement and Purchases Division
25	Tomos Ioan Tudor	Director	Special Interventions, Repairs and Operations Branch
26	Novac Mircea	Chief Design Engineer	Engineering and Research Department

The members of the executive management have concluded individual labour contracts for indefinite period of time.

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

According to the information available, there is no agreement, understanding or family relationship between the persons in question and another person by whose influence the persons in question become members of the executive management team.

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

No.	First and Last Name	Position/Department/Division	No. of shares on 31.12.2012	Stake (%)
1	Rusu Ioan	Managing Director	2,508	0.02130
2	Lata Ilie	Deputy Managing Director	46	0.00039
3	Stefanescu Ioan	Director of the Economic Department	106	0.0009
4	Tataru Ioan	Director of the Development Department	25	0.0002
5	Lupean Marius	Director of the Accounting Division	8	0.00006
6	Stoia Gheorghe	Director of the Information Technology and Communications Division	5	0.00004
7	Florea Vasile	Director of the Operation Division	14	0.00012
8	Sai Alexandru	Director of the Natural Gas Quality Measurement Division	10	0.00008
9	Pătărnice Mihai	Director of the National Natural Gas Dispatching Office	97	0.00082
10	Tomos Ioan	Director of the Special Interventions, Repairs and Operations Branch	41	0.0003

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.

Chapter 5 FINANCIAL-ACCOUNTING STATEMENT

According to art. 1 of the OMFP no. 881/June 25th 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. For the financial year of 2012, the individual annual financial statements based on IFRS are prepared by retreating the information from the accounting organized based on Accounting Regulations according to the Directive IV of the European Economic Communities, approved by OMFP no. 3055/2009 for the approval of the accounting Regulations compliant with the European directives, with subsequent amendments and additions.

5.1. Situation of the financial position

Situation of the financial position for 2010-2012 is the following:

Indicator	31.12.2010	31.12.2011	31.12.2012	Dynamics (%)		
	Thousand RON	Thousand RON	Thousand RON			
0	1	2	3	4=2/1	5=3/2	6=3/1
Intangible assets	2,465,106	2,458,211	2,495,793	99.72	101.53	101.24
Tangible assets	793,852	760,866	742,425	95.84	97.58	93.52
Financial assets available for sale	38,333	65,384	105,357	170.57	161.14	274.85
Fixed assets	3,297,291	3,284,461	3,343,575	99.61	101.80	101.40
Inventories	27,629	43,226	35,828	156.45	82.89	129.68
Trade receivables and other receivables	349,985	370,803	347,782	105.95	93.79	99.37
Cash at bank and in hand	197,511	274,147	178,638	138.80	65.16	90.44
Current assets - TOTAL	575,125	688,176	562,248	119.66	81.70	97.76
Debts to be paid within one year	363,285	372,562	355,300	102.55	95.37	97.80
Debts to be paid within more than one year's time	548,939	591,416	562,948	107.74	95.19	102.55
Total debts	912,224	963,978	918,248	105.67	95.26	100.66
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	441,419	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	887,759	936,226	915,142	105.46	97.75	103.08
Total equity and debts	3,872,416	3,972,637	3,905,823	102.59	98.32	100.86

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, modernizations 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 RON 37,582 thousand compared to 31.12.2011, 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 objectives related to the national transmission system taken over free of charge.

Tangible assets recorded a decline of RON 18,441 thousand compared to 2011, mainly determined by the fact that inputs of tangible assets worth RON 38,671 thousand were exceeded by the depreciation expense on tangible assets, worth RON 56,878 thousand.

Financial assets

Financial assets increased in 2012, growth explained by the contribution to the share capital increase of Nabucco Gas Pipeline International GmbH Vienna with the amount of EUR 9mln.

Inventories

On December 31st 2012 the inventories recorded a decline by RON 7,398 thousand compared to December 31st 2011, mainly due to the reclassification of works and services

under execution worth RON 12,559 thousand, being presented as of 2012 as intangible assets.

Trade Receivables and other receivables

On December 31st 2012, the balance of trade receivables and other receivables decreased by RON 23,021 thousand compared to 2011, this decline being mainly determined by the following factors:

- ☛ the decrease in the customers receivables balance by RON 8,913 thousand;
- ☛ the increase in provisions for receivables depreciation by RON 9,343 thousand.

Cash at bank and in hand

On December 31st 2012 the company's cash decreased by RON 95,509 thousand compared with the end of 2011, this decline being caused by the fact that cash generated by the operating activity worth RON 508,063 thousand was exceeded by cash used for investment activities (RON 208,365 thousand) and financing (RON 387,421 thousand).

Debts to be paid within one year's time

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

- ☛ the decrease in the balance of commercial debts and other debts by RON 26,359 thousand amid the reduction mainly of the suppliers' balance by RON 16,865 thousand and of the balance of suppliers of fixed assets by RON 6,532 thousand.
- ☛ the increase in the risk and expense provision by RON 4,763 thousand amid the increase in the litigations provision by RON 3,243 thousand and in the guarantees provision by RON 1,520 thousand.
- ☛ the reduction of the current account overdraft by RON 7,786 thousand;
- ☛ the reduction of the current share of long-term loans by RON 18,412 thousand, due to the full repayment of the loans from BIRD and Unicredit Tiriac;
- ☛ the increase in the debt on the current profit tax by RON 30,532 thousand, following the tax impact generated by retreatments imposed by the switch to the IFRS as accounting basis.

Long-term debts

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

- ☛ the partial reimbursement (RON 24,000 thousand) of the loan secured with BRD Groupe Societe Generale for the partial financing of the Company's investment program.
- ☛ the increase by RON 33,377 thousand in the provision on the employees' benefits, determined by the renegotiation of the Collective Labour Contract in 2012;

- ☛ the increase in incomes recorded in advance by RON 11,949 thousand, due to NTS objectives taken over free of charge in 2012;
- ☛ the reduction of the debt on the postponed profit tax by RON 49,793 thousand due to the increase in the provision regarding the employees' benefits (RON 5,341 thousand) and changing the tax provisions for contributors that apply accounting regulations according to the International Financial Reporting Standards (RON 44,452 thousand).

On 31st December 2012, the status of Transgaz medium and long term loans is the following:

No.	Financing bank	Loan currency	Loan value (thousand RON)	Balance on 31.12.2012 (thousand RON)
0	1	2	3	4
1.	BRD GSG	RON	120,000.00	72,000.00

Equity

The value of the subscribed and paid up share capital underwent no modifications in 2012.

The reduction of the result carried forward by RON 21,084 thousand is determined by the distribution from the net profit of 2011 as dividends of the amount of RON 350,390 thousand, higher than the profit recorded by the company in 2012 (RON 329,306 thousand).

5.2. Situation of the global result

The evolution of the profit and loss account in the 2010-2012 period is the following:

No.	Specification	Achievements (thousand RON)			Dynamics (%)		
		2010	2011	2012	5=3/2	6=4/3	7=4/2
0	1	2	3	4			
1.	TOTAL incomes, of which:	1,371,894	1,457,621	1,420,158	106.25	97.43	103.52
1.1	Operating incomes	1,337,729	1,398,503	1,365,369	104.54	97.63	102.07
1.2	Financial incomes	34,165	59,118	54,789	173.04	92.68	160.37
1.3	Windfall incomes	-	-	-	-	-	-
2.	TOTAL expenses, of which:	933,278	995,890	1,027,243	106.71	103.15	110.07
2.1	Operating expenses	907,397	956,468	1,000,448	105.41	104.60	110.25
2.2	Financial expenses	25,881	39,422	26,795	152.32	67.97	103.53
2.3	Windfall expenses	-	-	-	-	-	-
3.	GROSS PROFIT, of which:	438,616	461,731	392,915	105.27	85.10	89.58
3.1	Operating result	430,332	442,035	364,921	102.72	82.55	84.80
3.2	Financial result	8,284	19,696	27,994	237.76	142.13	337.93
3.3	Windfall result	-	-	-	-	-	-
4.	PROFIT TAX	75,152	82,689	113,404	110.03	137.14	150.90
5.	Incomes from the postponed profit tax	6,849	8,161	49,793	119.16	610.14	727.02
6.	NET PROFIT	370,312	387,203	329,306	104.56	85.05	88.93

Operating incomes

The status of the operating incomes achieved in the 2010-2012 period is the following:

No.	Specifications	Achievements			Dynamics (%)		
		2010	2011	2012			
0	1	2	3	4	5=3/2*100	6=4/3*100	7=4/2*100
1.	Incomes from the transmission activity						
	- thousand RON	1,054,014	1,092,023	1,052,112	103.61	96.35	99.82
	- MWh	131,005,622	136,133,151	130,466,645	103.91	95.84	99.59
	- RON/MWh	8,05	8,02	8,06	99.70	100.53	100.23
	- TCM	12,306,552	12,820,532	12,273,576	104.18	95.73	99.73
	- RON/TCM	85,65	85,18	85,72	99.45	100.64	100.09
2.	Incomes from the transit activity						
	- thousand RON	254,089	244,956	275,875	96.41	112.62	108.57
3.	Other operating incomes						
	- thousand RON	29,626	61,524	37,382	207.67	60.76	126.18
*	TOTAL OPERATING INCOMES	1,337,729	1,398,503	1,365,369	104.54	97.63	102.07

Compared to the previous year, the operating incomes are lower due to:

- ☞ the decrease in the transported natural gas quantities;
- ☞ the decrease in other operating incomes by **RON 24,142 thousand**, mainly determined by the decrease in incomes from penalties for late payment applied to customers, worth RON 20,640 thousand.

Financial incomes

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

- the decrease in incomes from interests by RON 3,355 thousand;
- the decrease in incomes from exchange rate differences by RON 974 thousand, differences resulting mainly from the monthly revaluation of the available funds and deposits in foreign currency.

Operating expenses

The situation of expenses from the operating activity recorded during 2010-2012 is the following:

No.	Specification	Achievements (thousand RON)			Dynamics (%)		
		2010	2011	2012	5=3/2	6=4/3	7=4/2
0	1	2	3	4			
1	Consumption and technological losses in the transmission system						
	- TCM	283,775	278,577	239,199	98.17	85.86	84.29
	- thousand RON	134,173	133,898	118,925	99.79	88.82	88.64
	- RON/TCM	472,82	480,65	497,18	101.66	103.44	105.15
2	Auxiliary materials	13,455	20,431	22,433	151.85	109.80	166.73
3	Energy, water	5,513	6,309	7,020	109.54	116.25	127.34
4	Depreciation and provisions	142,993	159,559	164,540	111.59	103.12	115.07
5	Works, services executed by third parties	159,671	156,905	147,101	98.27	93.75	92.13
6	Salary fund	177,436	185,034	190,692	104.28	103.06	107.47
7	Health insurance fund, unemployment fund, health fund and other staff expenses	67,046	69,026	74,246	102.95	107.56	110.74
8	Gas share	39,124	39,832	40,338	101.81	101.27	103.10
9	Meal tickets	9,160	9,308	9,228	101.61	99.15	100.74
10	Other material expenses	4,400	3,655	3,835	83.05	104.95	87.16
11	Expenses with other taxes and fees	9,366	8,481	6,737	90.55	79.44	71.94
12	Tax for the gas transmission and international transit license	11,607	5,805	8,794	50.01	151.50	75.77
13	Royalty for NTS concession	130,810	133,698	132,799	102.21	99.33	101.52
14	Other operating costs	2,643	24,529	73,760	928.03	300.70	2,790.61
*	TOTAL OPERATING COSTS	907,397	956,468	1,000,448	105.41	104.60	110.25

Compared to 2011, operating expenses recorded an increase by RON 43,980 thousand, mainly determined by the following factors:

- the increase in expenses with the provision regarding the employees' benefits by RON 29,502 thousand determined by the renegotiation of the Collective Labour Contract in 2012;
- the increase in expenses with provisions for risks and expenses by RON 6,695 thousand, amid the increase in the provisions for litigation and for guarantees;
- the decrease in expenses with works and services executed by third parties by RON 9,804 thousand.

Financial expenses

Financial expenditures mainly include: expenses with interests and commissions associated to loans secured and foreign exchange expenses.

- the expenses with interests decreased by RON 3,155 thousand due to the full repayment of the loans from BIRD and Unicredit Tiriac and the partial reimbursement of the loan from BRD;- the expenses regarding the exchange rate differences decreased compared to 2012 by RON 9,923 thousand.

5.3. Cash-flow situation

The cash-flow statement for the 2010-2012 period is presented below:

Indicator	Financial year ending on December 31 st (thousand RON)		
	2010	2011	2012
Profit before tax	438,616	461,731	392,915
<i>Adjustments for:</i>			
Depreciation and amortization	142,993	159,559	164,540
Loss on disposal of fixed assets	1,281	-389	122
Provisions for risks and expenses	5,551	-1,932	4,763
Incomes from connection taxes	-8,673	-12,991	-14,651
Provision for the employees' benefits	2,220	1,266	30,768
Provisions for receivables depreciation	-29,155	-6,327	9,355
Loss /(gain) from inventory depreciation	2,234	-716	-556
Loss on receivables	43	2,823	41
Expense with interest	2,749	7,084	3,929
Effect of updating the provision for benefits granted to employees	2,258	2,158	2,609
Incomes from interests	-14,836	-18,719	-15,364
Effect of exchange rate variation on other items than the operating items	823	-153	21
Other incomes	-	-1,236	-1,074
Operating profit before changes in working capital	546,104	592,158	577,418
(Increase)/ Decrease in trade receivables and other receivables	-80,824	-27,015	10,662
(Increase)/Decrease in inventories	5,018	-14,881	7,954
Increase/(Decrease) in commercial debts and other debts	49,206	10,624	-16,738
Cash generated by the operating activity	519,504	560,886	579,296
Paid interests	-2,208	-7,199	-3,962
Received interests	14,907	18,201	15,601
Paid profit tax	-78,820	-78,007	-82,872

Indicator	Financial year ending on December 31 st (thousand RON)		
	2010	2011	2012
Net cash income generated by the operating activity	453,383	493,881	508,063
Cash flow from the investment activities			
Payments for the acquisition of fixed tangible and intangible assets	-404,144	-118,804	-168,504
Incomes from the assignment of fixed tangible assets	355	716	112
Acquisition of financial investments, net	<u>-23,902</u>	<u>-27,041</u>	<u>-39,973</u>
Net cash used in investment activities	-427,691	-145,129	-208,365
Cash flow from financing activities			
Paid dividends	-152,831	-335,219	-350,122
Cash from connection taxes	81,248	58,488	5,114
Incomes from long-term loans	75,500	44,500	-
Reimbursements of long-term loans	<u>-28,664</u>	<u>-47,671</u>	<u>-42,413</u>
Net cash used in financing activities	-24,747	-279,902	-387,421
Net change in cash and cash equivalent	945	68,850	-87,723
Cash and cash equivalent at the beginning of the year	<u>196,566</u>	<u>197,511</u>	<u>266,361</u>
Cash and cash equivalent at the end of the year	197,511	<u>266,361</u>	<u>178,638</u>

From the analysis of the cash flow on December 31st 2012, it is noticed a decrease in available funds by RON 87,723 thousand, compared to the previous year.

Changes occurred in the cash flow structure for 2012 are:

- ☞ the cash flow generated by the operating activity is RON 508,063 thousand, by RON 14,182 thousand higher than that related to 2011;
- ☞ the cash flow used in the investment activity is RON 208,365 thousand, by RON 63,236 thousand higher than that related to 2011;
- ☞ the cash flow used in the financing activity is RON 387,421 thousand, by RON 107,519 thousand higher than that related to 2011.

Chapter 6. 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 processes 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 challenge, Transgaz intends through its **own Corporate governance regulation** to ensure a strict framework for dimensioning, implementing and developing the corporate governance at company level.

The Corporate governance regulation of the company was endorsed by the Board of directors by the Decision no. 3/18.01.2011 and approved by the General Meeting of Shareholders of March 2nd, 2011, by the decision 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 components included in the report regarding corporate governance shall be: quality, environment, CSR, aspects of the corporate governance.

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

Transgaz has 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.

The corporate governance and the "Apply or Explain" Statement are described in detail in the appendices to the Directors' Report.

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. Transactions concluded with the companies controlled by the majority shareholder (the Ministry of Economy) are the following:

1. SNGN ROMGAZ SA

1.1. Contract no. 20/2009, extended by the Addendum no. 8/2012

- concluded between SNTGN Transgaz SA and SNGN Romgaz SA;
- purchase of natural gas for the technological consumption of SNTGN Transgaz SA;
- the estimated value (excluding VAT) of the contract is: RON 139,000,000;
- no security interests;
- monthly payment within 90 days from the issue of the invoice;
- balance on 31.12.2012: RON 29,512,082.46.

1.2. Contract no. 7/2012

- concluded between SNTGN Transgaz SA and SNGN Romgaz SA – the Ploiești Natural Gas Storage Branch;
- underground natural gas storage;
- the estimated value (excluding VAT) of the contract is: RON 1,452,000.00;
- no security interests;
- monthly payment within 15 days from the issue of the invoice;

1.3. Contract no. 33/2012

- concluded between SNTGN Transgaz SA and SNGN Romgaz SA;
- the provision of firm transmission services;
- the estimated value (excluding VAT) of the contract is: RON 9,204,391.91;
- no security interests;
- monthly payment within 90 days from the issue of the invoice.

2. SC TERMOELECTRICA BUCHAREST SA

Contract no. 37/2012

- concluded between SNTGN Transgaz SA and SC Termoelectrica Bucharest SA;
- the provision of firm transmission services;
- the estimated value (excluding VAT) of the contract is: RON 7,745,752.65;
- rating;
- monthly payment within 15 days from the issue of the invoice;

- balance on 31.12.2012: RON 207,954.49.

3. SC ELECTROCENTRALE DEVA SA

Contract no. 13/2012

- concluded between SNTGN Transgaz SA and SC Electrocentrale Deva SA;
- the provision of firm transmission services;
- the estimated value (excluding VAT) of the contract is: RON 9,664,024.84;
- guaranteed account;
- monthly payment within 15 days from the issue of the invoice;

4. SC ELECTROCENTRALE GALATI SA

Contract no. 14/2012

- concluded between SNTGN Transgaz SA and SC Electrocentrale Galati SA;
- the provision of firm transmission services;
- the estimated value (excluding VAT) of the contract is: RON 22,108,814.47;
- letter of guarantee;
- monthly payment within 15 days from the issue of the invoice;
- balance on 31.12.2012: RON 4,867,689.96.

5. SC ELECTROCENTRALE BUCHAREST SA

Contract no. 12/2012

- concluded between SNTGN Transgaz SA and SC Electrocentrale Bucharest SA;
- the provision of firm transmission services;
- the estimated value (excluding VAT) of the contract is: RON 137,013,737.27;
- letter of guarantee;
- monthly payment within 15 days from the issue of the invoice;
- balance on 31.12.2012: RON 56,961,651.33.

Chapter 7 MISCELLANEOUS

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 30th October 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 24th, 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 7th, 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:

- 1) 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;
- 2) the maintenance by the Government of Romania, the majority shareholder of the operator of the national natural gas transmission system, SNTGN “Transgaz” SA

Mediaș, 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.

CHAIRMAN OF THE BOARD OF DIRECTORS,

Victor Alexandru Schmidt